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ATTORNEYS & COUNSELORS AT LAW

Keeping PACE

Financing for Cannabis & Other Energy Intensive Industries

Presented by
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Today's Presenters






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Today's Discussion

- Michigan Property Assessed Clean Energy (PACE)
Act: Act 270
- LAGM Case studies
- 2019 MI PACE market update
- Use for energy intensive industries



What is PACE?

- Using local governments' abilities to levy property assessment, private lenders assure payback on property improvements related to energy savings.
- Private lenders provide capital.
- Local governments use their taxing power.

Continued



What is PACE?

- Non-governmental entities, like Lean & Green Michigan, act as a program administrator, providing turnkey service to reduce and limit local government resources to oversee the PACE program.
- Payments toward capital investments and interest remain with the property, even after transfer, until it is completely paid off.



Michigan Act 270 – Purpose

- To allow local units of government to adopt PACE programs to promote the use of renewable energy systems and energy efficiency improvements
- Financing provided by voluntary property assessments and commercial lending.
- Local governments may also issue bonds, notes and other debt to pay those costs.



Establishing a PACE Program

- Local units of government may establish a program by which commercial property owners may enter into a contract with the local unit of government to finance or refinance energy projects on the owner's property.

Continued



Establishing a PACE Program

- Steps:
 - Resolution of intent – (1) financing of energy projects is a valid public purpose; (2) statement of intent to provide funds for energy projects; (3) describe proposed arrangements to finance the program; (4) determine types of energy projects to be financed; (5) identify report meeting specific requirements and forms for program; (6) set date and time of public hearing.

Continued



Establishing a PACE Program

- Conduct a public hearing.
- Adopt a resolution establishing program, including preparation of a report identifying the nature, extent and limits of the PACE program.



Local Government Powers

- Establish a PACE district.
- Establish financing and funds for energy projects within the district.
- Adopt a PACE program report.
- If applicable, collect and forward assessment installments imposed under the PACE program.
- Select designated PACE authorized official to manage program on behalf of local government, including, processing and approving applications from property owners seeking to obtain funding.



Energy Projects

- “[I]nstallation or modification of an energy efficiency improvement or the acquisition, installation, or improvement of a renewable energy system or anaerobic digester energy system.”
 - Renewable energy system: solar power, water power or wind power, biomass, geothermal, methane capture from a landfill
 - Anaerobic digester energy system: the anaerobic digester and equipment used to generate electricity or heat from biogas or the storage of biogas for future generation of electricity or heat

Continued



Energy Projects

- Energy efficiency improvement: equipment, devices or materials intended to decrease energy consumption, including insulation, energy efficient windows, HVAC system replacements or improvements, caulking, weather stripping, replacement or modification of lighting systems, energy recovery systems, day lighting systems, upgrades in wiring or outlets to charge electric vehicles, water savings measures and any other item approved by a utility as a cost-savings measure.



Obtaining PACE Program Benefits

- Property owner submits to the Authorized Official an application, along with supporting documentation including but not limited to an energy audit, for approval to finance the project.
- Authorized official must approve project and ensure that it qualifies for financing under the PACE program.

Continued



Obtaining PACE Program Benefits

- Capital provider agrees to provide financing for project to property owner and capital provider and property owner execute a PACE loan agreement and PACE note.
- Capital provider, property owner and local government enter into a special assessment agreement, which is recorded in appropriate land records by applicable Register of Deeds against property.



Assessment Payments

- Financing provided for qualifying efficiency and renewable energy improvements
- Property owners repay financed amounts, including interest and penalties, through imposition of a voluntary Special Assessment against real property.
- Assessment is paid in installments by property owner to capital provider according to terms of PACE financing agreement and delinquent assessments are added to and collected by local government on property owner's real property tax bill.

Continued



Assessment Payments

- Assessment is a lien against property, runs with the property and "has the same priority as other property tax and assessment liens."
- PACE assessments cannot be established if property is burdened by delinquent assessments, special assessments or water or sewer charges or any delinquent assessments under a PACE program.





