Memorandum

Date: May 17, 2010

To: Honorable Chairman Dennis C. Moss and Members
Board of County Commissioners

From: George M. Burgess
County Manager

Subject Resolution No. R-143-10 Voluntary Energy Efficiency and Renewable Energy Program

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Resolution No. R-143-10 sponsored by Commissioner Sorenson and approved by the Board in February 2010 expresses the Board's intention to establish a voluntary energy efficiency and renewable energy program. It further directs staff to prepare a report outlining the elements of such a program. Staff from the Office of Sustainability, Finance Department and the County Attorney's Office has done considerable research in this new and emerging field (which is generally referred to as PACE – Property Assessed Clean Energy). The attached report is presented for the Board's consideration of options. As part of the comprehensive market research required for this report, aside from independent research and analysis, staff also reached out to PACE experts including PFM (the County's Financial Advisor), Renewable Funding, EcoAsset Solutions, the University of Florida's Program for Resource Efficiency Communities and Citi.

This report examines various strategies towards establishing a County-wide Property Assessed Clean Energy (PACE) program. PACE programs provide financing for renewable energy and energy efficiency improvements on private property by issuing a revenue bond that is secured by an assessment lien. There are several financing models used throughout the country, including the use of interim financing and more traditional pooled bond issuances. Common among these programs is the cost neutrality of PACE to the municipality as well as the insulation of the municipality from the bond obligation. As a result, PACE programs are gaining popularity as a means to achieve clean energy and energy independence goals and stimulate construction projects and the "green" economy.

If the Board wishes to create a Miami Dade County PACE program, it is recommended that County staff and County financial advisor begin to structure the plan to finance and draft a single solicitation to assemble the PACE team as outlined in the report. Given that the program financing structure affects key elements in administration, it is recommended that we solicit a turnkey program, allowing respondents to offer comprehensive solutions. The County will reserve the right to take each response in whole or in part, allowing the flexibility to assemble the best team of service providers.

This is a worthwhile and beneficial program which provides energy cost savings, reduces greenhouse gas emissions, and benefits the local construction industry. However, existing staff is not equipped to take on the new/added responsibility of administering a program. Additionally, current county staff does not have the experience or expertise in this new field as detailed in the report. For these reasons we recommend hiring a full service third party administrator.

Attachments
c: Honorable Carlos Alvarez, Mayor
Honorable Pedro Garcia, Property Appraiser
R. A. Cuevas, Jr., County Attorney
Howard Piper, Special Assistant to the County Manager
Carter Hammer, Director, Finance Department
Susanne M. Torriente, Director, Office of Sustainability
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Voluntary Energy Efficiency & Renewable Energy Financing Program Report

A Property Assessment Clean Energy (PACE) financing program is a financing structure by which commercial and/or residential property owners opt into a special assessment district to receive a loan to finance energy improvements and/or retrofits. Loans are re-paid through an annual assessment on the property owner's property tax bill.

Currently, revenue bonds secured by liens on participating properties are the primary financing instrument for PACE programs. PACE bonds can be issued either through a private placement or public issuance. The proceeds from the bonds provide funding solely for clean energy projects that meet program terms and conditions.

PACE is a relatively new concept and financing model. In 2008, the State of California became the first state to put in place a PACE financing program. In recognition of the large benefits of PACE financings, the following states have recently passed enabling legislation: Colorado, Illinois, Louisiana, Maryland, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Texas, Vermont, Virginia, and Wisconsin, and legislation is pending in Arizona and New York as well as several other states. On April 30th, 2010, the Florida Legislature established the Property Assessed Clean Energy (PACE) program to allow local governments to finance renewable energy and storm-resistance improvements. The bill creates Florida Statute s. 163.08 which authorizes local government (counties and municipalities) to levy non-ad valorem assessments to fund energy conservation and efficiency, renewable energy and wind resistance improvements to real property; authorizes property owner to apply for funding and enter into financing agreement with local government to finance a qualifying improvement and voluntarily enter into a financing agreement with the local government; authorizes local government to collect moneys for such purposes through non-ad valorem assessments and provides specific collection requirements, etc. The qualifying improvement must be affixed to a building or facility that is part of the property and if the work requires a license, it must be performed by a properly certified or registered contractor.

