



**PETROS PACE**  
F I N A N C E

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In Alliance with **Apollo**

# **Petros PACE Administrator**

**California Statewide Communities Development Authority (“CSCDA”)**

**Open PACE Program**

**Version 1.2.0**

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## 1. OVERVIEW

The Petros C-PACE program (the “**Program**”) is sponsored by the California Statewide Communities Development Authority (the “**Authority**”), a joint powers authority. The Authority administers a commercial property assessed clean energy (“**C-PACE**”) program under the California PACE Legislation, Division 7, Chapter 29 of the California Streets & Highways Code. The C-PACE program allows eligible owners of commercial real property to obtain long-term financing for certain eligible improvements through proceeds derived from the sale of bonds and other financing mechanisms authorized by law. The bonds and other financing mechanisms are repaid by the levying of a non-ad valorem tax assessment on the property owner’s real property taxes. In exchange for obtaining long-term financing under the Program, the property owners agree to the levying of a non-ad valorem assessment on their property in sufficient amounts and durations to repay the financing, plus all fees, costs, and interest incurred in connection with the C-PACE financing.

In addition to C-PACE financing, the Authority also operates a program to provide property assessed clean energy financing to residential homeowners, but that particular financing is not offered by the Program.

C-PACE programs have been used by hundreds of property owners in more than 15 states to obtain long-term financing for the installation of certain eligible improvements to commercial property to reduce water or energy consumption, generate renewable energy, or provide resiliency improvements. C-PACE financing has several attributes which make it attractive to property owners, including:

- Longer duration (20+ years)
- Fixed rate financing throughout the term
- Competitive pricing compared to most alternatives
- No acceleration in an event of default
- Non-recourse to the property owner or developer
- Financing obligation automatically transfers to new owners upon sale of property
- Assessment costs may be potentially eligible for NNN lease passthroughs

The Program is administered by Petros PACE Administrator, LLC (the “**Administrator**”), with the capital to finance individual C-PACE projects through a subsidiary entity or an affiliated entity of the Administrator.

The Program exists as a function of California’s PACE legislation and the rules established by the Authority. The Authority and/or the Administrator reserve the right to amend, supplement, or modify this Program Handbook at any time, and may suspend participation in the Program altogether. No change in the Program or California’s PACE legislation will affect a property

owner's obligations to pay C-PACE assessments incurred under the Program prior to such changes.

This Program Handbook was initially published on November 1, 2019 and a list of any subsequent publications of this Program Handbook is included as Exhibit E.

## **2. ELIGIBILITY CRITERIA**

The Program is designed to comply with all aspects of California's PACE legislation. As a result, this Section of the Program Handbook sets forth the eligibility criteria with respect to eligible properties and property owners, eligible improvements, eligible contractors, and eligible lenders.

### **2.1 Eligible Properties/Property Owners**

In order to qualify for financing under the Program, a property and property owner must meet the following eligibility criteria:

- The property must be located within the geographic boundaries of a local government who has opted into the Program (a list of current eligible local governments is attached to this Program Handbook as Exhibit A).
- The property must be a commercial property, which is defined as (i) a property not designed for residential use; or (ii) designed for residential use, but containing five or more non-owner-occupied units; for projects financing new construction of a residential building containing five or more units, the initial construction must be undertaken by the intended owner or occupant.
- The property owner must be the record owner of the property to be levied by the C-PACE assessment.
- The market value of the property must be \$1MM or greater.
- The total amount of annual taxes and assessments, including the C-PACE assessment, cannot exceed 5% of the property's market value.
- The property must not have been delinquent on any property taxes or other assessments levied on the subject property's tax bill in the preceding three years (or the length of ownership of the current owner, whichever is shorter).
- There must be no bankruptcies involving the property owner in the preceding 12 months.
- The property must not be subject to any notices of default or other evidence of property-based debt delinquency on the subject property in the preceding three years (or the length of ownership of the current owner, whichever is shorter).
- The property must not be subject to any involuntary liens, including (but not limited to) construction liens on the subject property.
- The property owner must be current on all mortgage debt on the property.

