

# The Lean & Green Michigan™ Approach to Property Assessed Clean Energy (PACE)

An Innovative Way to Develop and Grow a  
PACE Marketplace

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# Three modalities of creating PACE programs among U.S. states

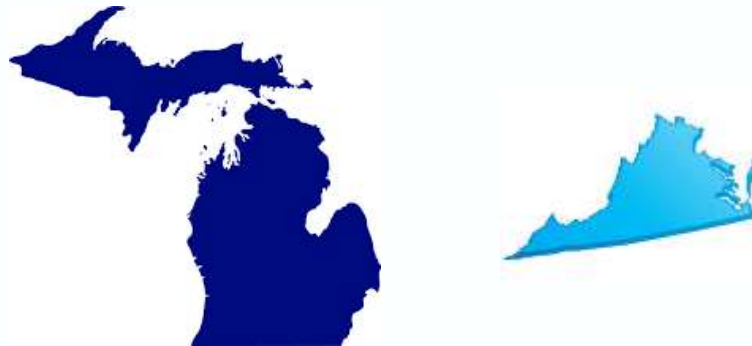


# How do you create a statewide, open market PACE program . . .



. . . in a purple state

. . . with no state financial, organizational, or political support?



# Michigan Political Primer

- Nationally “blue”



- Statewide “red”



- Locally mixed

# All Politics is Local

- Bigger cities are blue (and concentrated)
- Most local governments are “red”



2012 Presidential Election

# **Solution: *Take the Politics Out of PACE!***

- Energy + water efficiency and renewables can be seen as “progressive” causes
- But PACE can be set up to be all about conservative goals, as well

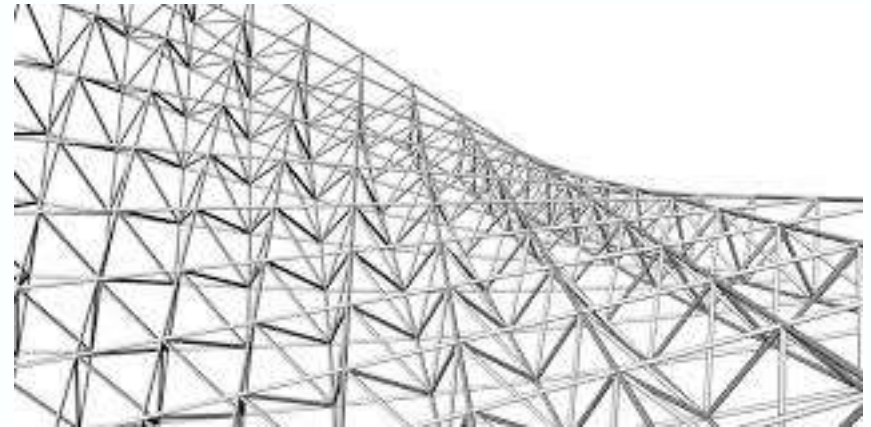
# PACE Messaging

- Focus on the elimination of waste
- Saving property owners money
- Freedom + liberty for business owners
- Free market approach



# PACE Structure: Appeal to All

- Public-Private Partnership
  - No “Big Government”
    - no new staff or bureaucracy
  - No tax payer money
- Market orientation
  - Private administrator
  - Private capital
  - Open to all
- Pro business: government simply getting out of the way to let private actors make money together





# The Lean & Green Michigan Model (I)

## PUBLIC-PRIVATE PARTNERSHIP: FAST, FREE, EFFICIENT

- Traditional model: local govt. pays vendor \$200,000 to \$1,000,000 to create PACE district
- Better way: join Lean & Green Michigan™ for free
  - Levin Energy Partners administers the district
  - LEP is compensated by administrative fees on each privately-financed PACE deal, *not* by County
- This Public-Private Partnership approach is faster (no vendors, no RFP process) and avoids risk for local govt., which invests no m



