

PACE for Municipalities

July 11, 2018

Property Assessed Clean Energy, better known as PACE, is a unique loan financing innovation that has revolutionized the way property owners upgrade their homes and businesses in the USA, with over 5 billion dollars invested in home upgrades since 2008. PACE financing enables low-cost, long-term funding for energy efficiency, renewable energy *and water conservation projects*¹. PACE financing is repaid as an assessment on the property's regular tax bill, and is processed the same way as other local improvement benefit assessments (sidewalks, sewers) have been for decades.



The team behind PACE Alberta Co-op Ltd. has been advocating for the creation of a made in Alberta PACE program since 2015, the result of which is the PACE enabling legislation which was proclaimed on June 11th. The PACE regulations and program development are now being worked on with completion expected by late 2018.

The PACE enabling legislation is broad in scope, permitting both Commercial and Residential PACE financing for retrofits and new builds. It is, however, limited to energy saving and renewable energy measures only, while the American programs include other “public good” initiatives such as flood mitigation and remediation, asbestos removal, and radon gas control measures. PACE Alberta continues to advocate for the broadest application possible and as such, the following description of PACE is based on best practice characteristics which PACE Alberta is hoping will eventually be fully adopted moving forward. Features which are described but not currently permitted under existing legislation will be noted as such by being italicized.

In a nutshell, PACE loan financing programs allow building owners to borrow 100% of the upfront cost of energy and resource improvements and renewable energy systems for their homes or businesses through a PACE Administrator and repay the financing over time through their property taxes. Often the savings generated by the PACE upgrades will be greater than the annual repayment, especially in the case of commercial building upgrades, thus also generating an immediate net positive cashflow benefit. *In addition to financing energy efficiency and renewable energy improvements, PACE programs have also been used to finance other approved public good measures such as health and safety measures (removal of asbestos, radon mitigation) as well as water conservation, non-renewable resource conservation (installing long life durable materials) or resiliency measures, such as wind hardening or seismic retrofits.*



PACE programs fall into two categories: [Residential PACE \(R-PACE\)](#) and [Commercial PACE \(C-PACE\)](#). For more information on these distinct programs click on their respective links on the PACE Alberta website.

¹ (Bill 10 limits PACE financing to energy efficiency and renewable energy measures)

PACE financing's popularity has a few key characteristics, but the most fundamental one is the fact that the financing is secured by a tax lien on the property and is repaid over the expected life of the upgrade through the property tax. This permits PACE to provide long term and secure financing (up to 35 years) which stays with the building in spite of sales or even foreclosures. The minimum commitment on the part of a municipality which wants to have PACE financing offered to its constituents' is to collect the PACE tax and remit it to the PACE Administrator, similar to how school taxes are managed for the Province. While it is possible for a municipality to manage its own PACE program using its own staff and its own finances, over 95 % of the successful PACE Programs in the USA are managed by 3rd party Administrators, who enter into agreements with the municipality to deliver the PACE financing program to their constituents according to agreed upon terms and conditions, and who source the PACE investment capital from non-governmental sources. As such, any municipality which opts in to such an arrangement benefits from being able have PACE financing delivered to its constituents at no additional cost and with no additional overhead (except for the collection and remitting of PACE payments to the PACE Administrator) and with no need to tie up funds which would impact its debt limit.



In addition to the foregoing, the success and popularity of PACE in the US stems from a number of key factors which independently are important but together create a dynamic condition which has proven to be the most successful environment for the PACE program to achieve the fastest and deepest market penetration.

These key factors are:

- The PACE financing capital typically comes from private sources such as pension funds and insurance firms who are keen to invest in secure investments with long term returns. While public dollars can also be used to invest in PACE programs, this is the exception rather than the rule. Creating an attractive environment for private capital to finance PACE projects effectively permits the greatest number and size of PACE financed projects.
- The PACE program is open market meaning that the capital can be provided by any number of PACE Originators ([Missouri Show Me PACE Example](#)) and the conditions of the program are attractive enough for the Originators to participate.
- The R-PACE program is designed to ensure that PACE approved contractors see a distinct benefit from and are actively engaged in the promotion of the PACE program to their clients. Key to their engagement is the establishment of an "call in" R-PACE approval procedure which permits R-PACE projects to be approved within 15 minutes by a PACE agent who will confirm that all of the necessary requirements and consumer protection procedures and protocols have been followed and met.
- The PACE program creates an environment for PACE Developers to become established. PACE Developers are entities whose purpose and function is to identify eligible C-PACE projects and work with the potential PACE recipient to create a PACE financing package (with or without PACE capital sources attached).

