



What is a Property Assessed Clean Energy Bond? Why is it important to Weatherizers?

By Akanimo Udo and Nathan Warren

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A local Property Assessed Clean Energy (PACE) program is one innovative financing tool that allows local governments to provide attractive low-interest loans for energy efficiency investments to property owners. It is not currently useful for residential retrofits, but that may soon change.

PACE financing is considered by many, including the Obama Administration, to be a promising energy retrofit financing tool for credit-worthy homeowners and businesses. However, the Federal Housing Finance Agency (FHFA) announced in July of 2010 that mortgages from homes with PACE loans cannot be sold in the federally-backed secondary mortgage market.

FHFA stated that energy retrofit lending programs, and specifically PACE programs, "present significant [loan] safety and soundness concerns" to government-backed home lenders (including Fannie Mae and Freddie Mac). The reason: the first liens for these loans alter traditional mortgage lending practice by giving the PACE program a claim on the property—as the debt is a "senior lien". The seller pays PACE bondholders back before the mortgage lender. The FHFA also stated that "significant risk to lenders and secondary market entities may alter valuations for mortgage-backed securities and are not essential for successful programs to spur energy conservation."

Fannie Mae and Freddie Mac, the government-backed home mortgage lenders that control approximately 80 percent of American home mortgages, stated they would not accept home mortgages that included the PACE lien. That move has halted the program for homeowners.

PACE programs had been implemented by over 400 cities and counties in 17 states. Commercial buildings utilizing PACE are unaffected and these programs are moving forward. The concept is described below. Several lawsuits are pending challenging the FHFA ruling. Follow the developments at <http://www.pacenow.org>.

Could the PACE Loan Concept Spur Multi-family Building Weatherization or Drive Market Demand for CAA's Energy Services?

It is possible that local governments will create financing tools that ensure a PACE-like loan is subordinated to mortgage lenders' claims. If so, certain W.A.P.-eligible buildings, as well as some popular measures, may be appropriate targets for PACE funds leveraged with W.A.P. program investments.

- PACE financing might assist credit-worthy private owners of eligible multi-family properties make a significant landlord contribution to Weatherization projects.

- Another possible use of PACE loans would be to fund improvements that eligible homeowners urgently desire and can afford that are not allowable uses of W.A.P. funds; replacement windows or doors that many applicants request might be an example. Depending on the local PACE regulations, small investments in these items may be allowable uses of client-borrowed funds; the long repayment period allowed may mean the added small fee assessed is a feasible expenditure, even for eligible homeowners. (The household's record of prompt property tax payments will be important to loan approval.) However, most W.A.P.-eligible energy consumers will not be considered credit-worthy.
- A more promising possibility is that PACE lending combined with the quality required of a city program will spur a surge of private demand for well-trained retrofitters; CAAs could provide services as a revenue raiser and a way to keep skilled WAP workers employed.

Introduction to PACE

PACE bonds are available in local "Energy Finance Districts", legally defined areas where local governments raise money by issuing bonds to finance low-interest loans to property owners. State law must recognize the local right to issue such bonds. Property owners must use the loan to pay for the installation of energy efficiency measures. Borrowers repay the loan over the life of the investment as an added assessment on their annual property tax bill or other local fee/tax bill. The owner of the property, not the individual who first borrowed, is responsible for the payment; i.e. the debt stays with the improved house.

Currently, seven states have passed legislation to empower local communities to launch PACE loan programs.¹ Although PACE programs vary by municipality, they have four major characteristics:

1. Municipalities determine and implement the legal framework that would allow them to create "Energy Finance Districts" and issue bonds;
2. Bond proceeds are used to make PACE loans for prequalified "clean energy projects" and paid back to a revolving loan fund;
3. Property owner participation is voluntary; and
4. Projects/programs are subject to approval by the local administrator of the program.

PACE addresses a number of the issues that limit building owners' investment in energy efficiency, including:

- Lack of technical information: many consumers do not know how to choose or install energy efficiency or renewable energy measures nor how to calculate the benefits of a project;
- The uncertainty of future savings;
- The initial cost of implementation; and

- Household mobility: homeowners who do not plan on staying in the home long enough to recoup their investment.

