

APPENDIX C: FINANCIAL GUIDELINES

The financial guidelines describe the financing model that PACE Massachusetts will employ and all the steps an applicant must follow to access financing under the program.

1. Open Market Third Party Financing Structure

An open market, third party financing structure is employed for PACE Massachusetts to create a robust market that attracts a diverse range of capital providers including banks, credit unions and PACE focused capital providers. The open market third party financing structure allows more flexible financing options for PACE projects and it allows a property owner to select a capital provider that best suits the owner's needs, and to select them at any time during the process.

PACE Massachusetts requires capital providers to register with MassDevelopment before financing PACE projects in Massachusetts. Entities interested in becoming a PACE Massachusetts registered capital provider should respond to the open Request for Information for Capital Providers for the Commercial Property Assessed Clean Energy Massachusetts Program ("RFI") ([Capital Provider RFI](#)). If a capital provider provides the required RFI information, they will be registered as an interested PACE Massachusetts capital provider on the Registry maintained by MassDevelopment. Registered capital providers may be contacted about PACE Massachusetts project financing opportunities from property owners or MassDevelopment. The list of registered capital providers is maintained by MassDevelopment and available upon request to a property owner pursuing PACE financing. Property owner(s) will evaluate and select a capital provider based on their own criteria. The application interest rate and capital provider imposed fees (if any), and any financing terms will be established by the capital provider selected by the property owner, but must be commercially reasonable and incorporated in the PACE Massachusetts financing agreement. MassDevelopment will not make capital provider selections.

Please note MassDevelopment makes no assurances or certifications about registered capital providers.

2. Underwriting Standards

The PACE Massachusetts minimum financial underwriting standards required for projects are described below. The guideline standards will govern the terms and conditions under which financing for PACE Massachusetts projects will be made available. Additional underwriting standards will be required by capital providers.

In order for projects to pursue financing under PACE Massachusetts, the property owner must provide three (3) years of financial statements and certify in its application that:

- It is current with respect to mortgage loans and tax assessments, there have been no significant delinquencies in the recent past, and it is not currently and has not been in the prior seven years in a bankruptcy proceeding. See [Appendix A](#) for further details.
- It will have met the requirements in the technical standards to receive DOER approval. See [Appendix B](#) for further details.

- The PACE assessment financing term will not exceed the lesser of: (1) the useful life of the longest-lived asset of the commercial energy improvements comprising the commercial PACE project financed by such betterment assessment; or (2) twenty years.

Property owners must also provide three (3) years of financial statements, or if owned less than three (3) years financial statements from the date they began ownership, with their application.

3. Municipal Opt-In Provision

PACE Massachusetts is available to property owners located in all municipalities within the Commonwealth, subject to the applicable municipality's initial, one time election to participate/opt-in to the program. A municipality must authorize its participation in PACE Massachusetts through adoption of the PACE Opt-in Resolution by the appropriate municipal process. This authorization is typically accomplished through a vote by the municipality's City Council or Select Board. Municipalities are not responsible for and do not authorize participation in PACE by each project. MassDevelopment will coordinate and support the efforts to assist each municipality that wishes to opt-in to PACE Massachusetts. Municipalities interested in PACE should contact MassDevelopment directly to discuss the PACE Massachusetts program. A copy form of the municipal opt-in resolution is included as [Appendix J](#).

Once a municipality has opted in to PACE Massachusetts, MassDevelopment staff coordinate with municipal staff to set up the assessment process including execution of the Municipal Assessment and Assignment agreement, the a form of which is included as [Appendix G](#).

Entities desiring to use PACE Massachusetts are urged to contact MassDevelopment early to determine whether the municipality in which the project is located has elected or has plans to elect to participate in the program. If a municipality has not already been introduced to PACE Massachusetts, MassDevelopment will initiate discussions with them to do so.

4. Program Fees

PACE Massachusetts program costs that will be charged to participants are to cover the administration of the program. A program administration and annual servicing fee schedule, set by MassDevelopment, will be applicable and charged to each project. The program administration and annual servicing fee schedule is available from MassDevelopment upon request and is subject to change. Annual servicing fees will be included in the amount of the PACE betterment assessment. Prior to the closing of the PACE financing, the borrower will receive in writing information regarding the proposed financing, including the aggregate amount of the PACE betterment assessment, the payment schedule, the applicable interest rate, and a description of all applicable fees.

5. Application Development

We encourage interested parties to contact and start early discussions with MassDevelopment if considering PACE Massachusetts financing. This helps an applicant determine if they are eligible before investing additional time and resources to compile the data for necessary for technical submission approval.

6. Application Steps

Below describes the process to follow once an application is ready for formal review and financing requirements for closing if the application is approved. The information provided is intended to act as a guide for participants and to help expedite the review. All projects differ and applicants may go through steps in a different succession. Property owners may select and begin working with a Capital provider at any point in their energy project development but are encouraged to select one before submitting their application.

A. Project Application

First, an interested property owner will submit a completed PACE Massachusetts project application ([see Appendix A](#)). The application requires basic information about the proposed project in order to confirm the eligibility of a particular property/project for participation in PACE Massachusetts. If an applicant cannot complete the application, it should be filled out with as much information that is known as that time. MassDevelopment or DOER may contact the property owner with follow up questions about the application. A \$250 application fee and a technical review fee will be due to MassDevelopment if the application moves to technical review.

