

GREEN BONDS SECOND PARTY OPINION

SUMMARY

Kestrel Verifiers is of the opinion that the PACE Bond-Backed Notes, Series 2020-1 (Green Bonds) conform with the four pillars of the Green Bond Principles 2018 as follows:



Use of Proceeds

The Issuer, PACE Funding 2020-1, intends to use the proceeds of PACE Bond Backed Notes to acquire PACE bonds that were used to finance energy efficiency renovations, renewable energy installation, and climate adaptation building hardening exclusively.



Process for Project Evaluation and Selection

The Issuer selects projects for funding through specific eligibility criteria that align with eligible project categories established by the Green Bond Principles.



Management of Proceeds

The PACE Bond-Backed Notes, Series 2020-1 are secured by PACE bonds, which are in turn backed by PACE tax assessments. Net proceeds from the bond-backed notes, will be used to acquire PACE bonds.



Reporting

The Issuer will publish information on the allocation of proceeds as required by regional authorities. Reports will be available on various websites and updated at least annually.



ISSUER:

PACE Funding 2020-1

OPINION ON:

PACE Bond-Backed Notes,
Series 2020-1 (Green Bonds)

GREEN CATEGORIES:

Renewable Energy
Energy Efficiency
Climate Change Adaptation

EVALUATION DATE:

May 20, 2020

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SECOND PARTY OPINION

Par: \$92,840,000
Issuer: PACE Funding 2020-1
Issue Description: PACE Bond-Backed Notes, Series 2020-1 (Green Bonds)
Project: Residential PACE Projects
Green Categories: 1) Renewable Energy
2) Energy Efficiency
3) Climate Change Adaptation
Evaluation date: May 20, 2020

GREEN BONDS DESIGNATION

Kestrel Verifiers, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent external review of this bond to evaluate conformance with the Green Bond Principles (June 2018) established by the International Capital Market Association.

This Second Party Opinion reflects our review of the uses and allocation of proceeds and oversight and conformance of the bonds with the Green Bond Principles. In our opinion, the PACE Bond-Backed Notes issued by the PACE Funding 2020-1 are aligned with the four pillars of the Green Bond Principles and qualify for green bonds designation.

ABOUT THE ISSUER

PACE Funding Group, LLC is a leading renewable energy, water conservation, and energy efficiency financing provider with a focus on consumer protection and energy conservation. Based in Los Gatos, California, the company's residential Property Assessed Clean Energy (PACE) financing programs enable property owners to invest in their buildings and a healthier environment. PACE financing can be used for energy efficiency upgrades, disaster resiliency improvements, water conservation measures, and renewable energy installations on residential properties. PACE programs help property owners pay for the upfront costs of these improvements. The property owners repay these loans via an assessment on their property tax bill. In California, PACE financing is enabled for Energy efficiency, Renewable Energy and Water Efficiency projects. In Florida, PACE financing is enabled for Energy Efficiency, Renewable Energy and Wind Mitigation projects.

PACE Funding Group, LLC works in partnership with state and regional government entities to ensure that its program operations are in compliance with state regulations and aligned with other existing programs. In California, the company works with Joint Powers Authorities (JPAs) including California Statewide Communities Development Authority and Western Riverside Council of Governments to operate financing programs for residential energy efficiency retrofits, renewable energy generation and water efficiency improvements.

In Florida, PACE Funding Group, LLC works with the Florida Development Finance Corporation (FDPC). The FDPC is a public body corporate and a public agency organized and existing under Florida Statutes. Formed by the Florida Development Finance Corporation Act of 1993, it is designated as a state-wide, special development financing authority for economic development. Its purpose is to assist new and existing businesses and organizations with access to capital through financings that promote business activity, job creation, and an improved standard of living for the citizens of Florida. In 2016, FDPC launched an Open PACE platform, a turnkey resource for local governments which allows residential property owners to finance energy efficiency improvements, wind hardening and certain distributed-generation renewable energy sources.