The following excerpt from the PACENation website highlights the benefits of a PACE Program for Municipalities.

Economic Stimulus:

PACE makes investments in energy efficiency and renewable energy more feasible for a wider group of homeowners and business owners. PACE doesn't rely on personal credit (which can be a barrier to obtaining financing for many low-income homeowners and small businesses) but rather depends on equity in the property. PACE also allows for longer payback terms than most other forms of financing — up to 30 years. As a result, PACE brings in more investment dollars for projects that otherwise may have been left stranded.

These investments directly create jobs for HVAC contractors, energy services companies, and solar installers, which are often small local businesses. Commercial PACE financing can be used to reinvigorate business districts through redevelopment projects, such as Milwaukee's Mackie Building restoration, which used \$1.7 million PACE financing for efficiency improvements to prepare the building for the addition of 25 apartments and new office space. These changes will bring new business to a historical area of downtown Milwaukee. See the case study.

PACE puts money back in consumers' pockets in the form of utility bill savings, tax deductibility of the assessments (in some cases), and lower insurance premiums in areas where resilience, such as hurricane hardening or seismic retrofits, is an important factor. People will recirculate these saved dollars into the local economy, creating an economic multiplier effect that further creates local jobs. PACE improvements (being permanent, income- or savings-generating fixtures to properties) increase property values, which, in the long-run, leads to greater tax revenues for municipalities that can be used for public programs that further benefit the local community.



[To learn more, read a study of the Economic Impact of Residential PACE Programs by EcoNorthwest. ([Economic-Impact-Analysis-of-PACE-Programs.pdf](#))

Environmental Benefits:

PACE helps communities achieve important energy and water conservation goals. Efficiency projects upgrade old equipment which reduces energy use, while renewables replace fossil fuels and reduce greenhouse gas emissions.

PACE allows for projects with paybacks of 30 years, rather than only low-hanging fruit with quick paybacks. This makes possible comprehensive projects with a deeper impact on energy usage. PACE has been used to finance an estimated \$88 million for water conservation in drought-stricken areas of California, saving multiple billions of gallons of water. PACE solves problems inherent in other efficiency financing options. With PACE, building tenants can see both the costs and benefits of efficiency improvements, which solves the "split incentives problem" that typically exists between tenants and landlords. PACE also makes it possible to securitize efficiency projects of different types, as multiple PACE providers have achieved with over \$1.5 billion already securitized. This bundling of diverse efficiency projects into a single securitization is possible because of the added security PACE provides and the strict standards for qualifying projects set by the PACE program. As such, PACE has the unique potential to drive trillions of investment dollars from major lending institutions into energy efficiency and renewable energy.

No/Low Cost to the Municipality:

Most PACE programs make use of private funding, not municipal dollars. It is possible to set up a PACE program without any cost, or minimal cost, to the participating municipality. In the case of Lean & Green Michigan and the Texas PACE Authority, these programs set up the necessary administration framework and allow municipalities sign onto the program at no cost. Funding is then secured from private institutions to complete commercial projects.



Consumer Protections:

PACE offers additional consumer protections over and above other types of financing. PACENation has released consumer protection standards, which provide the strongest protections for homeowners using PACE or any other type of financing who want to invest in clean energy and water efficiency upgrades to their properties.

They address:

- *A homeowner's eligibility for financing and ability to repay*
- *Comprehensive financial disclosures*
- *Appropriate contractor conduct*
- *Acceptable products and projects (with pricing guidelines)*
- *Post-funding support*
- *Treatment of protected classes*
- *Grievance procedures*
- *Data security and privacy matters*

PACENation is the industry trade association in the USA. PACE Alberta Co-op Ltd. has a strong working relationship with PACENation and plans to take full advantage of the shared resources and work that PACENation has done to ensure that a successful PACE program, developed for Alberta, incorporates the portable lessons from the USA. In addition, PACE Alberta has been working with Energy Efficiency Alberta to assist with the success of the PACE program development and delivery.

While it remains to be determined how the Province will implement PACE enabling legislation through its regulation and program development, the work that PACE Alberta has done in researching successful PACE implementations and advocating for PACE in Alberta has already informed the process and will no doubt continue to do so. Now that PACE enabling legislation has been proclaimed, PACE Alberta Co-op will be working with the government and Energy Efficiency Alberta to provide input into the regulation and program development.



It is no wonder that PACE was named a “top 20 world changing idea” in 2009 by Scientific American Magazine; **it is a win-win scenario all around: creating jobs, enhancing property values and comfort, and doing so with not one tax dollar required.**