

**Testimony of Structured Finance Associates, LLC
Before the Joint Committee on Energy & Technology
Connecticut General Assembly**

In Support of

RAISED SENATE BILL 415, AN ACT CONCERNING THE OPERATIONS OF THE DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION, THE ESTABLISHMENT OF A COMMERCIAL PROPERTY ASSESSED CLEAN ENERGY PROGRAM, WATER CONSERVATION AND THE OPERATIONS OF THE CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY.

Senator Fonfara, Representative Nardello, and members of the Committee:

My name is Martin W. Gitlin and I reside at 22 Partrick Lane, Westport, Connecticut. I am pleased to be here today representing Structured Finance Associates, LLC, to speak in support of the provisions of Raised S.B. No. 415 that address the Commercial Property Assessed Clean Energy, or "PACE", program.

Structured Finance Associates, LLC is an originator of commercial PACE assessments. This means that we work with property owners who wish to utilize PACE to finance energy improvement projects on their property, guide them through the PACE process, and bring investors to the table to purchase the bonds issued to finance their energy improvement projects. Effectively, we bring the private money to the table that enables the PACE financing, and therefore the applicable energy improvements, to be made.

Commercial PACE represents an ingenious mechanism where the infrastructure and good offices of government can be deployed to mobilize private capital to address important public concerns, like energy security and environmental preservation, while also helping to drive investment, create and retain high quality jobs in our communities.

Structured Finance Associates, LLC is one of the leading originators of PACE assessments in the United States today. We have the exclusive mandate to arrange PACE financing for large commercial properties in Western Riverside and Orange Counties, California, as well as in Northeast Ohio (Cleveland and environs). We are originating PACE assessments on a non-exclusive basis in the California counties of Los Angeles and San Francisco and look forward to bringing the benefits of commercial PACE here, to Connecticut.

Our commercial PACE assessments have terms of up to 20 years and finance up to 100% of the cost of the energy improvements. At the same time, unlike other financing structures, under commercial PACE, the property owner is able to retain the benefits of the substantial Federal and state tax and other incentives available to support the proposed energy improvements.

We anticipate that there is a large market for commercial PACE in Connecticut, with estimates starting at \$600 million, which we expect could create as many as 6,000 new jobs in the state.

As drafted, Raised S.B. 415 marks a significant step in the right direction toward making commercial PACE a reality. Still, there are several areas of concern.

1. Ensure that the lien securing the PACE assessment enjoys priority over commercial mortgages and is pari passu with statutory tax liens. A senior lien of this type affords investors the security of knowing that they will receive the return of their principal and the associated interest. This allows the PACE investor to provide 100% financing for the energy improvements and a term of up to 20 years, key features for a successful PACE program. Without the senior lien, no investor would be willing to take the risk of investing at interest rates low enough to make the program viable. Put another way: no senior lien, no commercial PACE program. As drafted, Raised Senate Bill 415 provides for such a senior lien and we strongly encourage the Committee to retain that provision, since without it, commercial PACE is unlikely to realize its promise

We also believe that including an explicit subordination of PACE loans to mortgages for residential property, as provided in current law, sets a dangerous precedent that could chill the uptake of PACE loans by commercial property owners.

2. Raised SB 415, in new Section 56(h) prohibits assessments under the PACE program from having a prepayment penalty. Such a prohibition is likely to have the unintended result of the investors insisting that prepayment not be allowed at all, which would be inconsistent with the public interest impetus behind the provision. Because investors likely would incur breakage costs themselves from a prepayment, they are unlikely to permit prepayments if they cannot charge a penalty, to recover the losses that they will incur by breaking their upstream loan contracts. We suggest that this language be deleted from the bill and any regulation of prepayment be established in the Program Guidelines.
3. As presently contemplated, the PACE program would be implemented on a city-by-city, town-by-town basis. For a small state like Connecticut, where commercial and industrial facilities are spread across the landscape, a requirement that each of Connecticut's more than 165 cities and towns separately implement commercial PACE is a recipe for delay at best, failure at worst, and most certainly a failure of the program to reach its potential. Instead, we recommend that the General Assembly establish a statewide commercial PACE program, run by an agency that is granted bonding powers in the legislation.

Structured Finance Associates, LLC is excited about the emerging opportunity for commercial PACE in Connecticut. With some minor revisions, as detailed above, Connecticut could be the first Northeastern state successfully to implement a commercial PACE program. We look forward to working with you to bring about more jobs and a cleaner, more energy efficient and secure Connecticut. Thank you.