# The Lean & Green Model (II)

## SHARED SERVICES, STATEWIDE IMPACT

- Michigan statute allows jurisdictions to create *shared* PACE district
- Lean & Green Michigan™ creates a statewide PACE market open to all
- Companies get one set of efficient rules for projects across state
- Lenders get broad and diverse pool of projects to finance
- Counties & cities save money and avoid duplication with a “shared services” approach



# The Lean & Green Model (III)

## FINANCE PROJECTS WITH PRIVATE CAPITAL



- Private financing unleashes the market to drive growth
- Lean & Green brings it!
  - PACE creates a new category of long-term, government-secured debt obligation
  - That's a lot of words to say a safe investment very attractive to:
    - Pension funds
    - Insurance companies
  - They will buy \$100,000,000 of Michigan PACE projects per year if we can produce them
- Public funding is allowed but not necessary

# ECONOMIC DEVELOPMENT IMPLICATIONS

- Economic gardening – help *all* home grown industries
- Property owners: save money, get green PR
- Tenants/employees: buildings are more comfortable, less expensive, and greener
- Contractors: get a new way to gain business
- Citizens: put local residents to work on retrofits, etc.
- County: cutting edge of greening; improve biz climate
- Planet: reduce carbon footprint

# Background: Michigan's Statute

- Public Act 270 of 2010 became law on 12/14/2010
- Covers commercial, industrial and multi-family property – not single family property
- Affords flexibility on financing arrangements
- Allows up to 100% loan-to-value (LTV)
- Bank must consent if there's a mortgage
- Allows municipalities to work together



# Who can take advantage of PACE?

- Commercial, industrial, agricultural and multi-family properties
- Private non-profits
  - (churches, hospitals, private schools and colleges, etc.)
- Who can *not* use PACE under the MI statute?
  - Single family homes
  - Government buildings



# What can be financed under Michigan's PACE Statute?

- Energy efficiency improvements
- Water efficiency improvements
- Renewable energy improvements
- 100% of eligible project costs
- Refinancing all of above



# MORE DETAILED LIST: What can be financed

- Insulation
- Caulking, weather-stripping, and air sealing
- Windows
- Doors
- Energy control systems
- HVAC
- Energy recovery systems
- Lighting fixtures and day lighting systems
- Electrical systems to charge PEVs and HPEVs
- Water use reduction or efficiency
- Energy-efficient or water-efficient manufacturing processes and equipment
- Biomass
- Solar photovoltaics
- Solar thermal
- Wind
- Geothermal
- Methane gas captured from a landfill
- **Anything else approved as a "utility cost-savings measure" by a municipality participating in Lean & Green Michigan™**
- Exclusions: incinerator and digester



## The guts of the work

# Geographic Expansion

- Involve your biggest markets early
  - LAGM has 7 of 10 largest counties by population
- Follow project interest
  - You need early wins in terms of completed projects, so go where projects are ready
- Local champions
  - Go where local government and business leaders are ready to make it happen
- It's a lot of work!
  - Documents, meetings, testimony, etc.

