ALLIANCE TO SAVE ENERGY
Creating an Energy-Efficient World

# Fact Sheet

## Property Assessed Clean Energy Financing

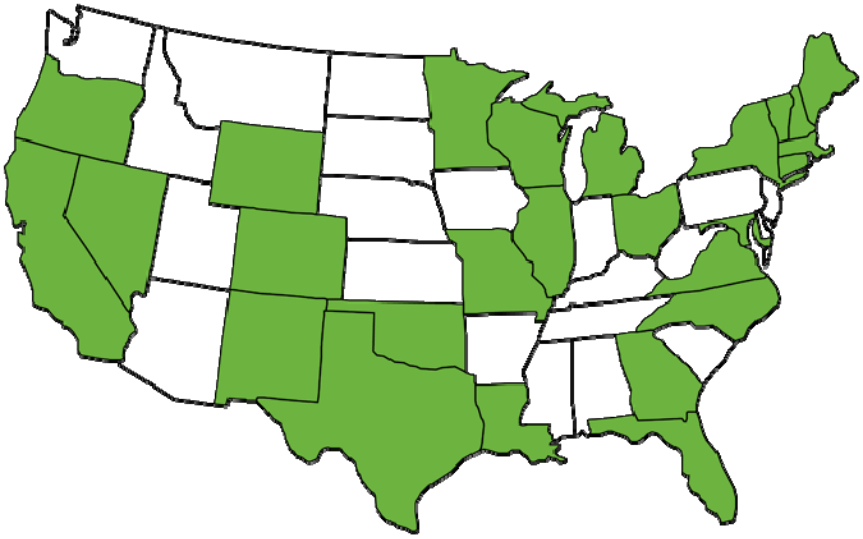
***Financing energy efficiency upgrades with property tax-based repayment***

Property assessed clean energy (PACE) financing supports energy efficiency and renewable energy projects by providing up-front capital that is subsequently paid back through a special assessment on participants' property taxes. Despite demonstrated economic and environmental benefits from energy efficiency, the initial costs to buy new equipment or renovate buildings are often a major barrier to greater implementation. PACE financing allows property owners to benefit from energy savings immediately while spreading the cost of improvements over a number of years. The PACE model addresses and overcomes challenges that both borrowers and lenders have identified in seeking to use traditional finance mechanisms to fund efficiency improvements.

Financing from a PACE program is normally repaid though an assessment added to property taxes. Unlike charges levied by utilities or localities on all ratepayers, a PACE financing program is only paid for by those who actually receive efficiency upgrades or renewable energy equipment. Thus ***there is no cost to those who do not participate in the program.***

A notable feature of PACE financing is that ***it is tied to the property itself, not the property owner***. If the property is sold, payments stay with those receiving the cost-saving benefits of energy efficiency (subject to negotiation). This feature encourages energy efficiency improvements even if a property owner does not expect to remain in the property for the duration of repayment. This can be a disincentive to the use of normal loan-based financing.

**States with PACE-enabling legislation enacted**



*26 states and the District of Columbia have legislation enabling PACE-type financing programs (existing legislation in Hawaii could allow PACE programs).*[i]

PACE financing also provides structural advantages for lenders. ***PACE programs take precedence over existing mortgages*** so that in the event of a default, PACE lenders would recover funds before a mortgage lender. Thus the risk for PACE lenders is minimized. Existing mortgage lenders also may benefit, as ***reduced energy costs improve property owners' financial position***, making them better able to make payments. However, some mortgage lenders are concerned the PACE financings' precedence could harm them in case of default, and thus have opposed PACE programs.

## Implementation

Establishing a PACE financing mechanism requires action on the part of states and localities, but may be helped by ancillary support from the Federal government. States must first pass legislation allowing the creation of local lending agencies. The agency then sets the terms for the financing and capitalizes the fund through municipal bonds, state and federal grants, or other means. Once the program is in place, a local property owner may apply for financing, make efficiency upgrades and make repayments through a property tax addendum. Because local authorities set the specifics of each program, terms and funding sources will vary across the country.

In the summer of 2010, secondary mortgage entities Fannie Mae and Freddie Mac, along with their regulator the Federal Housing Finance Agency (FHFA), moved to block PACE financing programs. This was mainly due to concerns that the senior nature of most PACE programs would create undue risk to mortgage holders like Fannie Mae and Freddie Mac. As a result of this action, most residential PACE programs across the country suspended activity. Some have since restarted, with uncertain prospects. Commercial programs were largely unaffected.

### Examples of local PACE-type programs

**Babylon, NY:** Begun in 2008, the Long Island Green Homes program uses funds from the town's solid-waste reserve fund to provide financing for efficiency or renewable energy projects (based on a town council decision that the carbon content of greenhouse gasses constitutes a solid waste problem). After undergoing an audit, the town pays contractors directly; property owners pay back the cost via a trash bill surcharge with 3% interest.[ii]

**Boulder County, CO:** The ClimateSmart Loan Program provides financing to residential and commercial property owners for efficiency or renewable projects. The program was established with $40 million in funding available, financed by tax-exempt bonds issued by the county. The program has been operational since early 2009 for the residential sector and 2010 for commercial. While the residential program has been suspended pending resolution of the Fannie Mae / Freddie Mac issue, the commercial program is still active.[iii]

## Federal Support for PACE

Although PACE programs are authorized, developed and administered at a local level, certain federal government policies can further reduce the risk of default or support programs directly.

Revolving loan programs administered by state energy offices with Federal funds could employ mechanisms like PACE; funds from the 2009 Recovery Act served such a purpose. Federal credit support could reduce interest rates for municipal bonds by reducing risk to lenders, making the program more cost-effective for property owners. In the 111th Congress, bills from Representative Steve Israel (D-N.Y.), H.R. 3836, and Senators Lugar (R-Ind.) and Merkley (D-Ore.), S. 1574, would have provided such guarantees.

Resolution of the conflict with Fannie Mae and Freddie Mac may have to come at a Federal level as well.

Representatives Hayworth (R-Calif.), Lungren (R-N.Y.), and Thompson (D-Calif.) have introduced the PACE Assessment Protection Act of 2011 in the House of Representatives (H.R. 2599). This bipartisan bill would resolve the Fannie Mae / Freddie Mac issue by directing the two entities to accept PACE-type financing while incorporating underwriting standards for PACE programs and establishing rights of rescission, consumer protections and limitations on delinquent payment collection. Similar legislation had been proposed in the 111th Congress by Senator Boxer (D-Calif) and Representative Thompson.

*The Alliance to Save Energy is a coalition of prominent business, government, environmental and consumer leaders who promote the efficient use of energy worldwide to benefit consumers, the environment, the economy, and national security. For more information please contact Alliance policy staff at (202) 857-0666 or info@ase.org.*

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[i] PACENOW.org; Database of State Incentives for Renewables and Efficiency (DSIRE). www.dsireusa.org.
[ii] Town of Babylon, 'Long Island Green Homes,' ligreenhomes.com.
[iii] Boulder County, 'ClimateSmart Loan Program,' www.bouldercounty.org/bocc/cslp.