- The property owner must provide evidence of authority to enter into the financing via its legal entity/formation documents and any other requested documentation.

Depending on the legal structure and proposed scope of improvements, condominium properties, co-op ownership groups, properties subject to long-term ground leases, and properties subject to homeowners associations may be eligible on a case-by-case basis.

The Administrator reserves the right to impose additional, more restrictive eligibility qualifications on certain properties or owners, in its sole and unlimited discretion.

## **2.2 Eligible Improvements**

As permitted by California’s PACE legislation, the Program allows qualifying property owners to finance certain improvements to their commercial property. Those improvements are generally broken down into three categories: energy conservation and efficiency, renewable energy, and resiliency. A list of pre-approved eligible improvements is attached to this Handbook as Exhibit B. Measures which are not on the list of pre-approved eligible improvements, but are nonetheless verified in advance as eligible under the California PACE legislation, may be approved by the Program Administrator on a case-by-case basis.

In order to qualify under the Program, all proposed improvements must be affixed to a building or facility that is part of the subject property, and will constitute an improvement to the building or a facility or fixture attached to the building or facility. Subject to the exceptions noted in Section 2.2.3, the Program will finance new construction, deep retrofits, “gut rehabilitations”, or minor/moderate renovation projects. Reimbursement for eligible improvements already completed (or partially completed) prior to the date that the property owner submits an application to participate in the Program will be considered on a case-by-case basis.

The Administrator reserves the right to impose additional qualifications on certain improvements. This may include additional technical information, operational or maintenance information, or information regarding the nature of the ownership or permanent affixation to the real property. The Administrator does not recommend or endorse any particular improvement, and participation in the Program does not constitute an endorsement, or provide any form of guaranty or warranty, with respect to eligible improvements.

### **2.2.1 Energy Conservation and Efficiency Improvements**

Qualifying energy conservation and energy efficiency improvements are measures which reduce consumption through conservation or a more efficient use of electricity, natural gas, propane, or other forms of energy. Examples include (but are not limited to):

- Air sealing
- Installation of insulation
- Installation of energy-efficient heating, cooling, or ventilation systems

- Building modifications to increase the use of daylight
- Replacement of windows
- Installation of energy controls or energy recovery systems
- Installation of electric vehicle charging equipment
- Installation of efficient lighting equipment

### 2.2.2 Renewable Energy Improvements

Qualifying renewable energy improvements are measures in which electrical, mechanical, or thermal energy is produced from a method that uses hydrogen, solar energy, geothermal energy, bioenergy, and/or wind energy.

### 2.2.3 Resiliency

Resiliency improvements generally break down into two kinds: seismic strengthening and wildfire hardening. Wildfire hardening improvements include any improvements approved by the California Department of Forestry and Fire Protection. Seismic strengthening improvements include a broad array of improvements and measures designed to prevent damage or destruction of a building during a seismic event.

## 2.3 Eligible Financing/Lender Acknowledgment

In order to qualify for financing under the Program, the transaction size must be a minimum of \$2MM. Prior to finalizing the PACE financing documents, the property owner must obtain a written acknowledgement from all parties/lenders who will have a security interest in the property as of the date of the PACE closing [or alternatively, as of date that the assessment contract is recorded], acknowledging that the property is subject to contractual PACE assessments.

The Administrator reserves the right to evaluate and approve transactions based on underwriting or credit criteria, which includes:

- PACE lien-to-value ratio limits
- Mortgage loan-to-value ratio limits
- Combined secured debt-to-value ratio limits
- Secured tax-to-value ratio limits
- Debt service coverage ratio limits
- Minimum equity requirements
- Maximum transaction size
- Maximum duration of financing term or capitalized interest term
- Minimum interest rate or origination fee requirements
- Establishment of a debt service reserve fund or other credit enhancements

## **2.4 Eligible Contractors**

The Program does not approve, endorse, or recommend any contractors. In order to be an eligible contractor under the Program, the contractor must submit evidence to the Program Administrator that the contractor possesses any and all licenses, certifications, and/or registrations necessary under relevant federal, state, or local law for the scope of improvements to be financed under the Program.