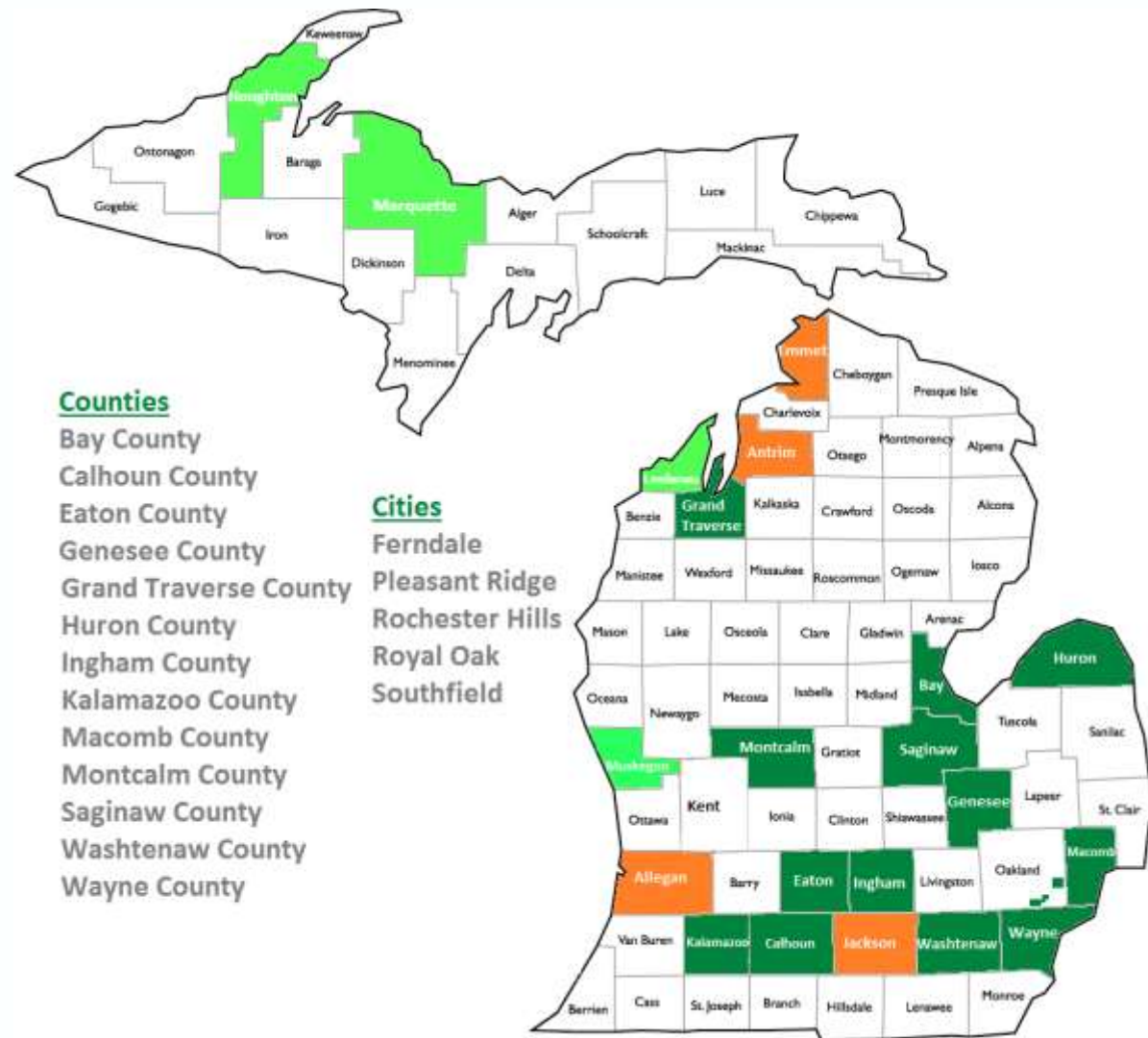
# The guts of the work Develop the Market

- Develop and execute training for contractors
  - Partnered with nonprofit partners
  - Charge contractors small fee to participate
- Public education
  - Speak to associations, utility programs, events, etc.
  - How to target is an interesting question
- Earned media, social media, etc.

