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REPORT REQUIRED BY ALASKA STATUTES 29.55

FOR PROPOSED [_____]

PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM

Introduction

This report (“**Report**”) is adopted by the [REDACTED] (“Local Government”) for its Property Assessed Clean Energy (PACE) Program (**the “Program”**) in accordance with the requirements of the Municipal Property Assessed Clean Energy Act, Alaska Statutes 29.55 et seq. as amended (**the “PACE Act”**).

Local Government and its constituents benefit when older existing buildings are modified with new technology and equipment that increases energy efficiency. As described in this Report, Local Government is establishing the Program as a means to provide private sector investment in energy efficiency. The Program will be offered to property owners on a strictly voluntary basis with financing provided by private capital providers and not from public funds or resources.

Authorized under the PACE Act enacted in 2017, the Program is an innovative financing program that enables owners of privately owned commercial and industrial properties to obtain low-cost, long-term financing for energy efficiency improvements, and renewable energy retrofits. PACE financing is intended to cover the full costs of eligible improvements, with little or no up-front out-of-pocket cost to the owner, and repayment made through assessments payments on the property.

Generally, as with other special assessments in Alaska, the assessment under a PACE program is secured by a lien on the property and paid back over time. Like other special assessments, PACE is non-accelerating, meaning current or past due annual assessment payments will be collected each year while future assessment payments stay with the property. The PACE repayment obligation transfers automatically to the next owner if the property is transferred or conveyed or may be voluntarily prepaid. This arrangement allows property owners to spread the cost of energy improvements – such as energy-efficient boilers, upgraded insulation, new windows, or solar installations – over the full expected life of the measure.

Assessments are a tool which local governments in Alaska levy on real property to finance public improvement projects including water and sewer systems. PACE builds on a long history of using such assessments. As such, Local Government finds that Qualified Improvements, as defined herein, financed through PACE serve a valid public purpose. These Qualified Improvement may:

- Enable property owners and occupants to save amounts in utility and maintenance costs;
- Reduce demand on the electricity grid;
- Mitigate greenhouse gas emissions associated with energy generation;
- Enhance the value and efficiency of existing buildings;
- Boost the local economy by creating new job opportunities for laborers and new business opportunities for contractors, engineers, commercial lenders, professionals, and equipment vendors and manufactures;
- Increase business retention and expansion in the PACE region by enabling cost effective energy saving updates to existing property; and
- Improve productivity through optimized energy usage.

Reasonable administrative fees (“**Program Administration Fee**”) may be charged, pursuant to the PACE Act, by the Local Government to pay administrative costs of the Program. Additionally, the PACE Act authorizes Local Government to enter into a contract with a third party to provide certain professional services necessary to administer the Program (the “**Third Party Administrator**”). Local Government may delegate certain administration activities under the Program to a Third Party Administrator.

The PACE Act limits “**Eligible Properties**” to privately owned commercial and industrial properties located within the Local Government PACE region. Undeveloped property and property undergoing development at the time of the assessment are not deemed Eligible Properties under the PACE Act.

PACE financing may be used to pay for qualifying improvements to Eligible Properties. The PACE Act defines “**Qualified Improvements**” are those improvements that are fixed to existing privately owned commercial or industrial property and are intended to reduce energy consumption or demand, energy costs, or emissions affecting local air quality, including a product, device, or interacting group of products or devices that use energy technology to generate electricity, provide thermal energy, or regulate temperature.

The following items may constitute Qualified Improvements:

- High efficiency heating, ventilating and air conditioning (“HVAC”) systems
- High efficiency chillers, boilers, and furnaces
- High efficiency water heating systems
- Energy management systems and controls
- High efficiency lighting system upgrades
- Building enclosure and envelope improvements
- Heat recovery and steam traps
- Solar photovoltaic systems
- Solar thermal systems

- Water conservation and wastewater recovery and reuse systems that save energy

For purposes of the PACE Act, a “**Capital Provider**” is a third-party provider of PACE financing. The PACE Act does not establish criteria for financial institutions or investors to serve as Capital Providers.

The Program will operate as an open market in which property owners have the flexibility to select their preferred Capital Provider for financing a Qualified Improvement located on an Eligible Property. The open market model gives property owners access to a range of private Capital Providers who offer competitive rates and financing terms and conditions. No exclusivity will be provided to Capital Providers, and the property owners will retain the right to choose the type and provider of financing that works best for their business needs.

Local Government does not, and will not (i) guarantee or imply that funding will automatically be provided from a Capital Providers, (ii) imply or create any approval, endorsement or certification of, or responsibility for, any Capital Providers; or (iii) create any type of express or implied favoritism for eligible Capital Providers.

Components of the Program

As required under Section 29.55.110 of the PACE Act, the following describes Program requirements:

- a. Map of Region. A map of the boundaries of the region included in the Program is attached to this Report as Exhibit 1. The region encompasses the Local Government limits on an areawide basis.
- b. Form Contract with Owner. A form contract between Local Government and the record owner of the Eligible Property (the “**Owner Contract**”) is attached as Exhibit 2. It specifies the terms of the assessment under the Program and the property owner’s obligation to repay financing Capital Provider through assessments imposed and serviced by Local Government.
- c. Form Contract with Capital Provider. A form contract between Local Government and a Capital Provider chosen by a property owner (the “**Capital Provider Contract**”) is attached to this Report as Exhibit 3. It specifies the financing and servicing of the debt through assessments by Local Government.
- d. Qualified Improvements. Qualified Improvements under the Program must: (a) be fixed to existing privately owned commercial or industrial property; and (b) is intended to reduce energy consumption or demand, energy costs, or emissions affecting local air quality, including a product, device, or interacting group of products or devices that use energy technology to generate electricity, provide thermal energy, or regulate temperature. The Program may not be used to finance

improvements to undeveloped lots or lots undergoing development at the time of the assessment.