Many PACE programs are modeled after the pilot program started by the city of Berkeley, California. Berkeley launched its PACE pilot, Financing Initiative for Renewable and Solar Technology (FIRST), as part of the state solar energy initiative to lower greenhouse gas GHG emissions.ⁱⁱ

The Berkeley pilot started up in response to the CA solar initiative incentives specifically for solar energy retrofits. Its scale was small. In November 2008, a pilot project approved 38 residential solar retrofit projects with an average project value of \$28,000. Only solar photovoltaic retrofits were allowed, and basic energy efficiency improvements were required before installing the solar systems. The City is currently evaluating the pilot and assessing the potential for a full-scale program that would include a choice of energy efficiency or solar energy projects. Please click here for more details on the Berkeley First [program](#).

Three Elements of PACE Programs

1. Lending Authority

To enact a PACE program, a municipality must establish it has the legal authority to create an Energy Finance District. This will likely require the state to enact legislation to authorize the creation these districts. One example of this type of measure would be House Bill 08-1350, passed in the State of Colorado in May 2008, allowing counties and other local government entities to provide below-market financing for renewable energy and energy efficiency improvements on homes or businesses by designating a "Clean Energy Options Local Improvement District." In 2008, Boulder County residents by referendum created the "Clean Energy Options Local Improvement District."

Click here for a brief overview of the Colorado [program](#) and legal authorities.

Some municipalities can utilize their existing assessment authority, or amend a relevant section of the state or municipal code to expressly provide for the key features of the PACE program. For example, in 2006, the Long Island Green Homes Initiative was launched after the Town of Babylon NY, amended its definition of "solid waste" to include CO₂. Residents had long been charged a biannual property assessment fee for the removal of solid waste. By including CO₂ as solid waste, the town was able to use its solid waste fund to finance renewable and energy efficient retrofits to existing homes. The state of New York has recently affirmed the "carbon as waste" rationale, thus enabling any municipality in the state to set up a waste district for this purpose.

Click here for more details on the now-stalled [Long Island Green Homes initiative](#)

2. Repayment Requirements

Although there are differences in the way municipalities treat the repayment of PACE loans, all are assessments that appear on the property tax bill. In Berkeley, FIRST loans were treated as a "senior property tax lien" and repaid by the property owner over 20 years as a "special assessment" surcharge on their annual property tax bill. It is possible that homes with these

loans may be slower to sell now that FFHA has refused to allow their mortgages in the federal resale markets.

In Babylon, NY, repayment is legally tied to the property as a “benefit” because (all residents already receive a bi-annual bill for their solid waste services). However, the PACE energy benefit assessment is billed separately to the participating owner on a monthly basis. Only if the property owner is delinquent in paying this bill is the assessment transferred to the property tax bill.

3. Program Operations

PACE programs were still undergoing operational adjustments when the residential projects came to a halt. In general, property owners are required to voluntarily get site evaluations/project specifications for the proposed improvements, use qualified contractors, whose requirements may vary from program to program, and obtain the local office’s approval.

For example in Babylon, NY, a homeowner would contact a town-licensed “green homes” contractor to conduct a comprehensive energy audit of her home to determine the cost effectiveness of alternative improvements. The contractor would then prepare a detailed report and a quote for the cost of installation. The property owner would choose a qualified contractor’s bid, and then apply to the city program for approval of a loan for part or all the cost. If the application was approved, the city program administrator performed quality assurance and paid the installer for the work that the homeowner purchased with borrowed funds.

For more information on PACE programs, please follow the additional links below:

[Sonoma County’s Energy Independence Program](#)
[Center for Sustainable Energy](#)

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ⁱ “PACE: States Lead, Feds Follow,” [Interstate Renewable Energy Council](#), December 2009.

ⁱⁱ Now, most PACE programs cover all forms of proven clean energy investments, especially efficiency. In fact, Babylon, NY on Long Island began a PACE financing system focused primarily on loans for efficiency upgrades.