There are benefits to the property owner, as well as benefits to the community as a whole in adopting a PACE program. For the property owner, PACE allows financing of costly improvements, with little or no out-of-pocket upfront costs; and provides for longer-term repayment through property taxes. The value of the improvement and the investment stays with the property, if and when the property changes ownership. And, of course, the property owner experiences immediate savings in energy bills (conceptually, the energy cost savings provide the homeowner with the money to pay off the assessment). Of great importance to the County as a whole, and the public benefit of the program, is the cumulative effect of reducing greenhouse gas (GHG) emissions and promoting energy independence. A PACE program could accelerate and add to the County's ongoing efforts to implement energy conservation initiatives and also provide a local boost to the construction industry and the growth of "green jobs". The energy efficiency/conservation, renewable energy development and GHG emissions reduction benefits of a PACE program together represent the public benefit necessary to establish the program, since the improvement is on private property.

The typical characteristics of PACE includes:

- Voluntary participation by property owners.
- Energy efficiency, water conservation and renewable energy generation upgrades must be permanently attached to the property to qualify. Items not permanently attached such as dishwashers and other appliances are not allowed. Improvements such as insulation, cool roofing, heating and air conditioning systems, waterless urinals, solar panels and energy efficient windows are acceptable.
- Improvements must be for existing buildings; new construction does not qualify.

- Assessments are liens on the property; therefore, when the property is sold, the assessment stays with the property.
- Repayment is made through property tax bill over time or through some other regular billing mechanism such as the municipal water authority's billing system.
- Program costs and cost of issuing bonds to finance the program are allocated among the participating property owners.

While property owners PACE experiences vary depending on the financing structure used by the program (interim financing or pooled bonds described later in this report) the typical application process includes:

- Obtaining an energy audit;
- Receiving a bid from a qualified contractor, for projects identified in the energy audit;
- Applying for program financing, submitting the project bid and an application signed by all property owners of record;
- The application is reviewed and approved; a process that includes underwriting the property against well-defined qualification criteria such as the property's tax records and the lien-to-property value ratio. The property owner also signs a consent to lien agreement. (Note that actual interest rates will be set once the bonds are issued which will determine the final value of the lien to be assessed for the property);
- The application period ends once the PACE program achieves predetermined participation levels or a trigger date is reached;
- Upon bond issuance, the assessment is recorded and the property owner is notified to proceed with the project;
- The property owner enters into a private contract with installer(s) and the project is installed;
- Following installation, the property owner submits documentation including final invoice and evidence of building permits;
- The project is verified for compliance with the program;
- The project is funded
- Assessment payments by property owner begin as part of the property tax bill.

Program Administration Key to PACE program success is a strong administrative component to coordinate the many property owners and various clean energy financing obligations into a financing structure that can secure competitive rates. The foundation for a sustainable PACE program is the use of the private capital market as the ultimate source of financing and pass-through of municipal costs to participating property owners. Program Administration duties can be categorized as follows:

- Program Manager – County staff or a third party provider acts as the general program manager and develops the structure for the program.
- Bond/Disclosure Counsel – Counsel guides the program manager in the development of a program that can be attractive to the bond market in providing an "unqualified opinion" to be included in establishing the proper formation of the assessment district, and verifying that the assessment liens are senior. In addition, there is a strong likelihood that PACE financings will have to undergo a validation process.

