

MN Assoc. of County Planners and Zoning Administrators Spring Conference

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Property Assessed Clean Energy Financing – PACE

35% of U.S. energy use



and carbon emissions comes from our buildings

22%

Unemployment

U.S. construction industry, 04/2010



Economic Impact: \$1.2 Trillion

United States could save \$1.2 trillion through 2020, by investing \$520 billion in energy efficiency improvements, cutting U.S. projected energy use by about 23 percent — a savings that would be “greater than the total annual non-transportation energy consumption of Canada”.

Barriers to Energy Efficiency

- **“Not worth the effort” (i.e. transaction costs)**
- **Lack of information**
- **Uncertainty about the energy savings**
- **High upfront costs**

Putting the cost into perspective

I-Phone Bill

\$119/month

\$1,428/year

\$28,560/20 years



Heating /Cooling Bills

\$139/month avg.

\$1,668/year

\$33,360/20 years



Issues with Existing Financing Options

- **Low Participation Rates**
- **Limited Applicability to Households Most in Need**
- **Limited Support for Comprehensive Retrofits**
- **Inability of Programs to Cover Their Costs**

Getting Beyond The Upfront Cost Barrier:

How do we get to on-going monthly operational energy savings when the upfront costs are in the thousands and credit is ultra-tight?

Minnesota PACE

Property Assessed Clean Energy Financing for Businesses and Homeowners

**A new option in financing EE and RE projects:
Pay As You Save**

Laws of Minnesota 2010,
Chapter 216 and Chapter 389
(Minnesota Statutes, Sections 216C.435-216C.436)

Key Components of PACE

- **New source of capital for EE/RE improvements allows property owners to install larger projects, paying for the cost of the improvement over its functional life through a Property Tax assessment - up to 20 years**
- **No up-front cost to property owner, funding provided through municipal revenue bond issuance**
- **Participants pay only for cost of project and nominal fees to administer program**
- **Debt obligation is attached to property allowing for transferability upon change in property ownership. Most property owners do not want to make large investments in improvements if they plan to sell their property in a few years.**
- **100% Voluntary, Property Owner must petition for special assessment but qualification is at the discretion of the administering entity.**
- **Low rates, reduced transaction costs and tax benefits MAY be available,.**
- **It PAYS! – Pay - As - You - Save!**

Potential PACE Challenges

- Limits on What Can Be Funded – Must be fixed to property and last at least as long at the financing term; potential limitations if required to be “cash flow positive”.
- Cost of Setup – Often administratively difficult to set up, especially for limited local government staff; however it is easier/cheaper as trail blazers develop templates.
- Scale – A city, town, or small county is probably too small to bring down costs; fix costs need to be spread over hundreds or thousands of assessments each year.
- Access to Cheap \$ – Need volume and standardization to bring down cost of capital; “on demand” funding important but more expensive.
- Lender Opposition – Resistance by some lenders whose priority in bankruptcy may be reduced

Key Components of MN Legislation

Legal Authority/ Structure

- Permits cities, counties, towns, HRA, EDA and CDA to est. program
- Available to commercial, industrial and residential property owners
- Revenue bond authority, secured by senior lien,
- Qualifying projects can EE, RE, HV elec. upgrades

Program Requirements

- Energy Audits and/or RE feasibility study
- Qualified contractors perform work, 100% inspected, 10% performance verification
- Max. 10% loan to assessed value of property, Max. 20 yr term
- Owners must be current on mortgage and taxes, demonstrate ability to pay assessment
- Energy efficiency installed in conjunction with or prior to RE project
- PACE certificate issued upon satisfactory completion

PACE Best Practices

Savings-to-Investment Ratio > 1 -
Expected energy savings should exceed investment costs

Property Equity Evaluation -
There should be sufficient equity in a property to justify debt placement

Demonstrated
Cost
Effectiveness

Minimum
and
Maximum
Improvement
Amounts

Regional PACE Benefits

Reduces Administrative Costs – Reduces administrative burden for local governments and eliminates redundancy

More Attractive Financing – Large, diversified assessment pools are likely to deliver low interest-rate financing

Flexible Levels of Municipal Involvement – operate strictly as assessment pass through agents or be involved more robustly in program operations

Who Runs the Program?

Berkeley and
San Francisco

Both
administrative
and funding
functions run
by a third party
(Renewable
Funding)

Boulder
County

Many functions
run by county
staff; processing
applications
and some parts
of the funding
run by third
parties

Town of
Babylon, Palm
Desert and
Sonoma
County

Most program
functions run
in-house

Sources of Funds



Key Benefits for Cities & Counties

Helps meet
energy
efficiency
goals

Improves
property
values

Promotes
local jobs

Key Benefits for Property Owners

Deep EE
retrofits
and RE
Saves big
money on
utility bills

Does not
draw down
owners
available
credit

Repayment
obligation
can be
transferred
to new
owner

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