The Florida Resiliency and Energy District (“FRED”) was created in 2017. Although cities and counties can issue their own debt obligations or serve as conduit issuers of private activity bonds, most local jurisdictions either do not wish to be a party to the financing agreement or prefer not to place the special assessment on the tax roll. In response, FRED was created for the purpose of levying and collecting the voluntary, non-ad valorem special assessments. In order to participate, Florida cities and counties must become members of FRED by adopting a resolution and/or ordinance, or join another county’s program, where that county is a FRED member. FRED also enters into Services Agreements with local tax collectors and property appraisers, as required by Florida law, in order to place special assessments on the tax roll.

PACE Funding Group, LLC has created the entity PACE Funding 2020-1 for the purpose of issuing these Bond-Backed Notes. PACE Funding 2020-1 (the “Issuer”) will use proceeds to acquire 335 PACE Bonds representing 3,138 total PACE assessments originated in California and Florida. The transaction will be marketed to Qualified Institutional Buyers and securitized as Asset Backed Securities (ABS). The Bonds will be issued as three classes of notes designated as Class A, B, and C Notes.

ALIGNMENT TO GREEN STANDARDS

Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bonds Principles (“pillars”) which include: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting. (International Capital Market Association definition)

Use of Proceeds

Property assessed clean energy financing, commonly referred to as PACE financing, is a voluntary means of financing renewable energy installations, energy efficiency upgrades, disaster resiliency improvements and water conservation measures on properties using voluntary tax assessments. To establish local residential PACE programs, a state must pass enabling legislation. Residential PACE programs help homeowners pay for the upfront costs of environmentally beneficial improvements, such as solar panels or rain-water capture systems. Property owners repay the loans by voluntarily increasing their property taxes by a set rate for an agreed-upon term.

As a Program Administrator, PACE Funding Group, LLC provides PACE financing options for energy efficiency retrofits and renewable energy in Florida and California. In California, water conservation is also an eligible activity. In Florida, hurricane hardening retrofits are eligible. Of the 3,138 assessments in the collateral, 79.07% are energy efficiency projects, 18.83% are renewable energy projects, 10% are water efficiency and 8.87% were wind mitigation/hurricane hardening projects. Over half (1655) of the assessments have financed assessments with multiple projects.

PACE Funding Group, LLC. utilizes a proprietary calculation model to estimate the environmental impacts of the projects related to PACE Bonds acquired or funded by its affiliates. Based on this proprietary calculation model, the projects funded by the PACE Assessments underlying these PACE Bonds are expected to produce the beneficial environmental impacts shown in Table 1.

Beneficial Impact	Total Annual Savings/Generation
Renewable Energy Generated (kWh-e)	5,670,803
Energy Efficiency Savings (kWh-e)	1,091,675
Greenhouse Gas Emission Reduction (metric tons CO ₂ e)	5,666
Water Saving (gallons)	7,371,270

Table 1. Environmental Impacts of PACE Assessments Annually

Energy Efficiency and Renewable Energy Generation: California’s second largest source of greenhouse gas emissions is the building sector, despite the fact that many energy efficient options for insulation, heating, cooling and energy generation exist. While weatherization and energy retrofits are becoming increasingly common, the upfront costs remain a barrier to implementation for many property owners. PACE Funding Group, LLC helps communities take advantage of opportunities to generate renewable energy and reduce emissions from buildings by offering low-cost financing. On average, annual energy savings from a residential energy efficiency retrofit will offset the annual assessment on property taxes. Individuals who may not otherwise be eligible for loans through other state programs may still be eligible for financing programs offered by PACE Funding Group, LLC.