e. Plans for Ensuring Sufficient Capital. Local Government intends to adopt an ordinance establishing and approving the Program, which is inclusive of this Report (“Ordinance”). The Ordinance allows Capital Providers to extend financing to property owners for Qualified Improvements. Financing documents executed between owners and Capital Providers will describe the terms of the financing. Local Government will enter into a written contract with a record owner of an Eligible Property to impose an assessment to secure the financing and to service assessments to repay the financing.

f. No Use of Bonds or Public Funds. Local Government does not intend to issue bonds or use any other public monies to finance Qualified Improvement projects under the Program. Property owners will obtain all financing from the Capital Providers they choose.

g. Limit on Length of Assessment. The total financing repaid by assessments may not exceed 20 years or the useful life of the Qualified Improvement project that is the basis for the assessment, whichever is shorter.

h. Application Process and Eligibility Requirements. Local Government or Third Party Administrator will accept applications from property owners and Capital Providers seeking to finance Qualified Improvements under the Program. Each application must include:

- i. A description of the specific Qualified Improvements to be installed or modified on the property;
- ii. The amount of the assessment;
- iii. A copy of a title report of the property dated within [60] days of application submission to evidence a) that the property owner requesting to participate in the Program is the legal record owner of the benefitted property; b) the legal description of the specific real property to which the Qualified Improvements will be permanently fixed; and c) any mortgages or liens encumbering the property;
- iv. A copy of the written consent of any holder of a mortgage lien on the property, as described in Section (k) below;
- v. Statement from the capital provider that all financial eligibility requirements of the owner as described in Section (i) have been satisfied; and
- vi. A copy of the energy review as described in Section l.i;

i. Financial Eligibility Requirements. A Capital Provider, chosen by the property owner will assume full responsibility for determining whether a property owner has

demonstrated their ability to repay the financial obligations of the PACE assessments through appropriate underwriting factors, including:

- i. That the property owner requesting to participate in the Program is the legal record owner of the benefitted property;
- ii. That the property owner is current on mortgage and property tax payments;
- iii. That that the property owner is not insolvent or in bankruptcy proceedings;
- iv. That the period of assessment does not exceed 20 years or the useful life of the Qualified Improvement that is the basis for the assessment, whichever is shorter;
- v. That the total financing repaid by assessments does not exceed 20 percent of the assessed value of the property at the time of program application. However, if the total financing repaid by assessments does not exceed 50 percent of the assessed value of the property at the time of program application, the property owner may apply for a waiver from Local Government or Third Party Administrator, as applicable, to exceed the limitation under this requirement. Such a waiver must include a reasonable justification acknowledged in writing by the property owner and capital provider and address the interests of potential tenants and future property owners; and
- vi. That the total financing repaid by assessment is exceeded by the projected monetary savings to the property owner over the life of the assessment as a result of the Qualified Improvement project.

j. Imposition and Collection of Assessments. Pursuant to an Owner Contract, a property owner will request that Local Government impose, and Local Government will agree to impose, an assessment on the Property, as set forth in a Notice of Contractual Assessment Lien which will be filed in the property records of the recording district of [REDACTED]. The Owner Contract and Capital Provider Contract will provide that Local Government will agree to place the relevant assessment payment amounts on the subject property's tax bill or a stand-alone bill, to collect such assessments payments, and to enforce any delinquent assessment payment against the property for the benefit of Capital Provider in the same manner as a property tax lien against real property may be enforced by a local government under AS 29.45.320 – 29.45.470.

k. Mortgage Lender Notice and Consent. Before a Local Government enters into an Owner Contract to impose an assessment to repay the financing of Qualified Improvements under AS 29.55.100, the property owner shall give each holder of a mortgage lien on such property at least thirty (30) days' written notice of the intention of the property owner to participate in a program under AS 29.55.100 and obtain a

written consent of assessment from each holder of a mortgage lien on such benefitted property.

l. Energy Review. The record owner of property on which an assessment is imposed shall obtain from an independent, third-party qualified energy auditor:

- i. A review of the energy or emissions baseline conditions and the projected reduction in energy costs, energy consumption or demand, or emissions affecting local air quality, as appropriate, for each proposed Qualified Improvement; and
- ii. For each completed Qualified Improvement, verification that such Qualified Improvement project was properly completed and is operating as intended.

m. Marketing and Education Services. Local Government, or Third-Party Administrator, as applicable, will provide marketing and education services for the Program. Local Government may subsequently enter into agreements or memorandums of understanding with one or more other local governments, non-profit organizations, or private entities that promote energy conservation and/or economic development to provide marketing and education services for the Program.

n. Quality Assurance and Antifraud Measures. Local Government, or Third-Party Administrator, as applicable, will institute quality assurance and antifraud measures for the Program. Local Government or Third-Party Administrator, as applicable, will review each PACE application and supporting documents for compliance with this Report. The application and required attachments will identify and supply the information necessary to ensure that the property owner, the property itself, and the proposed Qualified Improvements all satisfy the Program underwriting and technical standard requirements included in this Report. The verification requirement under Section l.ii will be collected by the Local Government or Third-Party Administrator, as applicable, upon the completion of approved Qualifying Improvements.

o. Insurance Requirements. As part of an application for PACE financing, the property owner will submit evidence of insurance against damage to the Qualified Improvement; insurance shall be required for the term of the assessment.

EXHIBIT 1
MAP OF PACE REGION

EXHIBIT 2
FORM CONTRACT WITH OWNER

EXHIBIT 2

FORM CONTRACT WITH CAPITAL PROVIDER