- Program Administrator – The program administrator provides a critical service as the entry point for property owners to access the PACE program. The third-party administrator is often comprised of several partnerships among firms with differing expertise. Typically a program administrator will offer program design, marketing, administrative duties, origination, application processing, and ongoing reporting services. The administration team may also include (A) a special district administrator (district formation, tax roll preparation, filing tax liens, special tax calculations, etc.), (B) a website design component to assist in marketing/processing, and (C) an energy auditor with the ability to perform before and after energy audits ensuring that the proposed improvements meet their intended benefits. Each of these ancillary components can be procured individually, or together.

Program administration includes a variety of important services critical to ensuring high-quality and comprehensive program implementation. These services include determination of loan eligibility, loan application processing including application review and approval, property energy audit management, contractor selection and coordination, site visit and verification of work and performance, payment and energy savings monitoring, as well as program analysis and reporting. The program administrator also understands the local landscape, has in place quality control and transparency mechanisms and is able to provide the necessary education and outreach needed for achieving high market penetration.

There are many firms across the country now entering this market as "third party administrators." These third party administrators are capable of handling the entire program from marketing to identifying contractors, handling the application process, and qualifying loans. The program must be properly marketed to the community to gain interest and create a critical mass of voluntary applicants. A successful program heavily relies on heavy education and outreach to create the market.

Financing Options/Funding Mechanisms

The participating properties secure PACE financing through a special assessment lien. As such, PACE relies on (1) the public issuance of revenue bonds, (2) direct private investment, (3) direct government funding via general fund, specialized trust funds, grant funding, etc. or some combination of these funding mechanisms. The first two of these mechanisms requires no municipal general obligation and consequently is not a financial liability to the County.

The program manager evaluates various program strategies and notes the efficacy of these approaches given the total number of participants and the financing structure selected. In fact the approach and program parameters for a $5 million program may not be the best options for a $20 million program as an example. Ultimately, the goal of the financing plan is to develop a sustainable stand-alone financing program defined by cost neutrality and minimization of County risks and exposure.

The following financing structures have been utilized by many of the first movers in developing PACE programs including the advantages and disadvantages of each:

(1) Interim Funding through the County Pool (the Sonoma County, California model)

This financing option uses municipal funds to provide interim financing. Projects are funded on-demand. The individual loans are then bundled by the municipality into a bond issue sold in the capital markets.

Advantages

- Fairly easy and provides enormous flexibility
- Financing terms can be adjusted to meet program goals. However, the terms must be effectively engineered to ensure the obligations are attractive to the capital markets.

- Can augment investment return to the municipality if interest rates on the individual loans are higher than the interest rates on conventional municipal investments
- Does not require an interim credit or other financing facility from a bank or underwriter due to use of municipal funds and can be refunded if properly structured

Disadvantages

- Would require modification of County's investment policy
- In the current economy, funding the program may not be the County's highest priority
- Investing in PACE subjects the County to interest rate risks and potential risk that the loan pool may not be attractive enough to the capital markets to allow bonds to be sold

(2) Long-Term, "Pooled Bond" Public Financing (Boulder County, Colorado Model)

This financing option uses a more traditional municipal bond structure. Property owners consent to the assessment lien. Once a pre-defined debt obligation value or number of property owners is achieved, the debt obligations are aggregated into a revenue bond issuance. Upon bond issuance, the consent to assessment lien is executed, becoming legally binding. Bond proceeds are passed to a trustee who holds the proceeds until projects are installed and verified.

Advantages

- There is no interest rate risk to the County; property owners bear the interest rate risk
- The interest rate that property owners pay is pegged directly to the capital market interest rates
- The County can use "enhanced" bond structures such as Qualified Energy Conservation Bonds (QCEBs) or Build America Bonds (BABs). These bonds offer credit incentives that can result in lower interest rates. For example, the federal government offers 35 percent interest cost credit if the municipality issues BABs to finance qualifying programs