The Administrator reserves the right to review and screen contractors to ensure that all participating contractors are complying with the letter and spirit of this Handbook. The Administrator reserves the right to bar contractors from participating in the Program in the event that the Administrator finds that their participation in the Program would not be in the best interest of the participants (including if they have been excluded from participation in any other PACE program).

## **2.5 Eligible Lenders**

The Program is an “open market” program, meaning that participation in the Program as a capital provider is generally permitted. Any requests for financing by a third-party capital provider should be submitted to the Program Administrator, who will review each such request on a case-by-case basis. Approval of the terms pursuant to which the Program Administrator will administer transactions funded by a third-party capital provider are within the Program Administrator’s sole discretion.

# **3. TRANSACTION PROCESS**

## **3.1 Application**

The process of obtaining financing under the Program starts when a prospective property owner fills out an application for financing. The current version of the application is attached to this Handbook as Exhibit C. This application may be modified, amended, or supplemented at any time by the Administrator.

## **3.2 Screening/Term Sheet**

Once an application is submitted by a prospective property owner, representatives of the Administrator will work with the property owner and/or its representatives to collect a number of diligence items necessary to verify eligibility under this Handbook. Once all items have been received, reviewed, and approved by the Administrator, the Administrator or a third-party capital provider will issue a term sheet, outlining the terms under which financing under the Program will be offered, as well as other conditions precedent to closing. The property owner may elect to sign the Term Sheet and proceed with underwriting, negotiate the items in the term sheet, or decline to participate in the Program.

### **3.3 Underwriting**

Once a prospective property owner has signed the term sheet, the Administrator will complete any outstanding due diligence necessary to receive final approval for financing by the Administrator. During the underwriting process, the Administrator reserves the right to amend the terms of the Term Sheet in order to address additional information and resolve additional issues that may be uncovered during the diligence process.

### **3.4 Documentation**

Once the Administrator approves the financing (including the eligible improvements), legal counsel for the Administrator will draft the various legal documents which will evidence the structure and terms of the financing. The Administrator may retain external legal counsel as well. Counsel for the Administrator will work with the property owner (or, to the extent that the property owner is represented by counsel, the attorneys of the property owner) to tailor the documents to fit the specific transaction.

### **3.5 Closing**

Upon finalization of the financing documents, the Administrator will arrange for the relevant assessment contracts to be recorded in the land records where the property is located. Upon confirmation of recordation, the Administrator will wire funds into an escrow account controlled by the Administrator.

### **3.6 Post-Closing/Disbursements**

After paying all fees, costs of issuance, and capitalized interest (i.e. the interest that accumulates between the closing date and the date that the Administrator receives its first payment of principal and interest), any remaining funds will be made available to the property owner. In order to request disbursements from the Administrator, the property owner must have incurred expenses directly related to the eligible improvements, and must submit documentation and evidence as required by the Administrator. Upon receipt of such disbursement documentation, the Administrator will wire the requested funds to the property owner (or its contractor) within 3-4 business days. The Administrator may require an agreed-upon draw schedule, with specific milestones, as a condition of participating in the Program.

Once the installation of the eligible improvements are complete, the property owner must submit a completion certificate in the form and substance provided by the Administrator.

### **3.7 Repayment**

Repayment of the C-PACE assessment installments are subject to the terms of the various financing documents and will be being represented as a line item on the property's ad valorem tax bill. Billing and collection will, in most cases, be handled by the applicable County's taxing



authority. If a C-PACE assessment installment is not received by the date specified in the transaction documents, delinquent penalties and interest will accrue, and non-payment could result in the sale of the property for delinquent taxes.

