

PACE - FINANCING MODEL FOR ENERGY EFFICIENCY PROJECTS

by
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Property Assessed Clean Energy (PACE)¹ financing is a method that allows owners to pay for energy efficiency retrofits or renewable power systems by borrowing money that is then repaid as an assessment to the local property tax bill. The program allows the costs of the retrofits/systems to remain with the property. If the property is sold, the new owner takes over the payments.

State Legislative authority must exist and local governments must set up energy financing districts before a PACE program can operate. The process model generally is that a city or county creates a land-secured financing district. Property owners sign up for financing, the lender provides funding to pay for the projects, and the property owner installs energy projects. Property owner repays the debt on the property tax bill (up to 20 years).



PACE Financing Model

In 2009, the Louisiana Legislature enacted SB 224 (ACT No. 348), which gave the governing authority of any local government subdivision that is authorized to collect property taxes and to issue and sell bonds the authority to create sustainable energy financing districts. The legislation went on to say that the owner of residential or commercial immovable could request financing to cover the cost of energy improvements. The term for repayment was not to exceed twenty years. The loan payment was to be assessed against the immovable property and collected in the same manner as the ad valorem taxes assessed on the property.

Following are examples from the Louisiana enabling legislation of allowable energy efficiency improvements:

- 1) Insulation in walls, roofs, floors, foundations, and in heating and cooling distribution systems.
- 2) Storm windows and doors, multi-glazed windows and doors, heat-absorbing or heat-reflective glazed and coated window and door systems, additional glazing, reductions

¹ <http://energy.gov/eere/slsc/property-assessed-clean-energy-programs>

in glass area, and other window and door system modifications that reduce energy consumption.

- 3) Automatic energy control systems.
- 4) Heating, ventilating, or air conditioning and distribution system modification or replacements in buildings or central plants.
- 5) Caulking and weather stripping.
- 6) Replacement or modification of lighting fixtures.
- 7) Daylighting systems.

Then, in 2010, The Federal Housing Finance Agency (FHFA) directed Fannie Mae and Freddie Mac against purchasing mortgages of homes with a PACE lien due to its senior status above a mortgage.² Most residential programs came to a halt over concerns about what happens if a homeowner defaults on a mortgage. Commercial programs were not directly affected because Fannie and Freddie do not underwrite commercial mortgages. The chart below lists some of the advantages and disadvantages of commercial PACE programs.³

ADVANTAGES

- Allows for secure financing of comprehensive projects over a longer term, making more projects cash flow positive.
- Spreads repayment over many years and removes the requirement that the debt be paid at sale or refinance.
- Can lead to low interest rates because of the high security of loan repayments attached to the property tax bill.
- Helps some property owners deduct payments from their income tax liability.
- Allows municipalities to encourage energy efficiency and renewable energy without putting general funds at risk.
- Taps into large sources of private capital, such as the municipal bond markets.

DISADVANTAGES

- Available only to property owners.
- Cannot finance portable items (screw-in light bulbs, standard refrigerators, etc.).
- Can require dedicated local government staff time.
- High legal and administrative setup.
- Not appropriate for investments below \$2,500.
- Potential resistance by lenders/mortgage-holders whose claims to the property may be subordinated to the unpaid assessment amount should the property go into foreclosure.

² <http://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Statement-on-Certain-Energy-Retrofit-Loan-Programs.aspx>

³ <http://energy.gov/eere/slsc/property-assessed-clean-energy-programs>