

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

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The Property Assessed Clean Energy (P.A.C.E.) program is one innovative financing tool that allows local governments to provide attractive low-interest loans to property owners for clean energy and efficiency investments.

Weatherization Agencies Should Consider P.A.C.E. Loans as Specialized Leveraged Funding

Weatherization participants lack savings and access to credit; these facts justify a grant program for long-term investments. However, a subset of eligible buildings as well as some popular measures may be appropriate targets for borrowed funds leveraged with W.A.P. program investments.

- The most plausible is to use P.A.C.E. financing to assist private owners of eligible multi-family properties in making a significant landlord contribution to Weatherization Program projects.
- Another possible use of P.A.C.E. loans would be to fund improvements that eligible homeowners urgently desire but that are not allowable uses of W.A.P. funds, such as the replacement windows or doors that many applicants request. Depending on the local program regulations, small investments in these items may be allowable uses of client-borrowed funds; the long repayment period allowed may make the added small fee assessed a feasible expenditure, even for eligible homeowners. (The household's record of prompt property tax payments will be important to loan approval.)

Introduction to P.A.C.E.

P.A.C.E. Bonds are available in "Energy Finance Districts," legally defined areas where local governments raise money by issuing bonds that 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. They are able to repay the loan over the life of the investment as an added assessment

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on their annual property tax bill. The owner of the property, not the individual who first borrowed, is responsible for the payment; the debt stays with the improved house.

Currently, there are 16 states that have passed legislation to empower local communities to launch P.A.C.E. loan programs¹. Although P.A.C.E. 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 P.A.C.E. 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.

P.A.C.E. 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,
- Household mobility: Homeowners who do not plan on staying in the home would not recoup their investment if they borrow on their personal credit and are uncertain about an increase in their future re-sale value.

Many P.A.C.E. programs are modeled after the pilot program started by the city of Berkeley, California. Berkeley launched its P.A.C.E. pilot, Financing Initiative for Renewable and Solar Technology (FIRST), as part of the state solar energy initiative to lower greenhouse gas GHG emissions. However, most P.A.C.E. programs cover all forms of proven clean energy investments, especially efficiency. In fact, Babylon, NY on Long Island began a P.A.C.E. financing system focused primarily on loans for efficiency upgrades.

The Berkeley pilot is different because it started up in response to the CA solar initiative which provides incentives, specifically for solar energy retrofits. Its scale was small. Nevertheless, the lending mechanism has been replicated. In November 2008, the pilot 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

¹ "P.A.C.E.: States Lead, Feds Follow," [Interstate Renewable Energy Council](#), December 2009

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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](#).

The Varieties of P.A.C.E.

1. Lending Authority

To enact a P.A.C.E. 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. The bill allows counties and other local government entities to provide below-market financing for renewable energy and energy efficiency improvements on homes or businesses via 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 P.A.C.E. 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 amending the definition of solid waste to include CO₂, the town was able to use its solid waste reserve 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 [Long Island Green Homes initiative](#)

2. Repayment Requirements

Although there are differences in the way municipalities treat the repayment of P.A.C.E. loans, all are assessments that appear on the property tax bill. In Berkeley, F.I.R.S.T. loans are 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. This means the assessment applies only to individual property whose owners obtain financing through the program.

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

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P.A.C.E. 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

P.A.C.E. programs are new enough that programs are still undergoing operational adjustments. 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, then apply to the city program for approval of a loan for part or all the cost. If the application is approved, the city program administrator performs quality assurance and pays the installer for the work that the homeowner purchased with borrowed funds.

As of November 2009, there were more than 150 similar energy efficiency financing programs in the U.S. New Programs being announced weekly and there are over ten states pursuing enabling legislation.

For more information on different P.A.C.E. programs, please follow the links below:

[Please click here to see the growing map of states that have passed legislation!](#)

[Long Island Green Homes](#)

[Berkeley FIRST](#)

Database of State Incentives for Renewables & Efficiency

[Summary of P.A.C.E. Financing in the U.S.](#)

Sonoma County's Energy Independence Program

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