

Michigan's PACE Financing Program Helps Building Owners Cut Costs, Boost Efficiency

Michigan – Business leaders, particularly developers and building owners, are constantly striving to make their ventures as cost-efficient as possible. That's why it is surprising to learn that, for a conventional building, 30% of the utility bill is from energy waste. For many years, building owners have had no real solution to fix this lack of efficiency. Enter Property Assessed Clean Energy (PACE) Financing, a financing tool which enables building owners to invest in energy efficiency upgrades to their property in a way that makes financial sense. The State of Michigan passed legislation in 2010, which enabled PACE Financing to be used in our state, subject to the approval of individual counties. Over the past couple of years, a growing number of counties have been getting on board, allowing the benefits of PACE Financing to be used in their communities.

One of the unique features of PACE which sets it apart from traditional lending methods is that it allows the loan to be attached to the property, rather than the borrower. This means that instead of a monthly payment, like a traditional loan, PACE adds an assessment to the property which the owner pays when they pay their property taxes. By attaching the loan to the property, instead of the borrower, the loan does not follow the property owner when they sell the property to someone else. The assessment will stay on the property and will continue to be paid for by the new owner until the loan is retired.

Another benefit of PACE is that it helps to solve the “split-incentive” issue which is one of the reasons why so many commercial buildings, especially apartments, are not energy efficient. The owners tend to not make investments in efficient energy because it's the tenants who are paying the energy bills, not them. Tenants often don't invest in efficient energy because it doesn't make sense to invest in a property they don't own. PACE Financing bridges this gap. By enabling owners to invest in efficient energy upgrades for their buildings, owners can then raise rent by an amount equal to their energy savings, while still leaving some room for tenants to benefit as well. For example, if the energy savings for a tenant's unit amount to \$200 per month, the landlord could raise the rent \$150, and the tenant would still be happy because they would be saving \$50 per month on their total housing bill. This bridges the gap between landlord and tenant, leaving both parties satisfied and solving the split-incentive issue.

PACE has started to gain both attention, and credibility, from its use in several projects across the state. These include its use in the construction of the new Amadore apartments in Saginaw, the upgrading of the Radisson Hotel in Detroit (PACE's largest project in Michigan to date), and the renovation of Detroit's Whitney mansion in Wayne County. Bud Liebler, owner of the Whitney mansion, sees PACE as an incredible tool which can be used to upgrade aging buildings. The upgrades, while improving the technology of the building, are also helping the environment, which is another reason Mr. Liebler is a fan of the program. “I want word to spread about this program, and I hope more people use it,” Mr. Liebler stated. The Whitney mansion project involved the installation of upgrades such as high efficiency cooking equipment, a more efficient heating and cooling system, building control systems, LED lighting, and efficient storm enclosures on over 200 windows. PACE financed a total of \$863,130 for this project, with a term

of 20 years. The total savings over the 20-year period will amount to \$2,097,327, with a net total savings of \$470,560. In addition to its impressive financial impact, the upgrades to the building will eliminate 3,491,500 kWh of electricity and 39,760 therms of natural gas over 20 years, resulting in a carbon reduction of 232 metric tons, annually.

Another PACE financed project was done by Powers Distributing in Orion Township, making them the first beer distributor in the U.S. to use the program. After receiving a total assessment of \$445,330, with an annual payment of \$40,000 and an annual savings of \$66,000, Powers Distributing now has an annual cash flow increase of \$26,000 because of PACE Financing. With the installation of their 100 kW solar PV and LED lighting, the environmental impact has been extremely impressive as well. Powers Distributing is now saving 370,000 KWh per year. They have reduced their electricity consumption by approximately 20%. Powers decided to treat their assessment as “off balance sheet,” which PACE allows, freeing up more capital for their company to invest elsewhere. Powers Distributing was able to improve and lessen their environmental impact, while at the same time helping their business to operate more cost-effectively.

It is evident that word is getting out about the benefits of the PACE program. It is gradually spreading across Michigan as it is approved on a county-to-county basis. There is no cost for counties to join the PACE program and there are no barriers to entry or exit. Currently, there are 23 participating counties in Michigan, and 11 cities. To learn how to add your community to this growing list of PACE-participating jurisdictions, visit <http://leanandgreenmi.com/governments> for more information.

The PACE program does not use a county’s tax dollars. By approving PACE, counties are simply offering a new tool to help their local businesses invest in efficient energy projects.

It is time to spread the word about programs like PACE, and realize that we can help the environment, while simultaneously making our businesses more competitive and profitable. Who could say no to that?

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