Disadvantages

- There is no "on-demand" financing; a critical mass of property owners will have to sign consent to assessment lien contracts prior to bond issuance
- The program moves in cycles, financing only when the volume thresholds are achieved
- Program participants are committing to the debt service on the bond prior to the installation of the improvement on their property. Therefore, property owners are liable should they decide not to proceed with installation
- Interest on the assessment obligation begins when the bond is issued, not when project is funded or completed

(3) Interim Funding with Upfront Private Capital (San Francisco, California Model)

This option uses the capital of a private firm to provide the interim financing facility rather than County funds. The private firm would purchase the debt obligations of each property in a "micro bond" in accordance with a Bond Purchase Agreement. The Agreement governs the property owner interest rate which is generally pegged to an index and reset at prescribed intervals. Once financed, the interest rate is fixed for the lifetime of the obligation.

Advantages

- The private firm bears the interest rate and take-out risk, not County
- Does not require credit support from the County
- Provides committed capital at pre-determined rate to property owners from day one

- The property owner interest rate is known at the time the assessment obligation is entered into
- Interest on the assessment obligation begins at project funding
- Provides flexibility to the program, adjusts automatically to meet demand or changes in projects

Disadvantages

- Potentially more complicated financial structure, requiring the execution of a Bond Purchase Agreement between the County and the private firm
- Implied interest rate may be higher than other options due to all major risks (interest rate, program uptake, takeout and default risk) being borne by the financial partner.
- Financial partner will require input into underwriting standards and program design.

The Property Appraiser has advised that in order to place a Non-Ad Valorem Assessment on the tax-bill to enable the collection of payments, the following steps are needed:

- Board of County Commissioners formally creates the Energy Financing District and the County will have to meet the legal requirements for district formation.
- Determine rate structure (number of units and rate per property). With this type of district where the cost of retrofits and renewable energy system installations will vary across home/business owners, there will likely be individual rates applied to each separate property with a consistent unit value of one for each property across the district
- Follow the Property Appraiser's non-ad valorem assessment requirements and deadlines for placing the assessment on both the trim notice and the tax bill (including public notification procedures and timelines as per the state statutes).
- Establish Inter-governmental Cooperation Agreement between among Miami-Dade Property Appraisers Office and Tax Collector.
- Determine procedures for providing tax assessment information for participating district members to property appraiser's office on an annual basis (3rd party program administrator can implement this task).

<u>Pre-payment Penalties</u>

Typically, long-term financing incorporates some form of pre-payment penalty. While this may be the case for the PACE financing, it is not an absolute. Financing terms are negotiated with financial institutions at program development and design. A PACE bond investor may express a preference for loans with pre-payment penalties because these penalties reduce reinvestment risk. Loans with pre-payment penalties reduce the speed at which loans are repaid thereby allowing the investor to earn the full potential of his investment. One advantage of a pre-payment penalty is that it makes the bond more marketable and appealing for investors versus a similar bond without a pre-payment penalty.

From the issuer's perspective, having no pre-payment penalty makes it attractive to repay and refinance at lower rates in the future. Minimizing the lending rate increases the probability that the energy savings from retrofits will positively offset the debt service for the property owner, improving the financial performance of the program and reducing the home/business owner's financial risk.

<u>Program Set Up Costs</u>

Funding of the upfront program roll-out costs may be done through grant funding, funding through community development financial institutions, public-private partnerships or rolling upfront costs into the PACE retrofit financing program managed by the third party administrator. In developing a PACE program, potential upfront cost funding/financing solutions must be further explored in order to determine the final impact on lien value.

Other Considerations

The White House has issued a policy framework on PACE programs, which sets the standard for federal funds that may be used to subsidize program launch. This policy also impacts capital market expectations and as a result, may impact property owners' interest rates. The policy framework provides a baseline for property and project qualification and deserves specific consideration:

1. Savings to Investment Ratio - The "savings to investment ratio" for PACE program assessments should be greater than one. This "pay-for-itself" principle means that the expected average monthly utility savings to homeowners should be greater than the expected monthly increase in tax assessments resulting from the energy efficiency or renewable energy improvements. Improvements should be made where there is a positive net present value, so that expected total utility bill savings are greater than expected total costs (principal plus interest and allocated issuance costs).