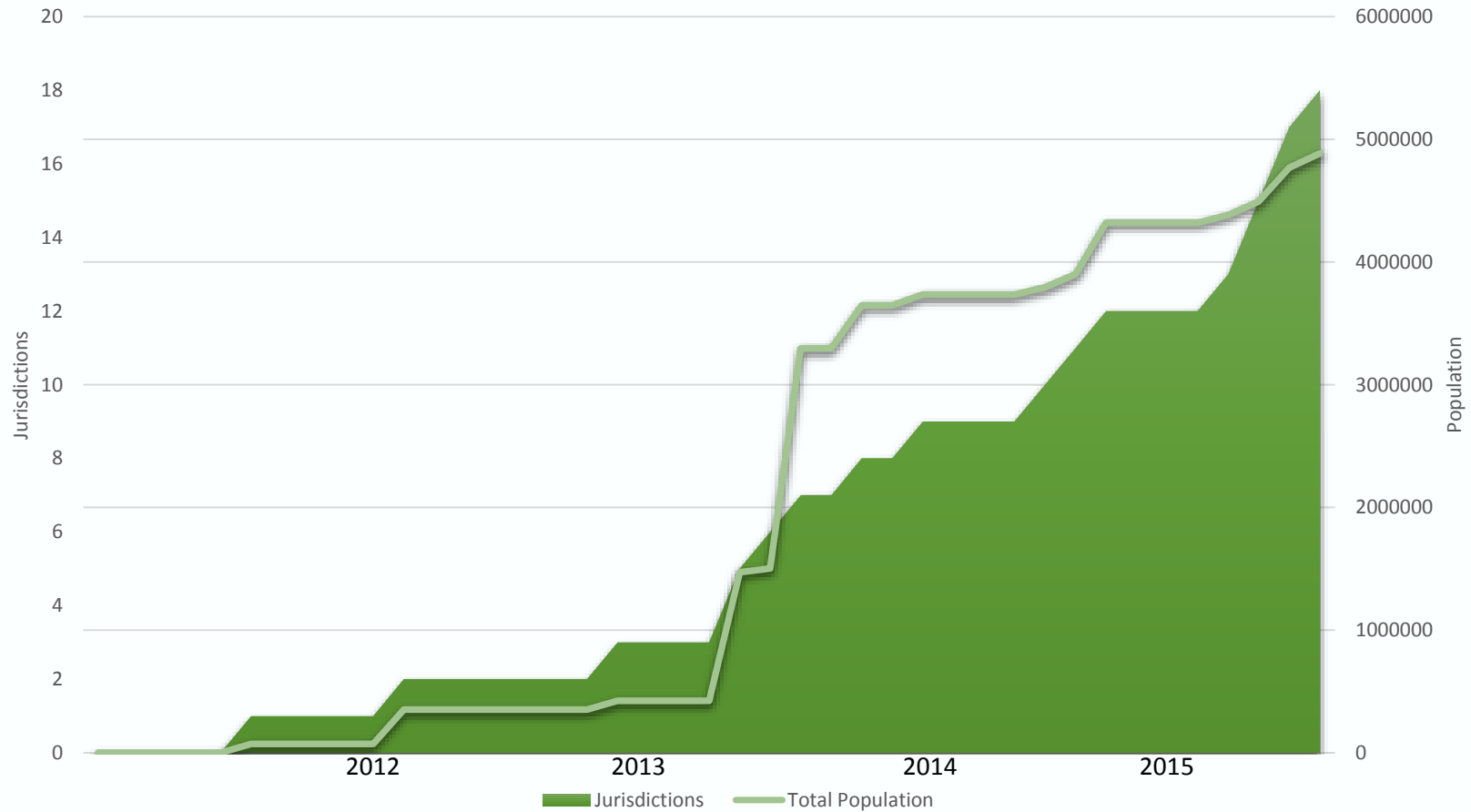


# OK, so how is Lean & Green Michigan doing?

- 13 counties + 5 cities have joined
- Urban & rural, big and small
- 49% of MI's population
- Expanding at a rapid rate



# Measures of Rapid Growth



# Case Study – Michigan Public Service Commission HQ



- Privately-owned, government leased (interesting market to be aware of!)
- LED lighting throughout 70,000 sq. ft. bldg.
- Solar panels
- Variable speed motors
- \$480,000 project financed over 20 years
- Positive cash flow from beginning to end

