

PACE Property Assessed Clean Energy

Frequently Asked Questions

PACE Program Basics

What is PACE?

PACE is a local government initiative that allows property owners to finance energy efficiency measures and renewable energy projects for their homes and commercial buildings. Interested owners opt-in to receive financing that is paid back with an assessment on their property taxes for up to 20 years. PACE spreads the cost of energy improvements such as weather sealing, insulation upgrades, more efficient heating and cooling systems, solar installations and the like over the expected life of the measures and allows the repayment obligation to transfer automatically, like other property assessments, to the next owner if the property is sold.

How does PACE work?

PACE uses the same kind of land-secured financing districts that American cities and towns have relied on for over 100 years to pay for improvements in the public interest. Over 37,000 land secured districts already exist and are a safe and familiar tool of municipal finance for street paving, parks, open space, water and sewer systems, septic tank replacement, street lighting, and seismic strengthening, to name a few. Usually, the public purpose is identified in state enabling legislation. A municipality will pass a local law to establish a benefit district, a step which often entails public hearings and may require a voter referendum or right to reject. The municipality will adopt detailed procedures to ensure programs achieve the defined public purpose and protect home owners and existing lenders.

Why is PACE so important?

PACE was adopted by 24 states in just two years because it made immediate sense to state and local governments. Energy efficiency is the least expensive energy we can buy because the low hanging fruit measures – weather sealing and improving insulation – cost so little compared to the energy saved. In Kilowatts or BTU's, the cost of saving energy through efficiency is less expensive than producing energy in the least expensive coal fired power plant. But people don't always act in an economically rational manner, particularly because of the upfront cost barrier. Experience has shown that local municipal programs often have much higher project adoption rates than incentivized programs run by state agencies or utilities. PACE, more than just a financing tool, is a uniquely self-supporting programmatic approach to encouraging energy efficiency and renewable energy projects in local communities.

Validity of PACE Assessments

The FHFA says PACE benefits are loans that do not deserve to be treated like other municipal assessments... is that true?

The FHFA has no authority to regulate public purpose. For over 100 years, state and local governments have determined what constitutes public purpose and which benefits provided by government can be financed with property tax assessments. For just as long, validly imposed public benefit assessments in arrears have been treated as a senior lien to mortgages in the event of a mortgage default. Allowing appointed federal regulators to determine what constitutes a local public purpose or benefit sets a very dangerous precedent.

The FHFA says that the size and duration of PACE assessments exceed typical local tax programs..... is this true?

Some PACE programs use relatively short assessment periods, set to produce low annual net savings to the property owners while paying off the assessment quickly. Once the assessment is repaid, these owners will see much larger energy savings. Others allow lower assessments spread over a longer period

of time (though not exceeding the useful life of the improvement measures). There is just as much variation in “typical” local tax programs. A new sewer plant that serves a given improvement district may result in assessments much larger than a “typical” PACE assessment, and the tax assessment will in all likelihood have a component that will be paid in perpetuity.

Aren’t most municipal assessments mandatory, and if so, why are PACE assessments voluntary?

The FHFA uses a distinct advantage of PACE programs against it. The test of what constitutes public purpose is not whether it is mandatory and imposed on every taxpayer, but whether municipal benefits that are provided to residents meet a public purpose and further a public goal. This test has been met, and has not been challenged by mortgage lenders or the FHFA, with seismic retrofit financing benefits for individual homes and buildings in California, by sidewalk improvements in many parts of the country, by septic tank replacement programs in Massachusetts, and by the ability of citizens throughout the country to voluntarily seek inclusion in existing benefit districts.

Most municipal assessments are mandatory, for obvious and practical reasons. Let’s use an example from Bedford, NY to illustrate why PACE assessments need and should not be. There was a time when every home in Bedford had its own well for its water needs. Decades ago, individual wells in the more densely populated parts of town became impractical for many reasons, so citizens chose to develop a centralized water system. Economies of scale in developing a system capable of serving every home in the district required that every home pay a pro rata share of the capital and fixed costs of operating the system, and every home in the system could benefit equally from it.

