



HB 6039 (C-PACE amendment) testimony – September 15, 2020

Good afternoon Representatives and thank you for allowing me to testify today.

My name is Bali Kumar, and if you recall from my testimony last December, I am the CEO of Lean & Green Michigan, the public-private partnership that administers the Property Assessed Clean Energy (PACE) program on behalf of now 46 local governments around Michigan (28 counties, 18 cities/townships), and counting, representing over 72% of the population of Michigan.

When I say we are the PACE administrator, what I mean is that we are the commercial PACE (C-PACE) administrator across Michigan. The Property Assessed Clean Energy Act of 2010, in its current form, only allows for commercial or industrial properties to access PACE financing. There are four bills regarding PACE being proposed, but only one of them, HB 6039, revises the PACE legislation that is currently in force. I also believe that HB 6036, HB 6037 and HB 6038 (the new Community PACE and Residential PACE bills) are good public policy, but my expertise pertains to HB 6039 (the amendment of the existing PACE legislation).

At Lean & Green Michigan, we serve as experts on the Michigan PACE statute and, on behalf of our 46 member jurisdictions, we help all parties involved complete the C-PACE financing transaction in a manner compliant with the PACE statute. C-PACE, though approved by local governments, is largely a private market transaction where a private lender and sophisticated commercial/industrial borrower negotiate financing that is mutually acceptable to both parties.

To date, we have arranged financing for 27 C-PACE projects across Michigan, including:

- \$153,000 for the YMCA Storer Camps in Jackson County,
- \$117,000 for the Cambridge Court Apartments in the city of Greenville,
- \$2 million for the of the North of Campus Lofts in Bath Township,
- over \$4.7 million to upgrade the Roberts Riverwalk Hotel in Detroit,
- \$1.3 million to upgrade the Battle Creek YMCA, and
- about \$1 million for Heller Machine Tools in Troy.

In total, we have arranged for nearly \$50 million of C-PACE financing across Michigan. These C-PACE projects use private capital, and are done in a budget-neutral fashion, which is particularly important during the current economic climate. These projects have created jobs and promoted economic development. These projects have also incentivized cost-effective sustainability, by retrofitting existing buildings and building more energy-efficient new construction projects.

HB 6039 removes the hurdles that make C-PACE financing an underutilized resource in Michigan. By way of contrast, Michigan property owners have been able to access about \$50 million in private capital through C-PACE, whereas Ohio property owners (in part, because their legislation is not as restrictive as Michigan) have financed over \$240 million in upgrades!

Nationwide, about 2,400 C-PACE projects have been completed, unlocking over \$1.5 billion in C-PACE financing.

I think Michigan should share in more of the success of the nationwide C-PACE market. Currently, Michigan's statute is among the most restrictive in the nation, and I can attest to the fact that it has restricted the market here in Michigan. I routinely receive requests from property owners, local contractors, real estate developers, and energy engineers to implement the changes that are suggested in HB 6039. Here are three solutions to issues that stakeholders have identified, that the amendments in HB 6039 provide:

- Issue 1 - C-PACE financing is being sought by real estate developers, and relatively savvy business owners who own their properties. The C-PACE statute, as it currently stands, requires that a contractor must guarantee to the property owner that the energy project achieves a savings-to-investment ratio of greater than 1. This language serves as a safeguard for the commercial/industrial property owner. However, the savings-to-investment ratio analysis costs thousands of dollars, and the guarantee costs the property owner even more money. I have had property owners ask us to waive this requirement (to save on closing costs and to save time), but it is hard-wired into the statute, so we, as the C-PACE administrator, have enforced this requirement.
 - Solution 1 - Because this language protects the property owner, and the property owner is savvy enough to determine the appropriate energy project for their property (because they can discuss with their legal counsel and their CFO), the suggested amended language allows (but does not require!) the property owner to waive the guaranteed savings-to-investment ratio. This guaranteed savings-to-investment ratio requirement is extremely rare among C-PACE statutes nationwide, and this amendment would bring Michigan's statute in line with best practice nationwide.
- Issue 2 - Regulations for new construction C-PACE projects are unclear under current statute. C-PACE was envisioned to retrofit existing buildings, but C-PACE is increasingly being used to help finance new construction projects.
 - Solution 2 - By surveying best practice nationwide among C-PACE programs, the amended language in HB 6039 suggests a way for private capital to finance the construction of newer, better buildings in a manner that is not unduly burdensome.
- Issue 3 - Newer C-PACE statutes in other states allow for mitigation of certain environmental hazards to be financed through C-PACE financing, such as hurricane resistance in Florida.
 - Solution 3 - Suggested amended language in HB 6039 allows for C-PACE financing to finance projects on commercial/industrial properties to protect against severe weather conditions and floods, and also to finance remediation of PFAS and lead (which would otherwise be cost-prohibitive), and allows commercial property owners to pay for these upgrades over 20 years or more, decreasing the annual repayment burden.

Thank you for your time. I am open to questions that any of you may have.