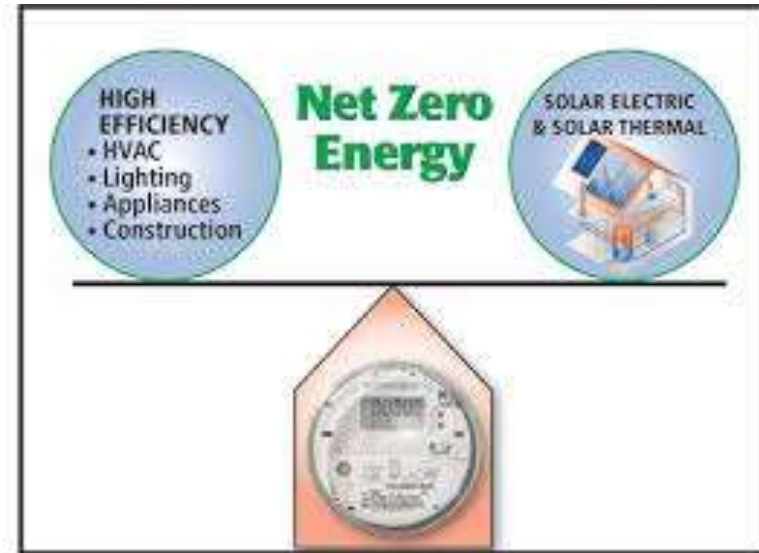
# Pipeline – Briarwood Shopping Center

- Located in Ann Arbor (Washtenaw County)
- Simon Property Group
- \$750,000 LED lighting project
- Work is done
- Refinancing the whole thing



# Pipeline – Local Union HQ

- Detroit-based union
- Taking the building ZNE
  - Solar
  - Geothermal
  - Lighting
  - Wind
  - EV Charging
- \$3 million +
- Should be announced in late summer/early fall



# Pipeline – Rural Apartment Complexes Across the State

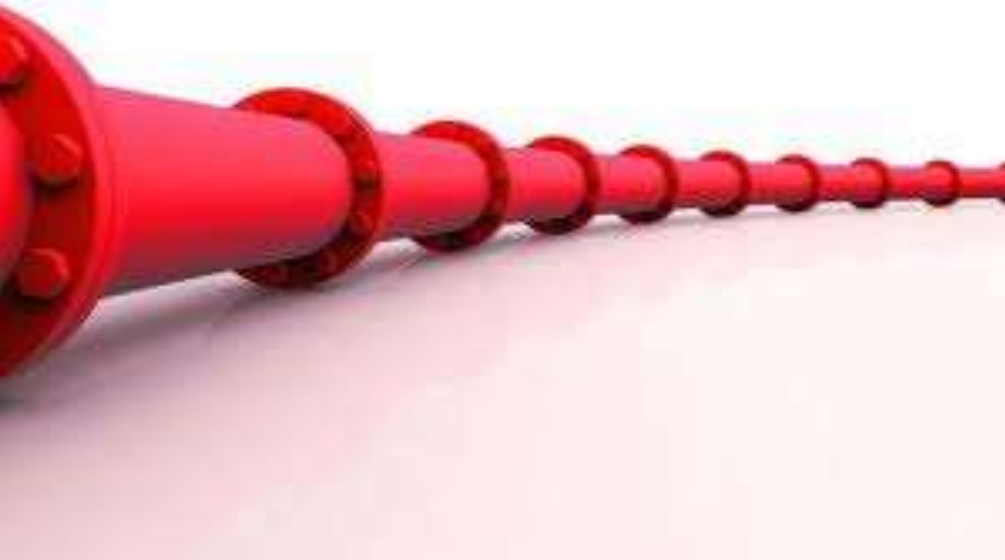
- Company specializes in rural apartment complexes with USDA funding
- \$1.6 million total on 8 projects
- One contractor and one lender teaming with one property owner





# Lean & Green Michigan Project Pipeline

- Over \$50 M serious projects proposed
- Among the farthest along:
  - Charter school in Detroit (\$1M)
  - Resort Up North (\$2M)
  - Office building in Detroit suburbs (\$600,000)



# VA can make advances on the LAGM model!

- Great start to get multiple stakeholders involved at outset (following Texas)
- Standardize docs to the extent possible
- Non-profit administrator could have significant pluses
- Try to compress ramp-up time frame