Hurricane Protection: Scientists expect with high confidence that climate change will increase rainfall in Atlantic hurricanes, and with medium confidence that Atlantic storms will have higher peak wind speeds.¹ Given that Florida’s coastal communities are especially susceptible to these impacts, PACE funded hurricane protection improvements align with the Climate Change Adaptation project category of the Green Bond Principles. Of the total number of assessments associated with the Bond-Backed Notes, about 8% involved financing for storm hardening, totaling over \$6 million. PACE Funding Group, LLC offers financing for hurricane protection improvement projects and building hardening in Florida only. Projects typically involve roofing, window, and door upgrades.

¹ <https://www.gfdl.noaa.gov/global-warming-and-hurricanes/>

Table 2 shows the eligibility criteria, established in the Green Bond Principles 2018, for the relevant green project categories.






GREEN PROJECT CATEGORY	ELIGIBILITY CRITERIA
Renewable Energy	Renewable Energy production, transmission, and products
Energy Efficiency	Reduction in energy use in new and refurbished buildings
Climate Change Adaptation	Building hardening and hurricane preparedness, and increasing water efficiency
 	

Table 2. Eligibility criteria, established in the Green Bond Principles (2018)

The 2030 Agenda for Sustainable Development adopted by all United Nations Member States in 2015 provides a “blueprint to achieve a better and more sustainable future for all.” The United Nations’ Agenda describes 17 Sustainable Development Goals (SDGs) to achieve by the year 2030. The residential improvements associated with the PACE Bond-Backed Notes, Series 2020-1 align most closely with two of the SDGs:

RELATED SDGs	ELIGIBILITY CRITERIA
United Nations Sustainable Development Goals   	<p>SDG 7: Affordable and Clean Energy, which includes targets to ensure access to affordable, reliable, sustainable and modern energy for all.</p> <p>SDG 13: Climate Action, which includes targets to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.</p>

Process for Project Evaluation and Selection

PACE programs and eligible project types vary by location due to state and local legislation. PACE Funding Group, LLC evaluates and selects projects for funding if they fall within the Eligibility Criteria shown in Table 3. Therefore all projects associated with the PACE Bond-Backed Notes are one of these types of projects.

Renewable & Alternative Energy Projects	Energy Efficiency Projects	Building Hardening Projects– Only in Florida
<ul style="list-style-type: none"> • Solar Photovoltaic • Solar Thermal • Alternative Energy • Cogeneration 	<ul style="list-style-type: none"> • High-Efficiency Heating Ventilation and Air Conditioning (HVAC) • Building Envelope • Windows Doors and Skylights • High Efficiency Water Heating, Pool Equipment, and Lighting • Indoor and Outdoor Water Efficiency 	<ul style="list-style-type: none"> • Wind Resistant Measures

Table 3: Eligibility Criteria by Project Type

PACE Funding Group, LLC maintains specific criteria per jurisdiction and an eligible product list to ensure that materials and equipment used for improvements meet energy efficiency and performance standards. Products are installed by licensed contractors that are authorized by the PACE program. Detailed standards for eligible products are shown on the company website: <https://www.pacefunding.com/wp-content/uploads/2015/11/eligibleprojects.pdf>

The company also relies on metrics from third-party sources including:

- California Building Energy Efficiency Program (Title 24)
- American National Standards Institute (ANSI)
- A/C, Heating & Refrigeration Institute (AHRI)
- Building Performance Institute (BPI)
- California Energy Commission (CEC)
- California Plumbing Code
- National Plumbing Code
- National Electrical Code
- National Fuel Gas Code
- California Solar Initiative Program
- Energy Star Certification
- EPA Certified Wood Stoves
- Home Ventilation Institute
- National Electrical Code
- National Fuel Gas Code
- American Wind Energy Association
- Solar Rating and Certification Corporation
- WaterSense Qualification
- High Velocity Hurricane Zone (HVHZ)
- Florida Building Code 5th Edition
- Int'l Building Codes w/GA Amendments

Management of Proceeds

The PACE Bond-Backed Notes, Series 2020-1 are secured by PACE bonds, which are linked to PACE property tax assessments. Net proceeds from the PACE Bond-Backed Notes, Series 2020-1 will be fully allocated to the PACE assessments. There is no temporary fund or investment pool necessary.

