

Property Assessed Clean Energy (PACE)

Property Assessed Clean Energy (PACE) builds on the familiar concept of a municipal improvement district. PACE creates a voluntary special tax or special assessment district that funds the cost of energy improvements for commercial and industrial property owners that voluntarily join the district. The owner pays the district back over time through an assessment on their property taxes. The savings on the owner's utility bills help cover the project cost. The assessment is secured by a property lien that takes priority over the mortgage and other loans if there is a foreclosure. One advantage of PACE is that the assessment stays with the property in the event of a sale, assuming that the buyer agrees to this transfer. The benefits of the upgrades and the corresponding payments can be transferred to the new owner.

PACE Characteristics

Technology Focus	Energy Efficiency and Renewable Energy
Type of Measures Financed	Whole-Building Upgrades
Target Sector(s)	Commercial & Industrial
Compatible Funding Sources	Bonds and/or Public Funds
Security Required of Borrower	PACE (Senior) Lien on Building Property
Repayment Mechanism	Property Tax Bill
Complexity to Implement	Complex
Role for State/Local Governments	Pass PACE Legislation, Issue Bonds, Distribute Bond Proceeds to Property Owners, Collect Payments on Property Tax Bills, Pay Bond Holders
Impact per Dollar of Public Funds	High to Very High

Considerations for State and Local Governments

- Many early PACE programs, which were chartered by local governments, targeted the residential sector. While PACE was initially conceived as both a commercial and residential option, the Federal Housing and Finance Authority (FHFA), which regulates Freddie Mac and Fannie Mae, was concerned about the impact of PACE priority liens on mortgage lenders and effectively shut down residential PACE in 2010. Commercial PACE is still viable, although property owners must typically get their existing lender's approval before signing up for a PACE program.
- PACE programs typically require authorizing legislation at the state level. Local governments seeking to set up a PACE program should first check whether PACE legislation exists in their state and, if required, should work with the state government to pass PACE legislation. To date, PACE-enabling

legislation has been passed in the following states: CA, CO, FL, GA, IL, LA, ME, MD, MN, MO, NV, NH, NM, NY, NC, OH, OK, OR, TX, VT, VA, and WI. For a current list of states with PACE legislation in place, see the Database of State Incentives for Renewables and Efficiency (DSIRE) at www.dsireusa.org/incentives/index.cfm?EE=1&RE=1&SPV=0&ST=0&searchtype=PTFAuth&sh=1

Advantages	Disadvantages
<ul style="list-style-type: none"> • A PACE lien offers the issuing agency strong protection against loss in the case of default. This security makes it possible to issue bonds to fund the PACE program. • PACE does not require public funds. It can be run using private capital from the bond market. • The assessment and corresponding payments can stay with the property in the event of a sale. • PACE programs can serve property owners who would not qualify for a bank loan. 	<ul style="list-style-type: none"> • States that do not already have PACE-enabling legislation require the extra effort and time to pass legislation before PACE can be made available. • PACE is limited to the commercial and industrial sector unless FHFA’s position is reversed or overridden. • Municipalities may need to give a guarantee or similar assurance to make PACE bonds marketable. • After factoring in all costs, the interest rate for a PACE program may be higher than for other options unless the rate is subsidized.

When to Use PACE

PACE works best for whole-building retrofits in the commercial sector. It offers a solution for property owners who might not qualify for a traditional loan. The security of a PACE lien gives the program superior protection against the risk of loan defaults. PACE may appeal to state and local governments that can issue bonds with attractive interest rates.

Example Programs / Case Studies

Palm Desert Energy Independence Program (Palm Desert, CA)

The Palm Desert Energy Independence Program offers home and business owners affordable financing for major energy-saving property improvements, such as high-efficiency air conditioners, dual-pane windows, and solar panels. Long-term payback for the improvements is linked to the owner’s property taxes.

Since its launch in August 2008, the Energy Independence Program has provided \$5 million in loans, funded with \$2.5 million each from the City’s general fund and the City’s Redevelopment Agency. In February 2010, the city announced \$6 million in new program funding. Half of the new funds will be dedicated to energy efficiency improvement loans and half will be reserved for solar project loans. www.cityofpalmdesert.org/Index.aspx?page=484

Sonoma County Energy Independence Program (SCEIP) (Sonoma County, CA)

Launched in spring 2009, SCEIP is a combined residential, commercial, and industrial PACE program. It is unique in that it allows water efficiency upgrades to be part of the voluntary assessment package along with energy efficiency and renewable energy. SCEIP offers loans at 7 percent interest with payback periods of five, 10, and 20 years.

www.sonomacountyenergy.org

Boulder County: ClimateSmart Loan Program (Boulder, CO)

The ClimateSmart Loan Program provides financing to commercial property owners for efficiency or renewable energy projects. The county is authorized to issue up to \$40 million in tax-exempt bonds to support the program. The ClimateSmart Loan Program started in 2009 for the residential sector (which has since been suspended) and launched commercial PACE in 2010.

www.climatesmartloanprogram.com

Resources & Guidance

Alliance to Save Energy (ASE) Guide to PACE – General PACE information and implementation

<http://ase.org/resources/property-assessed-clean-energy-financing-pace>

National Renewable Energy Laboratory (NREL) PACE Fact Sheet

www.nrel.gov/docs/fy10osti/47097.pdf (PDF, 4pp. 441K)

National Association of State Energy Officials (NASEO) PACE example legislation documents

www.naseo.org/resources/financing/pace/index.html

Renewable & Appropriate Energy Laboratory (RAEL) Financing District Guide – How to set up a local PACE program

www.naseo.org/resources/financing/pace/index.html (PDF, 47pp. 327K)

Database of State Incentives for Renewables and Efficiency (DSIRE) List of Existing PACE Programs and Locations

www.dsireusa.org/incentives/index.cfm?EE=1&RE=1&SPV=0&ST=0&searchtype=PTFAuth&sh=1