2. Financing should be for High-Value Investments - Financing should be limited to investments that have a high return in terms of energy efficiency gains. In some cases, investments can be limited to a pre-approved set of projects that have well-documented efficiency gains for most buildings in a climate zone, such as sealing of ducts or installing insulation. In other cases, investments will be based on the results of an authorized energy audit that estimates the energy efficiency gains for a particular property for a particular retrofit. Ensuring that loans are made for these high-value investments will protect property owners and mortgage lenders, and maximize the impact of PACE on improving energy efficiency.

3. Assuring that the Retrofit is Constructed as Intended - The scope of the retrofit should be determined by a list of presumptively efficient projects or based on an energy audit conducted by a qualified auditor or inspector. Licensed contractors or installers should do the actual home improvements. There should be an after-the-fact quality assurance program. Qualified raters should do reviews upon completion, for the portion of houses needed to assure program quality, to assure that correct work was performed and is up to standards. If the property owner or local government administering the contract is not satisfied with a retrofit or if the follow-up rating shows that the work was not completed in a commercially reasonable manner, the contractor should be required to fix the work. If that does not solve the problem, then just as with any construction project, payment to the contractor can be withheld until such a time as the work is done satisfactorily or the homeowner can seek other redress. In circumstances where a project is not completed to standards, the contractor should be disqualified from further work under the PACE program – a strong incentive to complete work correctly.

4. Lien-to-Value Ratio – The financed value of the projects on a property – the assessment lien – should not exceed 10% of the property's value. As such, the eligible projects on each property may vary. Lower valued properties may not be eligible for financing high cost items such as solar panels.

5. Property Equity Test – To participate in PACE financing, the White House recommends that a property not be "underwater" or carry negative equity, meaning that the property not owe more on its mortgage than it is worth.

Other performance elements for consideration into a program Include:

1. Making visible a pre- and post- performance score for the retrofitted property to ensure program transparency, quantify the public benefit, manage the financial risk as well as hold contractors accountable for their work.
2. Where applicable periodic performance monitoring (ex. tracking of utility bills) to provide program transparency (necessary for any grant funding associated with program) and ensure that (a) the generated energy savings (public benefit) is within the expected performance levels, (b) long-term financial risk is effectively managed (home/business owner has not borrowed more than what can be reasonably saved through on utility bills over a reasonable amount of time), and (c) homeowner and / or contractor are maintaining equipment to enable optimal performance.
3. Tying program into Utility Demand Side Management (DSM) and educational programs to leverage additional benefits e.g. integrating with a DSM program might allow home/business owner to achieve even more savings or avoid peak demand charges, improving the financial and environmental (less peak power generation that relies on dirtier fuels) return on the investment.

Other National Models
Since 2008 when this concept first really starting taking off in California, several cities and counties, mostly in the western part of the country, created PACE programs. Highlighted below are a few programs for sample and comparison purposes. Please note that while these programs are credited with "pioneering" PACE financing, the receptiveness of the capital markets is not fully proven as PACE bond take-out to private investors has been, to this point, limited. In the case of Miami-Dade County, the Program Management should be astute as to the plan of finance and ensure that the program is crafted in such a manner that limits the County's exposure to becoming a long-term holder of PACE loans.

The Sonoma County California program is perhaps the most successful program to date from a participation standpoint. To date, the program has received applications for financing totaling over $35M. Loans however have not been placed with "going away" investors. Loans are held in the county investment pool. The loans are booked at a 4% rate and the charge to the homeowner is 7%. The difference is used to fund loss reserves and pay program expenses. Because the initial loans were not sized to consider cost of issuance or a reserve fund, and because market interest rates have risen, the county is currently unable to place this debt away from the investment pool, thus subjecting the county to potential defaults. In addition, holding unrated long term debt is not an appropriate investment for fiduciary short term investment funds of local agencies. It is for this reason that the Sonoma approach is not recommended.

