SAINT PAUL
PORT AUTHORITY

MEMORANDUM

TO:	BOARD OF COMMISSIONERS (Regular Meeting July 23, 2013)	**DATE:**	July 18, 2013
FROM:	Peter M. Klein		
SUBJECT:	**Property Assessed Clean Energy (PACE)** **Authorization of the Issuance of PACE Bonds in the Approximate Amount of $10,000,000** **Resolution No.** 4467		

Action Requested:

Provide approval for the Port Authority to issue approximately $10,000,000 of taxable conduit Property Assessed Clean Energy (PACE) bonds to be used to finance energy efficiency and renewable energy projects throughout Minnesota.

Public Purpose:

The financing will allow the Port Authority to assist cities throughout the State of Minnesota with implementing energy efficiency and renewable energy projects in commercial and industrial facilities similar to the Trillion BTU program.

Business Subsidy:

The proposed issuance of bonds is for energy efficiency and renewable energy projects and is exempt from treatment as a business subsidy.

Background:

PACE is a program that authorizes a local government to provide up-front funding to eligible property owners to finance the installation of energy efficiency improvements and renewable energy systems on their property.

Property owners repay the local government's funding by agreeing to an assessment levied against their property, which is payable on their property tax bill. The assessment is paid off over a term often determined by either 1) the life of the bond or other financial mechanism used to finance improvements, or 2) the functional life (effective useful life) of the improvement. The typical maximum repayment duration is 20 years. The obligation to repay the assessment is attached to the improved property, and can transfer with the sale of the property to the new owner.

Current Status:

Oregon (2007), California and Colorado (2008) were the first states to pass PACE enabling legislation. Currently 28 states plus the District of Columbia have PACE enabling legislation on the books. To date, however, only a handful of states have seen actual commercial PACE financings closed and only two, California and Connecticut, have what would be considered scalable, replicable, widespread, open-market programs launched. The Minnesota enabling legislation requires the issuance of revenue bonds. The City of Edina has implemented the only two PACE projects in Minnesota thus far.

Proposal:

By issuing the bonds, the Port Authority will be creating a facility to fund PACE projects in Minnesota. Each city, with a potential project, will enter into a Joint Powers Agreement with the Port Authority and designate the Port Authority as its PACE administrator. The city will be required to impose the requested special assessment and to collect the assessment until the loan is paid off. These will be revenue bonds, and the Port Authority will have no liability for the repayment.

The revenue bonds will be issued with a maximum amount of $10 million. The bonds will operate similar to an advancing line of credit but will not be a revolving line of credit. The lender will make the ultimate underwriting decision for each project. Funds will be advanced by the lender as each credit is approved. This will avoid the negative arbitrage costs that would be incurred if the full $10 million was funded at closing. The maximum amount that can be funded is $10 million. Principal pay downs will not be loaned out again.

PACE legislation limits the amount of the assessment to 10% of the assessed market value of the building.

PACE is generally most effective when utilized by a commercial multi-tenant building, because the leases require tenants to pay actual real estate taxes (including special assessments). When energy saving devices are financed outside a PACE program, the building owner is responsible for the repayment of the loan while the tenant realizes the energy savings via the reduced utility costs. When PACE is utilized, the energy savings and the increased property taxes are both realized and paid for by the tenant for a nominal net change in rent paid by the tenant.

A loss reserve will be utilized to make debt service payments if the amount of the special assessments paid is not adequate to service the debt. Eventually, the taxes need to be paid and the reserve will then be replenished. Since the special assessment will take a superior position to a mortgage holder, we may require the consent of any first lien mortgage holders.

Type of Bonds:	Taxable Conduit PACE Bonds
Rate:	TBD on Project basis
Security:	Special assessment on the Project in favor of the lender, including the land, building and personal property associated with the Project.
Reserve:	$50,000 to start and then 10% of the outstanding bonds up to a maximum of $500,000.
Term:	20 years – Individual loans will have a maximum of 15 years.
Issuer:	Saint Paul Port Authority
Bond Counsel:	Leonard, Street and Deinard
Lender:	Bremer Bank or another qualified investor
Lender's Counsels:	Kennedy & Graven for Bremer Bank
Borrower:	TBD

Conduit Financing:
The bonds will be a conduit financing of the Authority and will not constitute or give rise to a liability of the Authority, the City of Saint Paul or the State of Minnesota or a charge against their general credit or taxing powers. The lender will not have the right to demand payment on the bonds out of any funds to be raised from taxation or from any revenue sources other than those expressly pledged to payment of the bonds, including the reserve, pursuant to the funding agreement. The Port Authority's role in this facility is that of Issuer and administrator. The lender will complete its own credit analysis and loan approval.

The Port Authority will receive fees in the amount of one-half of a point on the outstanding balance, semi-annually, for the life of the bonds. The Port Authority will allocate up to $10,000 of its funds for the initial document preparation.

Workforce Implications:

N/A

Policy Exceptions:

None.

Disclosure:

The Port Authority Commissioners by SEC rules are obligated to disclose any risks or facts you may be aware of that would affect the probability of repayment on these bonds.

Recommendation:

We recommend authorization to issue approximately $10,000,000 of conduit taxable PACE bonds.

PMK:ca

Attach