

PACE Finance Summary Sheet

Energy Efficiency & Renewable Energy Financing for Property Owners

What is PACE

Property Assessed Clean Energy (PACE), is a local government program that allows property owners to finance energy efficiency and renewable energy improvements using low-interest bonds that generally have no recourse to the municipality. Interested residential and commercial property owners opt-in to receive long term financing (up to 20 years) for these improvements, which is repaid through an assessment on their property taxes. This arrangement spreads the cost of clean energy improvements – such as energy efficient boilers, upgraded insulation, new windows, solar installations, etc – over the expected life of the measure and allows for the repayment obligation to automatically transfer to the next property owner if the property is sold.

Why is PACE so innovative?

High upfront cost is the single largest barrier to increased adoption of energy efficiency and small-scale renewable energy. The second barrier is the uncertainty as to whether property buyers will pay more for efficiency improved properties. PACE removes the upfront cost barrier and removes the uncertainty barrier as the new buyer inherits the annual tax surcharges.

Historical precedent

PACE is a type of land-secured financing district, which has a 100+ year history in the U.S. to pay for improvements in the public interest. Over 37,000 land secured districts already exist and are a familiar tool of municipal finance. They are used to finance projects which serve a public purpose, including street paving, parks, open space, water and sewer systems, street lighting, and seismic strengthening, among others.

Strong appeal of PACE & early concerns raised and cured

In less than two years, PACE enabling legislation has been adopted in 17 states with strong bipartisan support (see [PACE Endorser List](#) for supporters). Some initial concerns were raised by the mortgage industry about PACE which were addressed late last year with the White House's Best Practice Policy Framework that was announced by Vice President Biden at his Recovery Through Retrofit hearing (this framework was developed as a collaboration between HUD, the Dept of Energy, and the National Economic Council - see [White House Report](#) and [Biden YouTube clip](#)). States and municipalities are now incorporating these best practices into their PACE programs.

What are the benefits to participating property owners?

- No Upfront Cost – Removes the upfront cost barrier of energy efficiency and renewable energy improvements. Most programs only charge a small fee to property owners.
- Improved Cash Flow – Owner's cash flow position is improved as PACE programs are designed to have annual energy savings exceed the annual PACE assessment payments.
- Less Investment Risk - Removes the uncertainty of recovering the cost of improvements if the property is sold, because the financing runs with the property via the tax assessment.

Benefits to Municipalities

- Local Job Growth – PACE has the ability to stimulate local job creation through the installation of efficiency and energy improvements. It is estimated that for every \$1mm spent on clean energy improvements, 10 jobs are created. For every 100,000 homes that are retrofitted, with an average expenditure of \$10,000, more than 10,000 jobs would be created.
- No Credit or General Obligation Risk – PACE bonds are typically not general obligation or appropriation bonds, so the municipality's credit is not placed on the line. The obligation resides exclusively with the property owner.
- Opt-in Assessments – The assessments are only placed on those properties where the owner voluntarily "opts-in" to the financing program.
- Meet Carbon Reduction Goals – Counties, Cities, Towns and Villages can use this tool to move quickly toward achieving their carbon reduction and energy independence goals.

Benefits to Existing Lenders

- Lower Default Risk – Owner's cash flow position is improved as PACE programs are designed to have annual energy savings exceed the annual PACE assessment payments. Owner is now in a better position to make mortgage payments.
- Better Loan-to-Value Ratio – Since PACE improvements have a positive net present value, they increase the lender's collateral which improves the loan-to-value ratio.
- Best Practice Framework Adopted - The White House [PACE Best Practice Framework](#) is now being incorporated into PACE programs nationwide to help ensure that PACE programs benefit existing lenders.
- PACE Senior lien status is immaterial (less than \$200 per home) & more than offset by value enhancement– PACE assessments are treated as senior liens which is critical for the success of the programs but the seniority amount is immaterial due to the per property size limits of PACE finance and other best practice measures ([PACE Lien Immateriality](#)).

For more information visit www.pacenow.org