Boulder County Colorado did complete two cycles of financing in 2009 totaling over $10M in projects. These bonds were secured by PACE assessments, but they also were backed by the moral obligation of Boulder County (moral obligation bonds are roughly the equivalent of covenant to budget and appropriate bonds in the State of Florida). Again, this exposes the county to potential default risk by property owners. It may also affect the county's credit rating.

In the City of Palm Desert California, PACE loans were originally funded with a loan from the city Redevelopment Agency. A subsequent take out financing secured by the city general fund was used to repay the Agency.

The City and County of San Francisco launches its $150 million program, called 'Green Finance San Francisco', on April 12th. (www.greenfinancesf.org). The program, which is administered and financed by a third party, has been structured as going away, assessment secured debt. The program provides on-demand financing of individual projects without any risk or liability to the City. As, specified in a pre-arranged bond purchase agreement, the third party finance entity "purchases" each assessment obligation on an as needed basis to fund completed projects at a set interest rate. After a sufficient volume of projects has been financed, the firm remarkets the bond.

In May 2010, the County of Santa Fe, New Mexico (inclusive of the cities in the County) will launch a PACE program with going away, assessment secured debt. The program, called 'Renew Santa Fe', is set up similarly to San Francisco's PACE Program.

The City of San Diego launches its PACE financing program, called the 'San Diego Clean Generation Program', in mid-June 2010. The program is also structured as going away, assessment secured debt and is administered and financed by a third party. The third-party administrator of the San Diego program is partnered with a development bank to provide a minimum of $60 million in interim and take-out financing. The capital is being provided at an interest rate of 1.5% over the 20-year U.S. Treasury Note. The interest rate is fixed for each property at the time it is financed.

In July 2010, a joint program covering 14 counties and over 130 cities will launch in California. The program, which is called CaliforniaFIRST (www.californiafirst.org), covers over 12 million people. Each county, and some of the individual cities, have a customized program and locally directed marketing efforts. However, the underwriting, administration and financing is centralized for more diversified bonds and better economies of scale. The financing is structured as going away, rated assessment secured debt with options for both interim and pooled financing.

Riverside and Orange Counties (collectively 50 cities and 4 million in population), are pursuing a strategy to structure actual going away, rated assessment secured debt. The first actual transaction is expected late in 2010.

