

What Is PACE (and Why Should I Care)?

MPUA Annual Conference

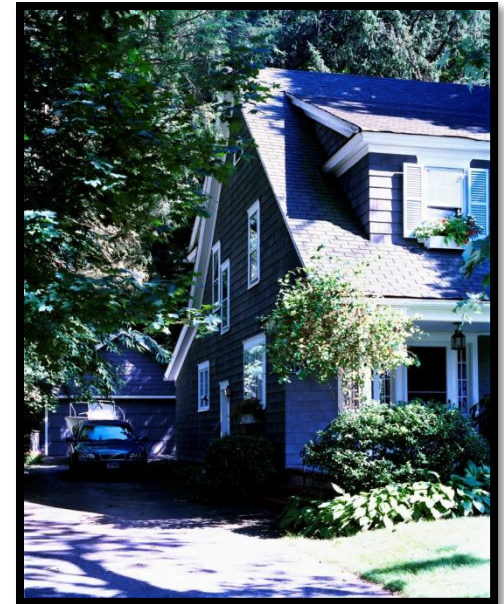
September 30, 2010

Ewell Lawson

Property Assessed Clean Energy

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PACE is a voluntary program that allows property owners to install energy efficiency projects with little or no upfront cost. Costs are repaid on property tax bills over 20 years.



Purpose

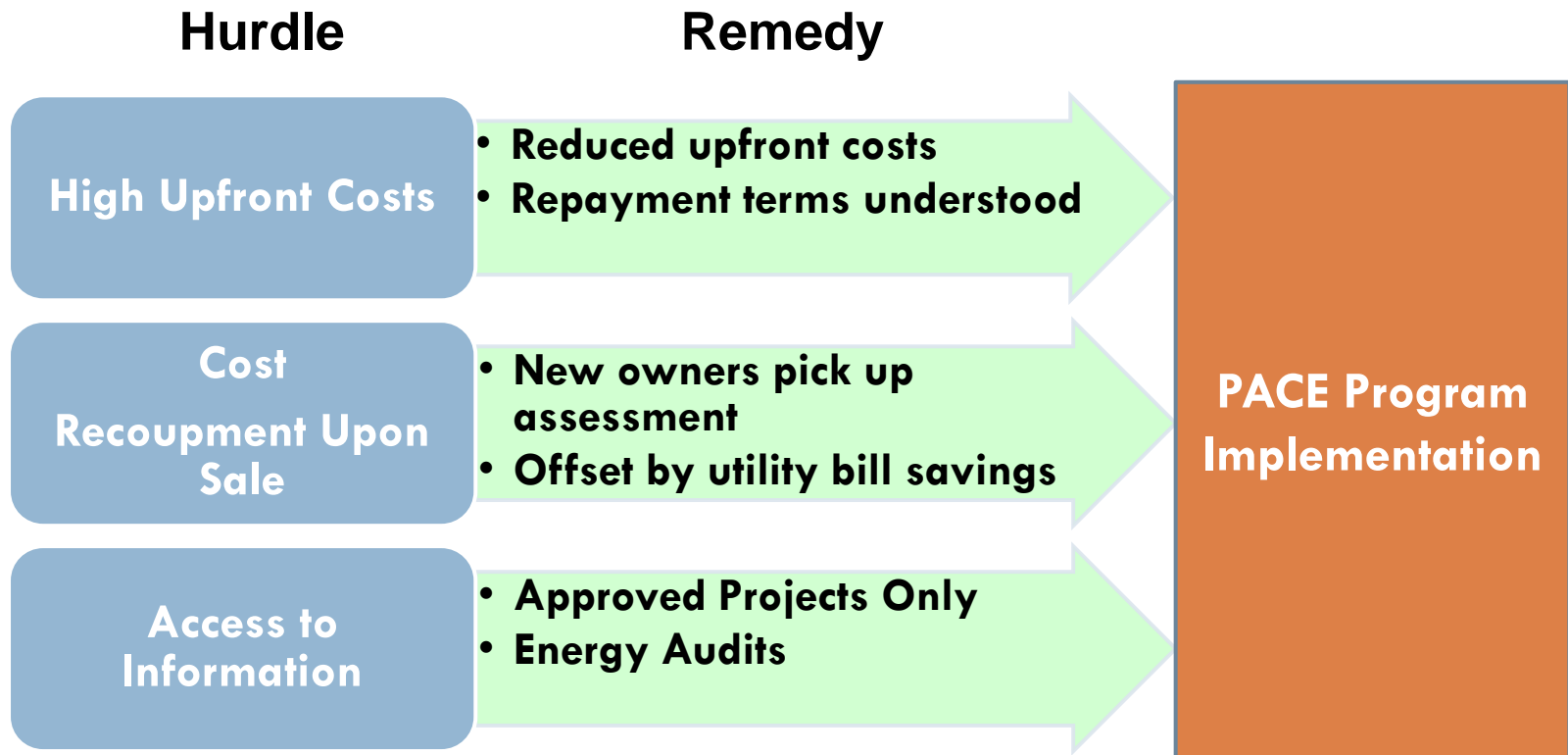
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- Reasons Why PACE was created...
 - High upfront cost is the single largest barrier to increased adoption of energy efficiency and small-scale renewable energy
 - uncertainty that property buyers will pay more for efficiency improved properties
- PACE is intended to remove the upfront cost and uncertainty barrier as the new buyer inherits annual tax assessments

