PACE for Nonprofit-owned Buildings: Cutting Energy Costs to Serve Communities

by Mike Centore | May 16, 2016 | News |

Phyllis Weatley Building, Washington D.C.

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Every day nonprofit community-based institutions work hard to raise money and deliver mission-driven programs and services. Whether providing affordable housing for the homeless, assisting at-risk youth in gaining job skills in public charter schools, or ministering to the conscience of a community in houses of worship, these institutions regularly push their internal capacity and strain their budgets just to advance a public mission of service.

When choosing to install new energy saving technology like more efficient lighting or boilers, or upgrading to renewable energy with solar panels, the choice too often comes down to a trade-off between using scarce capital resources to either upgrade their physical plant or carry out their mission.

Financing building improvements using Property Assessed Clean Energy (PACE) can enable nonprofits to overcome these upfront cost barriers and easily access capital that is paid for over time through savings on utility bills. PACE offers low interest rates, long terms to minimize payments, and a solid value proposition for mission driven organizations. That's a good deal not only for the community, but for local clean energy businesses, the regional economy, and our shared environment.

Today, PACE programs in Washington DC and New York State can provide important lessons to help other communities around the nation access these benefits from what we call "Civic PACE". Both Energize NY and Urban Ingenuity are finding that the nonprofit sector is a huge opportunity for clean energy sector growth. Considered part of the commercial building stock, most nonprofits have underinvested in energy related improvements.

These community-based organizations often have constrained budgets, substantial deferred maintenance challenges, and very large unmet capital investment needs. Nonprofits are typically underserved in debt markets because they have unusual forms of credit or cash flows, making PACE an ideal mechanism to finance building upgrades because it attaches to the land record of the property not the credit of the borrower. For this reason, nonprofit properties frequently have low debt levels, further simplifying PACE underwriting by reducing the need for lender consent to establish a special PACE tax assessment.

Although PACE is a powerful tool for nonprofit institutions, it has not been widely available or accessible to these critical community-based institutions… until now. The cost of capital can be a major factor for institutions that low priced debt. In order to serve this important market, it is essential to structure creative financing solutions that bring down pricing for nonprofits.

With support from the U.S. Department of Energy's Sunshot Initiative, The Solar Foundation, Urban Ingenuity, and Clean Energy Solutions Inc. (CESI) are working with program administrators across the country to open up the nonprofit market beyond Washington DC. Through outreach and collaboration, the team is working to demonstrate the viability of using PACE with HUD-assisted multifamily housing, the value of PACE-secured PPAs for non-profit solar projects, tax-exempt bond financing considerations, and other creative credit enhancements. The team is finding opportunities to build this market to use PACE financing to expand deployment of solar energy and energy efficiency projects for nonprofit organizations, working closely with houses of worship and local Public Housing Authorities in Washington DC, New York, and many other communities around the country to make low-cost, long-dated debt and appropriate equity available for PACE projects.

For example, in the District of Columbia, Urban Ingenuity is currently structuring credit enhancements and tax-exempt PACE capital to bring down interest rates. They are currently closing a tax-exempt PACE note at less than 4% for 20 year debt, representing perhaps the first tax-exempt PACE financing, and demonstrating a new potential opportunity for PACE investment.

In New York, Energize NY has used Qualified Energy Conservation Bonds (QECBs) to bring down the cost of clean energy upgrades to under 3% for 20 year funds, as well as offering direct property owner support to help overcome the capacity gap that is a common barrier to upgrades in this sector. In addition, New Market Tax Credits (NMTC) and other forms of innovative, low-cost capital are available to credit-enhance PACE notes.

Nonprofit owned buildings are not currently well served by solar tax equity markets; these markets are not always transparent for consumers, and the pricing and structure is traditionally designed to benefit the investor and developer, instead of maximizing the flow of resources to advance a non-profit's mission. The PACE-secured PPA, on the other hand, reduces credit risk, drives transparency in solar markets, and presents improved pricing and terms for customers. DC PACE has proven a "pre-paid PPA" approach, and Energize NY is close to closing three PPA's with non-profits and others unable to take advantage of federal tax credits.

More broadly, NY State is addressing the challenges facing non-profits and Low and Moderate Income (LMI) housing by supporting Energize NY PACE financing as well as through the State's energy agency (NYSERDA) and a range of utility initiatives. These efforts combine to form a compelling package that can include direct project support, financing with long-terms and low interest rates, and energy upgrade standards that encourage improvements which provide significant financial gain to LMI housing and other non-profit customers.

The energy burden is disproportionately high for almost all nonprofits and especially for affordable housing owners who struggle with balancing operating needs and serving their mission. Reducing energy costs and consumption make good financial sense for these property owners, and accessing upfront capital to pay for needed project level investments, paid for over time with utility savings, is one key piece of the solution. Now, with PACE, which can be enhanced through QECBs or other tools and paired with direct incentives, nonprofits can access the capital they desperately need to improve their property while saving money to advance their mission, foster public welfare and a higher quality of life while giving back to communities in ways that extend well beyond greening the environment and protecting global climate.

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