Preferred Structure for the County's PACE Program

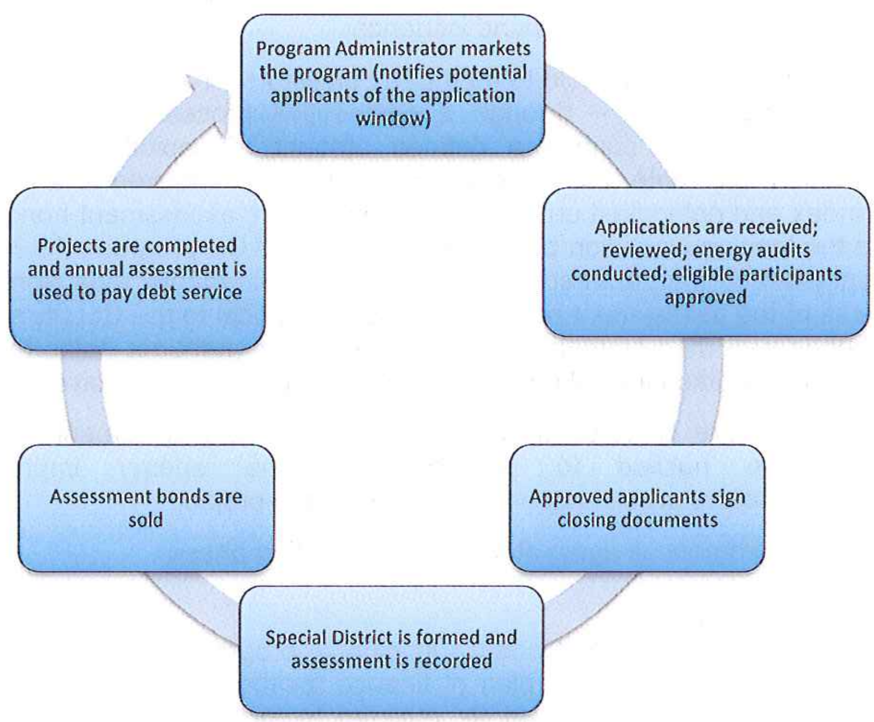
Upon review of the various financing mechanisms available to implement a PACE program, it is recommended that, if the Board desires to create a program, the County implement a PACE program in which the County issues revenue bonds using voluntary special assessments as the collateral pledged for the repayment of the bonds. This type of PACE financing program allows property owners to ***voluntarily*** opt into the program and agree to pay special assessments that are collected along with property taxes. Some key additional components of such a program include: (i) each homeowner meeting specific approval requirement prior to joining the special assessment district such as no involuntary liens (such as construction liens) on the property; (ii) minimum loan-to-value ratios; (iii) reliable history of mortgage and tax payments; (iv) limits on improvement value relative to home values; and (v) a potentially more diverse and larger assessment district with greater economies of scale composed of several communities within the County. As such, almost immediately a PACE financing program would at least have as strong, if not a stronger, credit profile than the typical non-voluntary assessment bond.

Utilizing the proven structure of an assessment bond financing, the County could potentially implement a PACE financing program that would limit or eliminate any exposure to County revenues. The stand-alone financing program would be secured solely with property assessments, with potentially no credit backstop from the County. The key consideration for the County's PACE Program is based on the implementation and financing cycle, which will impact the need for interim, or bridge, financing until a long-term financing is placed. The recommended plan of implementation and financing for this type of program is further described below. This implementation methodology ideally would eliminate the need for the County to provide interim financing. The involvement of underwriting firms and/or commercial banks to provide any needed interim financing will be an important element in the sustainability of the

PACE program and will help the County avoid problems that have occurred in the PACE programs of other jurisdictions.

Cyclical Implementation and Financing Cycle (without Upfront Financial Partner)
Under this structure the program periodically opens the assessment district to new property owners, starting a new financing cycle. This can be done either through a selling of the packaged energy retrofit liens to the market after program applicants have been approved (no upfront financial partner model--described below) or through the upfront application of financial terms and purchase of, packaging and bond sale of liens by a financial institution involved with the program from its inception (upfront financial partner model—see Attachment A for details). At the establishment of the PACE Program, the program administrator markets the program, begins accepting applications, and reviews and qualifies eligible properties/projects. However, under this plan of finance, the PACE program opens for specified intervals of time. For example, the program administrator markets the program county-wide and advises potential applicants that the applications will be accepted and reviewed over a period of approximately four months. At the conclusion of the "open review" period, all project applicants that reviewed and qualified during that period will sign the required closing documents, the special district is formed, assessment liens are recorded, and the assessment bonds are sold. Upon the sale and closing of the assessment bonds, the program administrator notifies applicants to proceed with the approved energy improvement(s), work is completed, and annual assessments pay debt service costs over the term of the financing. Simultaneously with closing the first "open review" period, the program administrator advertises a second tranche of PACE financing, and the process would repeat itself. The sample illustration below demonstrates the cyclical process for the

Figure 1: Cyclical Financing Model (No Upfront Financing Partner)



The process for the PACE bonds is intentionally created to closely mirror traditional assessment bonds, with which investors and lending institutions are already familiar despite the newness of PACE bonds. The following summary points are presented in order to provide a more detailed view of each of the key steps summarized above. Each of these steps will be primarily led by the Program Administrator with oversight from the Program Manager.