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Lean & Green Michigan

Michigan's program administrator for PACE financing

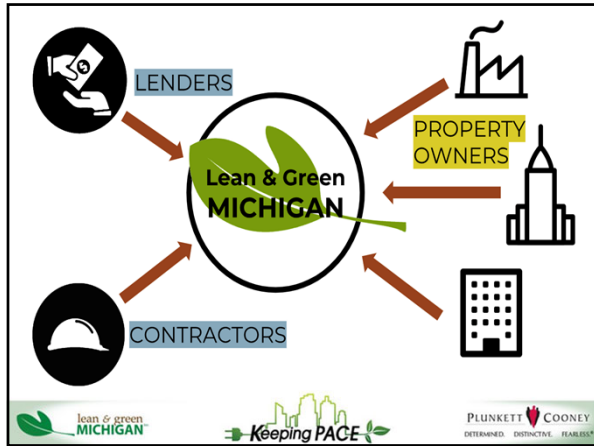


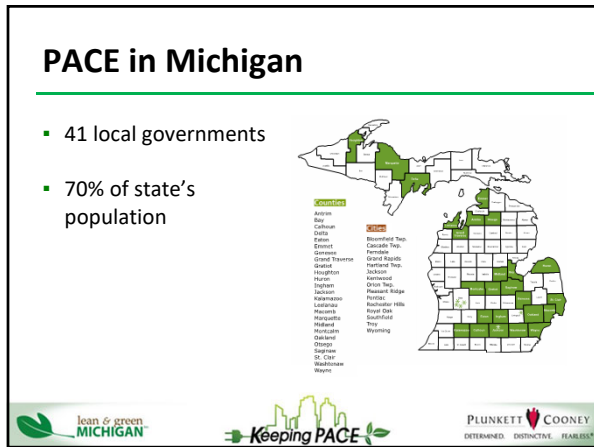
What is LAGM?

Our mission

1. To facilitate a thriving Michigan PACE market
2. Serve as the leading financial choice for commercial property owners seeking to reduce their energy consumption







Qualified Properties

- Commercial & Industrial:**
 - hotels, hospitals, restaurants, office buildings, cannabis & more
- Multifamily housing:**
 - market-rate and low-income apartment buildings
- Agricultural:**
 - farms, wineries & more
- Nonprofits:**
 - Houses of worship, private schools, cooperatives & more

Qualified PACE Projects

- Retrofits
- Gut rehabs
- New construction
- Refinancing any of the above



Qualified Energy Upgrades

- Energy Efficiency
 - lighting, HVAC, windows, insulation, roofing, caulking & more
- Water Efficiency
 - Storm water recapture, low-flow toilets / sinks / showerheads
- Renewables
 - Solar energy, wind energy, EV charging, geothermal, CHP & more



Benefits of PACE Financing


- Increases property values
- Improves local building stock
- Revitalizes buildings
- Reduces energy burdens
- Creates local jobs
- Reduces environmental impacts and GHG emissions
- Green PR opportunities
- Long-term, low-interest, fixed-rate loans
- Non-recourse loans
- Cash-flow positive financing



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LAGM Case Studies

lean & green
MICHIGAN™



Hotels: St. Clair Inn

- St. Clair County
 - Over \$5.5 million in PACE financing
 - Over \$1.9 million in net savings
 - 20 year term
- ECMs: LED lighting, HVAC, Windows and water conservation measures, ice machines & more




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Keeping PACE

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Hotels: Roberts Riverwalk Hotel

- Wayne County
 - Over \$4.7 million in PACE financing
 - Over \$7.5 million in net savings
 - 20-year term
- ECMs: solar PV, building envelope, building controls, HVAC, heat pumps & more



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Keeping PACE

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Other Energy Intensive Facilities: Liquid Web Data Center