Purpose

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Remove Hurdles to Clean Energy



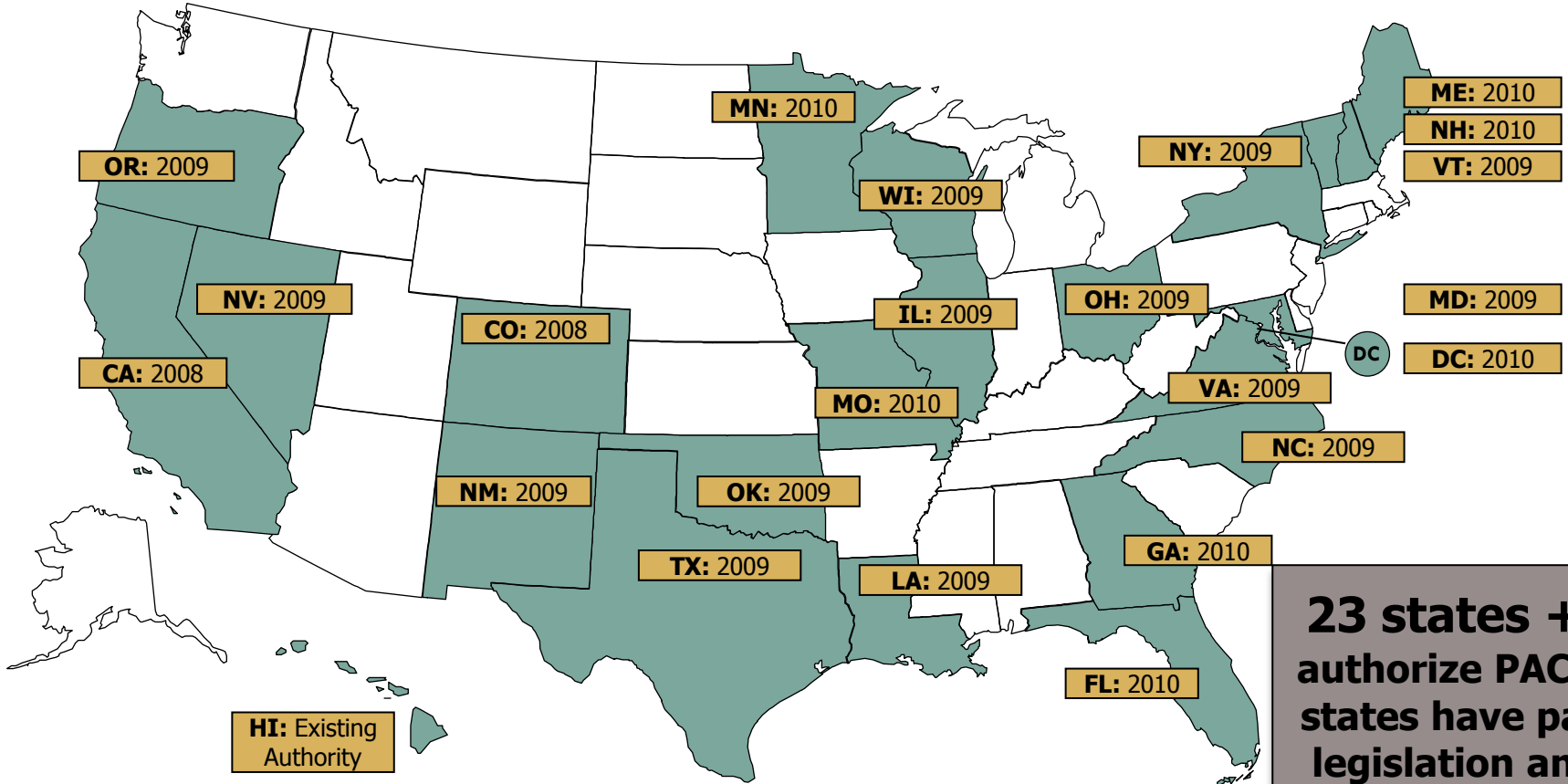
The Beginning

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- Berkeley, CA
 - It all started with Berkeley and the “**Berkeley First Program.**” A company called Renewable Funding developed a system for financing home solar energy systems and energy efficiency improvements by partnering with the city and **adding the cost of the solar systems or improvements onto the homeowner’s property tax bill**, amortized over twenty years.
- Palm Desert, CA (suspended)
 - The program allows property owners in Palm Desert to borrow money from the city for energy projects at their home or facility, and to repay those loans through increased property taxes. The program was started using \$2.5 million from the city’s general fund.
- Boulder, CO (on hold)
 - PACE as we know it. Uses tax-exempt bonds for income-qualified. Taxable for open program. Rates have been as high as ~7%.
- Babylon, NY
 - This program is funded by the town’s Solid Waste Fund. In order to accommodate the program, the town has expanded its definition of solid waste to include energy waste based on its carbon content.

PACE Authorized

www.dsireusa.org / September 2010



23 states + DC authorize PACE (22 states have passed legislation and HI permits it based on existing law)

■ PACE financing authorized by the state*

Missouri Authorization

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- HB 1692 – Real Estate and Cemeteries
 - Promoted by Renew Missouri – Missouri Coalition for the Environment
 - No energy industry or municipal opposition
 - Passed as an amendment 137 - 11
 - Signed by Governor Nixon on 7/12/10
 - Effective 8/28/10

HB 1692 (67.2800 – 67.2835 RSMo)

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- Authorizes “Clean Energy Development Boards”
 - A board formed by one or more municipalities (counties too) by ordinance
 - Must have at least three appointed board members