- Marketing the program includes multiple modes of advertisement, including web-based, outreach to the building and installation community, mail campaigns, television, etc. Additionally, educational seminars are conducted for County residents. As one would
- Expect, the marketing campaign will be significantly longer at the time of the initial PACE program launch. However once the initial marketing is underway, subsequent marketing campaigns will focus more towards notification of open application periods.
- The receipt of applications during the "open review" period is the initial step. In order to ensure that assessment bonds can ultimately be placed through lending institutions, the program manager and administrator will ensure that applicants meet the eligibility
- Requirements outlined in the PACE legislation and County program specifications. As part of the application process, the program administrator reviews requested projects, conducts energy audits, and reviews mortgage and tax payment history. This step is critical to the marketability of the PACE bonds as it ensures the integrity of the program.
- At the point that a critical mass (minimum number of properties) is achieved, or the open review process concludes, those qualified and approved applicants are notified and required to sign closing documents.
- The pool of applicants that have completed the application and review process, and signed closing documents, comprise the first special assessment district. Assessment liens are recorded at the time of bond issuance.
- The assessment bonds are sold to third party investors. To this end, it is recommended that the County procure – through a competitive process – three to five lending institutions that would commit a defined amount of capital to the program at a predetermined rate (note that the rate would initially be indexed to a publicly available market index and not locked until the time at which the assessment bonds are sold). At the time the lending institution becomes part of the PACE program, the institution would have consented to the parameters for borrowing requirements, thus signifying the credit worthiness of the assessment bonds. This step is critical to the County's goal of placing PACE bonds with third-party investors. The program manager helps to administer the procurement of lending institutions and establish term sheets for borrowing.
- Once proceeds are received from the sale of PACE assessment bonds, qualifying applicants are notified to proceed with the energy improvements and contractors/installers are paid upon completion of the project.
- This process commences again at the initial marketing phase.

<u>Options & Recommendations</u>

If the Board wishes to create a Miami Dade County PACE program, it is recommended that staff and the financial advisor structure the plan of finance for the PACE program, and develop a solicitation to assemble the PACE team as outlined in this report, and develop a turnkey program, allowing respondents to offer comprehensive solutions. The County will reserve the right to take each response in whole or in part, allowing the flexibility to assemble the best team of service providers.

Staff believes this is a worthwhile and beneficial program which provides energy cost savings, reduces greenhouse gas emissions, and benefits the local construction industry. However, existing staff is not really equipped to take on the new/added responsibility of administering a program. Additionally, current County staff does not have the experience or expertise in this new and developing field. Ideally the program and underlying plan of finance will be developed with the most cost-effective strategy for the County. The plan of finance will be structured to minimize/eliminate the County's up-front costs for starting the program, and structure administrative costs within the ultimate financing mechanism.

Attachment A

Explanation of Upfront Financial Partner Financing Model

Cyclical Implementation and Financing Cycle (with Upfront Financial Partner)

As an alternative to the approach described in Figure 1, a financing strategy that seeks to provide committed financing to property owners on day one is another option (See Figure 2). This strategy hinges on identifying a financial partner that is capable of providing a significant capital commitment to the county to fund approved PACE projects. At the outset, the County with the aid of its financial adviser and legal team works with the financial partner to establish program and underwriting standards that are mutually acceptable. Once the standards and terms are set, the County enters into a Funding Agreement that governs the financial relationship during the initial term. Under this structure, funds are immediately made available to interested property owners at a pre-defined interest rate negotiated as part of the Funding Agreement. Once the minimum number of properties or total investment is reached, the financial partner either chooses to retain the liens or executes a securitization. The goal of this approach is to provide an on-demand financing capability from day-one as well as a structure that allows for continuous program funding over the long-term. This type of structure provides a financing approach that does not require County credit support nor provide significant program and interest rate risks to property owners.

Figure 2: Cyclical Financing Model with Upfront Financing Partner