- Eaton County
 - Over \$3.6 million in PACE financing
 - Over \$1.1 million in net savings
 - 20-year term
- ECMs: energy efficient air conditioning units

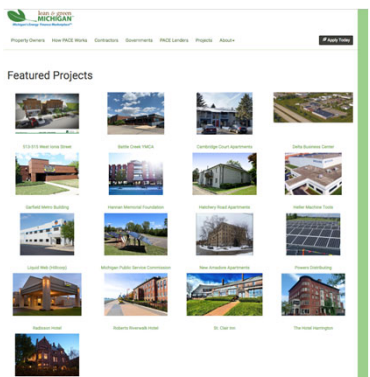


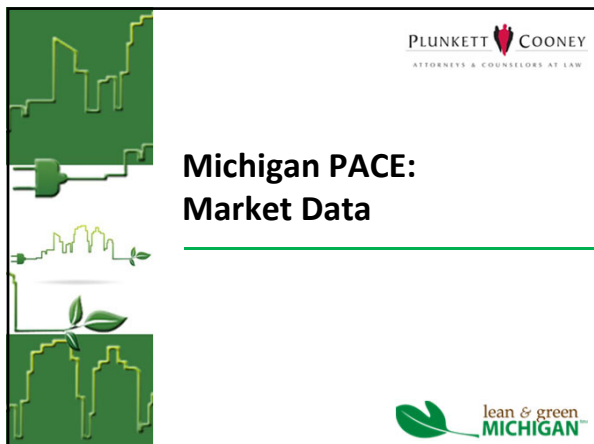
Other Energy Intensive Facilities: Heller Machine Tools

- Oakland County
 - Over \$978,000 in PACE financing
 - Over \$170,000 in net savings
 - 15-year term
- ECMs: building controls, roof replacement, lighting, server room cooling & more




More Case Studies





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Michigan PACE: Market Data



Jurisdiction Rankings: Amount Financed

- Over \$26.3 million in PACE financing




Jurisdiction	Amount Financed
Wayne County	\$9,327,234
St. Clair County	\$8,157,850
Eaton County	\$4,896,035
Calhoun County	\$1,371,072
City of Troy	\$978,607
Orion Township	\$435,000
Saginaw County	\$298,295
Macomb County	\$249,000
Ingham County	\$247,829
Montcalm County	\$117,580
Oakland County	\$135,626

Jurisdiction Rankings: Number of Projects

- 17 total PACE projects




Jurisdictions	# of Projects
Wayne County	4
Eaton County	3
St. Clair County	2
Calhoun County	1
City of Troy	1
Ingham County	1
Macomb County	1
Montcalm County	1
Oakland County	1
Orion Township	1
Saginaw County	1

Lender Rankings: Amount Financed




- Over \$26.3 million in PACE financing


Lender	Amount Financed
Twain Community Partners II, LLC	\$11,861,955
Structured Finance Associates	\$8,450,000
Petros PACE Finance, LLC	\$5,030,720
Wells Fargo Bank Northwest, N.A.	\$488,000
Counterpointe/Hannon Armstrong	\$247,829
Greenworks Lending, LLC	\$135,626

Lender Rankings: Number of Projects


Lender	# of Projects
Petros PACE Finance, LLC	8
Twain Community Partners II, LLC	4
Structured Finance Associates	2
Counterpointe/Hannon Armstrong	1
Greenworks Lending, LLC	1
Wells Fargo Bank Northwest, N.A.	1




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2019 Michigan PACE Update



Battle Creek YMCA



Battle Creek YMCA
Calhoun County's first PACE project

Project Quick Stats:
 PACE District: Calhoun County
 Property Owner: Y Center of Battle Creek
 PACE Vendor: Plunkett Cooney Finance
 Amount Financed: \$3,371,472
 Project Term: 22 years
 Net 22-year savings: \$861,563
 Total 22-year savings: \$3,233,342
 Energy Conservation Measures:
 - HVAC
 - Lighting
 - Building envelope
 - Heating Units (HVAC)




Overview

The Battle Creek YMCA makes Calhoun County's first PACE project. The Battle Creek YMCA PACE project will amount for a 47% reduction in total electrical use, in addition to increasing solar panel production. This will allow the YMCA to use solar parking lot, will also provide improved security measures for YMCA members and staff.