 - Considered a political subdivision with powers to carry out functions
 - EIERA may promulgate rules to implement or guide boards
 - Authorized to “take whatever actions necessary to participate in and administer a clean energy conduit financing or a property assessed clean energy program”

HB 1692 (67.2800 – 67.2835 RSMo)

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- Funding source: CEDB authorized to issue bonds
- Terms: Contracts limited to 20 years; must display a positive economic benefit over the life of the contract
- Very broad: Leaves up to CEDB the what, how, and delivery
- Statute provides some guide for what energy efficiency and renewable energy projects can be funded but does not limit CEDB

Energy Efficiency Improvements

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- Insulation
- Windows and Doors designed to reduce energy consumption
- Automatic energy control systems
- HVAC replacements
- Caulking and weatherstripping
- Light fixtures
- Energy recovery systems

Renewable Energy Improvements

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- Photovoltaic
- Solar thermal
- Wind
- Biomass
- Geothermal
- Or, “any acquisition and installation of a fixture, product, system, device, or combination thereof on public/private property that produces energy from renewable sources”

Participation

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- Residential, Commercial, or Industrial Properties
- Enter into a special assessment contract
- Agrees to pay a special assessment in exchange for financing
- Special assessment constitutes a lien on the property in question and will be collected in the same manner and with the same manner as ad valorem real property taxes
- May require to meet EE standards
- Shall have good creditworthiness or considered a low risk
- May require an initial energy audit as a prerequisite and inspections to verify completion

Advantages

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□ Property Owner:

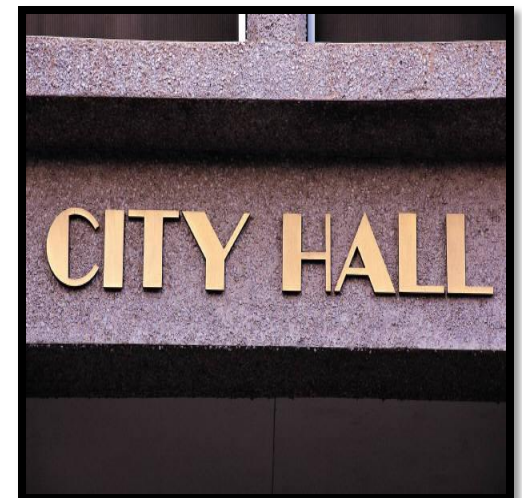
- No upfront cost to property owner
- Fixed payments up to 20 years
- Customer chooses contractor/installer
- Property tax transfers to new owner when property is sold
- Energy use decreases
- Credit analysis is on the property, not the person
- Tax-deductible payments
- Application process easier than 2nd mortgage/home equity
- Reduced transaction costs



Advantages

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- Municipalities and Counties:
 - Help meet community goals
 - Potential for job creation
 - Program cost can be paid out of the financing
 - City's general fund exposure limited
 - Financing mechanism experience



Disadvantages

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□ Property Owners:

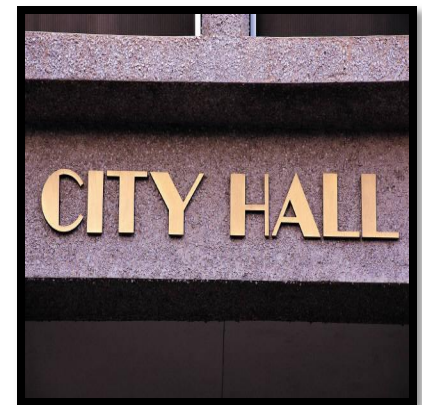
- Entire property is security
- Only available to property owners, not renters
- Competitive Rates?
- Lag-time
- Property Sale
- Potential Lack of Gtd Upfront Rate
- Potential Lack of Gtd Upfront Fees
- Refinancing (Fannie and Freddie)



Disadvantages

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- Municipalities and Counties:
 - ▣ Only available to property owners, not renters
 - ▣ Life of the installment must match life of the lien
 - No “portable upgrades”
 - ▣ High staff time
 - ▣ Potential initial investment or subsidization
 - ▣ Access to financing
 - Scale of projects
 - Guaranteed backing
 - Hancock implications?



Barriers

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- Project Aggregation
- Bond Aggregation
- Taxable Bonds rather than Tax-Exempt bonds drive up rate-to-borrower
- FHFA, Fannie Mae, and Freddie Mac
 - “The Federal Housing Financing Agency (FHFA) issued a statement in July 2010 concerning the senior lien status associated with most PACE programs. In response to the FHFA statement, most local PACE programs have been suspended until further clarification is provided.”



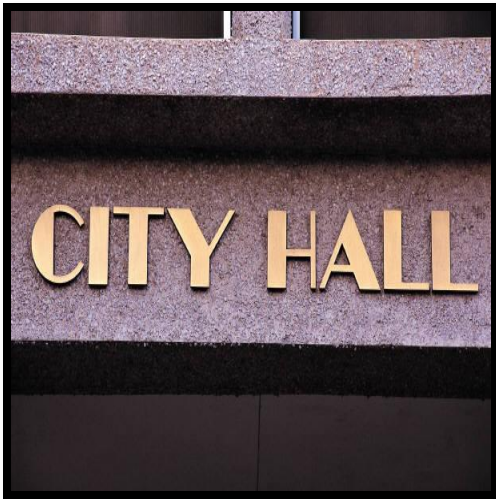
Considerations

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- Is there enough interest?
- What do my citizens expect?
 - ▣ Payoff realization
 - ▣ Must be on-demand
- Qualified installation vendors
 - ▣ Do you want to be in the “decider” business?
- Is there financial sector support?
- Aggregation is important
- Cost effective administration
 - ▣ Expectations, requirements, timelines, regulatory setup
- Extensive Marketing and Education

Questions?

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Ewell Lawson

Manager of Government Relations & Member and Finance Services

Missouri Public Utility Alliance

elawson@mpua.org