If a property owner wishes to prepay the C-PACE assessment, either in full or in part, the Property Owner shall notify the Administrator in advance of the prepayment. A prepayment premium may also apply.

#### **4. FEE STRUCTURE**

The current fees for participation in the Program are attached to this Handbook as Exhibit D. These fees (except for fees payable to the Authority) may be reduced, increased, waived, or modified at any time, and for any transaction, at the sole discretion of the Administrator. Modification of any fees payable to the Authority require approval by the Board of Directors of the Administrator.

#### **5. HANDBOOK DOES NOT REPRESENT LEGAL ADVICE**

The Administrator does not provide legal, financial, taxation, or accounting advice to any prospective property owner. No statements or representations, either in this Handbook or made as part of the transaction process, should be construed as such advice. Property owners are strongly encouraged to seek the advice of competent professionals as part of participating in the Program.

#### **6. CONTACT INFORMATION**

If you have any questions about the Program, this Handbook, or the Administrator, please contact the Administrator:

Petros PACE Administrator, LLC  
300 W. 6th Street, Suite 1540  
Austin, Texas 78701

## **7. EXHIBIT A – LIST OF ELIGIBLE LOCAL GOVERNMENTS**

A list of eligible local governments is available from the Authority's website.

## **8. EXHIBIT B – LIST OF PRE-APPROVED ELIGIBLE IMPROVEMENTS**

A list of pre-approved eligible improvements is available from either the Administrator or on the Authority's website.

## **9. EXHIBIT C – FORM OF FINANCING APPLICATION**

**[To be attached]**

**10. EXHIBIT D – LIST OF CURRENT ADMINISTRATIVE FEES**

<b>Fees at Transaction Close</b>		
<b>Services</b>	<b>Provider</b>	<b>Fee</b>
<p style="text-align: center;">Program Administration</p> <p style="text-align: center;">Asset Servicing</p> <p style="text-align: center;">Recordation</p>	<p>Administrator</p>	<p><b><u>Base Program Fees:</u></b> 1.00% - \$2,000,000 or greater</p>
		<p><b><u>Asset Servicing (based maturity of asset):</u></b> 0.3% for 5-year maturity 0.5% for 10-year maturity 0.7% for 15-year maturity 0.8% for 20-year maturity 0.8% for 25-year maturity 1.0% for 30-year maturity</p>
		<p><b><u>Recordation Fees:</u></b> Between \$120-\$300 per parcel</p>
		<p>Petros PACE Administrator may charge additional fees for transaction related support &amp; services, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Document customization</li> <li>• Underwriting support</li> <li>• Lender consent</li> <li>• Title reports</li> <li>• Secretary of State Certificates</li> </ul>
		<p>Fees will be confirmed prior to providing such services.</p>
<p style="text-align: center;">Bond Counsel and Legal Opinion</p>	<p style="text-align: center;">Jones Hall, APLC</p>	<p><b><u>Standard Project Fees:</u></b></p> <ul style="list-style-type: none"> <li>• 0.50%</li> </ul>
		<p>Customization fees may apply for services beyond the Standard Project Fees such as involving counsel in property owner negotiations, revisions to Program</p>

		Documents, or drafting/reviewing documents outside the standard closing transcript.
Authority Administration	Authority	0.75%
Trustee	Wilmington Trust	\$1,500 (assumes a single bond with a single indenture)
Tax Administrator	AmeriNat	[•]
<b>Annual Fees</b>		
<b>Services</b>	<b>Provider</b>	<b>Fee</b>
Trustee	Wilmington Trust	\$2,000 (assumes a single bond with a single indenture)
Tax Roll Administration	AmeriNat	[•]
County Collection Fee	Local County Government	Varies by County

## **11. EXHIBIT E – LIST OF HANDBOOK REVISIONS**

- 1.0.0 – Initial Handbook (11/01/19)
- 1.1.0 – Internal Revisions (11/05/19)
- 1.2.0 – External Revisions (09/20/21)