The PACE project at the Battle Creek YMCA makes the 4th Michigan PACE project for Plunkett Cooney Finance and the second nonprofit PACE project for Calhoun County.

"PACE provides an alternative opportunity for the Battle Creek YMCA to reduce our rising electricity costs in the state to ensure safety for our members and the community," said Jeff Hinkle, CEO of the Battle Creek YMCA.

With 100% financing for energy improvements, PACE makes it possible for nonprofits to generate positive social investments, allowing the nonprofit to invest more into its core mission.

New Jurisdictions













PACE Express

- PACE financing: \$250,000 or less

	PACE Express	PACE
Size of Project	\$250,000 or less	greater than \$250,000
Energy Audit Requirement	Baseline energy audit	ASHRAE Level 2 energy audit (or equivalent)
Savings-to-Investment Ratio ("SIR")	No SIR requirement	SIR>1
Savings Guarantee	Not required	Required
Eligible Conservation Measures	Energy efficiency: lighting, HVAC, windows, insulation, roofing, sealing & more. Water efficiency: stormwater receptors, low-flow toilets/showers/baths, grease trap systems & more. Renewable energy: solar energy, wind energy, EV charging, geothermal, CHP & more.	
Qualified Properties	Commercial & Industrial: hotels, hospitals, restaurants, office buildings, manufacturers & more. Multi-family housing: both market-rate & low-income apartment buildings. Agriculture: farms, nurseries & more. Nonprofits: houses of worship, private schools, cooperatives & more.	
Qualifying Projects	Cost rebates New Construction Refinancing of any of the above	

New Construction Policy

- For any such PACE project that contains two or less ECMs, at least one ECM must exceed code.
- For any such PACE Projects that contains three or more ECMs, at least two ECMs must exceed code.
- For any such ECM that exceeds code, this measure must be a material component of PACE project.



Program Manual

- We are drafting a comprehensive program manual — stay tuned!



2019 Pipeline

- Resorts & hotels
- Office buildings
- Multi-family housing
- Senior living centers
- Houses of worship
- Nonprofits
- Breweries
- Car dealerships
- New construction projects
- Cannabis industry-related properties



Cannabis Industry

- Cannabis growing and processing are energy intensive activities:
 - Cannabis growing operations represent 3% of electricity consumption in California, the equivalent of powering one million homes.
 - Half of Colorado’s load growth since 2012 is attributable to cannabis cultivation.

Continued



Cannabis Industry

- Denver saw a rise of energy use of 1.2% between 2012 and 2013, half of which is driven by cannabis grows, totaling almost 4% of overall electricity consumption in that city.
- Estimates for indoor grows claim four to 10 times the energy of a similarly sized office building.
- Nationally, greenhouse gas emissions related to grow operations is presently at the equivalent of three million cars.



A Commodity?

- Cannabis is a commodity product.
- Inefficiencies in grow and processing activities put businesses in competitive disadvantage.
- Energy and water consumption are two areas where improved efficiency benefits the bottom line.



Room for Improvement

- Ways to improve efficiencies in grow and processing operations:
 - Heating and cooling costs
 - Lighting
 - Irrigation
 - Alternative energy/energy storage

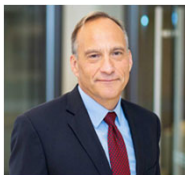


Costs Involved

- How to pay for these improvements?
- Startup costs make money less available for installing efficiencies up front.
- Traditional banks remain unwilling or unable to provide needed capital.
- Using PACE to access capital for improvements



Questions?



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