B. Technical Review

If a project application has been positively reviewed and accepted, MassDevelopment and DOER will inform the applicant and invite them to submit the remaining required data for technical review (see [Appendix B](#), section 1 for retrofit projects and [Appendix M](#), section 2 for new construction projects).

The applicable technical review fee will be determined and communicated to the applicant after the list of proposed energy improvements has been reviewed.

After the technical review has been completed, applicants may be asked to update their application as necessary, if any information was revised.

C. Mortgage Holder Consent

If there is an existing mortgage on the property, the consent of each mortgage holder will be required. Mortgage holder(s) will be notified of the property owner's request to consent to a PACE Massachusetts financing through a [standard Notice of Proposed Betterment Assessment and Request for Mortgage Holder Consent form \(Appendix D\)](#). Each mortgage holder will be required to execute and return a Mortgage Holder Consent to PACE Betterment Assessment in the form of [Appendix E](#).

D. Financing Agreement between Property Owner and Capital provider

The capital provider selected by the property owner will enter into a financing agreement with the owner to finance the project. The form of the PACE Massachusetts financing agreement is included as Appendix F. Each capital provider will determine the interest rate, term, and any fees they require. Capital providers will use their own underwriting criteria in determining whether or not to finance a PACE Massachusetts project.

E. Betterment Assessment and Repayment

As part of closing of the financing, MassDevelopment will coordinate the levying of a PACE Massachusetts betterment assessment on the property and the recording of a corresponding lien on the property with the host municipality. Billing and collection of the PACE Massachusetts betterment assessment will be done via the municipality's property tax billing and collection process in accordance with the project's payment schedule. MassDevelopment will work with the project's Capital Provider to synchronize the payment of the PACE Massachusetts betterment assessment with the municipality's tax collection schedule. The PACE assessment may be billed annually, semi-annually or annually, depending on the host municipality's collection schedule and its ability to accommodate other payment schedules. The PACE Massachusetts betterment assessment will be listed on the municipality's property tax bill as a separate line item and payment will be due to the municipality on the applicable payment date. Once received, the municipality will be required to disburse the PACE assessment funds to MassDevelopment's designated servicer for disbursement to the project's capital provider.

MassDevelopment will work with each municipality to understand its existing or preferred procedure for billing and collection of the PACE Massachusetts betterment assessments to ensure the procedure employed by PACE Massachusetts requires no undue effort by the municipality. The form of Municipal Assessment and Assignment agreement is included as [Appendix D](#).

F. Security

Each PACE Massachusetts financing will be secured by a non-accelerating PACE betterment assessment levied on the property and a corresponding lien placed on the property at closing by the applicable municipality. At closing, the lien is assigned by the municipality to MassDevelopment, and by MassDevelopment to the applicable capital provider who holds the lien for the duration of the financing.

Under PACE Massachusetts, the PACE betterment assessment and lien will run with the property. This means if a property is sold and the PACE betterment assessment has not fully amortized at the time of sale, the balance of the PACE betterment assessment will remain on the property secured by the lien and the obligation to pay the PACE betterment assessment automatically will transfer to the next property owner.

The lien will be senior to other private mortgage liens or encumbrances on the property, except a lien for municipal property taxes. This means that the PACE betterment assessment lien will be senior to and have priority over all private mortgage liens on the property (if any), and be junior in priority only to a municipal tax lien. As previously noted, a prerequisite for the placement of the lien and for participation

in PACE Massachusetts is the prior written consent of all existing mortgage holders to the levying of the PACE betterment assessment and the placement of such lien.

In event of default, the PACE betterment assessment lien can be enforced in the same manner as any private party holding a lien on real property including but not limited to, foreclosure in a manner consistent with the rights afforded a mortgagee. To the extent the betterment assessments are paid in installments and any such installment is not paid when due, the betterment assessment lien may be foreclosed to the extent of any unpaid installment payments and any penalties, interest and fees related thereto. In the event the betterment assessment is foreclosed, such lien shall survive the judgment of foreclosure to the extent of any unpaid installment payments of the betterment assessment secured by such lien that were not the subject of such judgment foreclosure. In the event a lien for property taxes of the municipality is foreclosed, the betterment assessment lien shall be extinguished solely with regard to any installments that were due and owing on the date of the foreclosure of such tax lien, and the betterment assessment lien shall otherwise survive the foreclosure.

G. Owner Disclosure Statement and Agreement

Each property owner will be required to sign a PACE Massachusetts Owner Disclosure Statement and Agreement ([Appendix H](#)). This document provides for disclosure to, acknowledgement and agreement from each property owner of the risks and characteristics of PACE Massachusetts as set forth in the disclosure statement and agreement.

H. Capital provider Assignment Agreement

Each capital provider will be required to sign a PACE Massachusetts Capital provider Assignment Agreement ([Appendix I](#)). This document allows MassDevelopment to assign the PACE lien to the capital provider as security for the financing subject to the terms of the financing agreement.

Commercial PACE Structure