Proceeds from the bond issuance will be allocated immediately to PACE assets. Allocation of the Green Bond proceeds will be disclosed at the time of issuance in the offering memorandum.

Reporting

PACE Funding Group, LLC will make and keep readily available information on the allocation of green bond proceeds. This will be available to involved parties and updated at least annually.

Throughout the year, PACE Funding Group, LLC complies with a number of financial reporting and impact reporting requirements set by jurisdictions where the company operates PACE financing programs. Pursuant to California State Bill 242 Section 5954, PACE Funding Group must submit a report each year to their JPA's detailing the number and value of PACE assessments carried out in California, and include impact metrics for renewable energy production, energy and water savings, job creation, and estimated greenhouse gas emission reductions.

California

In California, PACE Funding reports to JPA's quarterly with a variety of data including environmental impact data, renewable energy production, energy and water savings, job creation and greenhouse gas emission reductions. PACE Funding also reports annually to the California Department of Business Oversight (DBO) including similar environmental impact data as part of their licensing requirements. Miscellaneous municipalities request regular or ad hoc reporting.

Florida

In Florida PACE Funding reports through the JPA to approximately 30 municipalities on a monthly, quarterly, or annual basis. Data is requested on a template provided by the JPA and typically also includes environmental impact metrics which includes energy generation, energy efficiency and wind mitigation improvements.

PACE Funding Group, LLC will provide bond purchasers with reasonably current information about the bond proceeds, upon request. The company uses a proprietary calculation model to estimate and report on the environmental impacts of financed projects. The model is used to estimate impact in terms of water savings (gallons), energy savings (kwh-e) and greenhouse gas emission reductions (metric tons CO₂e).

CONCLUSION

Based on our independent verification, the Pace Bond-Backed Notes, Series 2020-1, (Green Bonds) conform, in all material respects, with the Green Bond Principles (2018). It is the opinion of Kestrel Verifiers that these Notes are in complete alignment with the Renewable Energy, Energy Efficiency, and Climate Change Adaptation project categories of the Green Bond Principles. Residential PACE projects financed with the bonds will continue to support energy efficiency, water savings, renewable energy generation and storm resiliency, and reduce greenhouse gas emissions for many years. PACE Funding Group, LLC has demonstrated leadership toward a more sustainable future by offering innovative financing options to improve energy efficiency, deploy renewable energy and help communities adapt to climate change.



ABOUT KESTREL VERIFIERS

For 20 years Kestrel has been a trusted consultant in environmental finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is a Climate Bonds Initiative Approved Verifier qualified to verify transactions in all asset classes worldwide. Kestrel is a US-based Woman-Owned Small Business and a certified Women's Business Enterprise.

For more information, visit www.kestrelverifiers.com

DISCLAIMER

This opinion aims to explain how and why the discussed financing meets the ICMA Green Bond Principles based on the information which was available to us during the time of this engagement (May 2020) only. By providing this opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Green Bonds. It was beyond Kestrel Verifiers' scope of work to review issues relating to regulatory compliance and no surveys or site visits were conducted. Furthermore, we are not responsible for surveillance on the project or use of proceeds. The opinion delivered by Kestrel Verifiers does not address financial performance of the Green Bonds or the effectiveness of allocation of its proceeds. This opinion does not make any assessment of the creditworthiness of the Issuer, or its ability to pay principal and interest when due. This is not a recommendation to buy, sell or hold the Bonds. Kestrel Verifiers is not liable for consequences when third parties use this opinion either to make investment decisions or to undertake any other business transactions. This Opinion may not be altered without the written consent of Kestrel Verifiers. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the issuer or the projects discussed. Language in the offering disclosure supersedes any language included in this Second Party Opinion.