While energy efficiency and renewable energy improvements to individual homes serve a state and locally defined public purpose, there is no system wide means of improving an individual home’s energy performance. We cannot place an insulated dome over an entire neighborhood to retain heat and moderate its energy use. Since there are no system economies of scale, there is no justification for assessing a home that is already energy efficient (built to newer energy standards, or already improved). While a municipality might feel there was a valid public purpose to encourage renewable energy projects like solar panels, it would make no sense (and be unfair) to assess properties that are heavily shaded and could not benefit from them.

So what is the public purpose behind energy efficiency and renewable energy?

State and local governments are increasingly developing energy goals, policies and programs to achieve them. PACE programs promote public purposes that include the following:

- Energy independence: reduces our dependence on imported oil
- Energy security: provides a hedge for property owners against rising energy prices
- Avoided costs: eliminates the need to develop new, expensive, and difficult to site power plants and transmission systems
- Environmental protection: burning oil, gas, and coal to produce heat and electricity leads to a variety of air pollutants that are unhealthy and/or expensive to mitigate
- Economic development: energy efficiency work creates permanent private sector jobs across a wide range of industries and relies on materials and equipment produced almost entirely in the United States

FHFA Safety and Soundness Concerns

The FHFA says the PACE programs raise concerns for the safety and soundness of the mortgage industry.... is this true?

It’s an ironic claim, given the recent performance of regulators and mortgage lenders in evaluating risk. Experience from communities that have PACE programs in operation indicate the exact opposite: lower default and delinquency rates. Using very conservative assumptions about assessments and likely default scenarios, PACE losses to the mortgage industry are likely no more than \$100 per participating home.

This amount could easily be insured for by program participants. The FHFA has provided no justification for its claim and ignores four key elements of PACE programs:

1. Building owners save money, net of assessment charges, making it easier for them to make mortgage payments
2. Only assessment charges in arrears are subject to foreclosure – most PACE assessments, like all other municipal assessments, do not accelerate upon default
3. PACE benefits are only available to homes with positive equity
4. Energy efficient buildings are worth more, so PACE programs increase the value of mortgaged collateral

The FHFA says “rational” buyers will want to pay less for a home with a PACE assessment.... is that true?

The FHFA’s claim suggests that home owners who invest in energy efficiency upgrades are acting irrationally. Thorough analysis of housing data proves otherwise. Property taxes and assessments associated with a given home (or other building) are just one factor weighed by buyers in a very diverse market. All things being equal, we would expect a rational buyer to weigh all of the costs associated with owning a given property, including annual upkeep, taxes and assessments and energy costs. A home with a PACE assessment is a signal to buyers that it will have lower energy costs than a comparable house. This isn’t mere conjecture. Following an exhaustive study and statistical analysis of American Housing Survey (AHS) and metropolitan statistical area (MSA) data in 1998, Rick Nevin and Gregory Watson of ICF Consulting (now ICF International) reported in “Evidence of Rational Market Valuations for Home Energy Efficiency” (*The Appraisal Journal*, October 1998) that on average, home selling prices increased nearly \$21 for every \$1 decrease in annual fuel bills. As market awareness grows, buyers will also understand that homes that are more energy efficient are also healthier and more comfortable.

The FHFA claims that PACE programs will lead to higher rates of mortgage defaults because property owners will have easier access to credit... shouldn’t that be a concern?

Nearly all consumer borrowing results in added costs to home owners; the cost of paying back the debt is not offset by savings or greater income. Virtually every property tax or assessment results in an added cost to home owners’ budgets. We may absolutely need water and sewer services, but the assessments that pay for them still impose an increased cost burden to operating a home. Only PACE assessments improve a home owner’s cash flow. Energy cost savings that are greater than the fixed assessment payment make it easier to make mortgage payments. The FHFA, GSE’s and other mortgage lenders also ignore the risk to existing lenders posed by rising energy prices. In many parts of the country fuel oil costs were a real burden to home owners before prices fell with the global recession. As the price of oil rises again, more home owners are struggling to stay warm and pay their mortgages, and further increases could well lead to defaults. PACE financing creates a permanent hedge for home owners against rising fuel prices. The FHFA’s position is illogical and is not supported by facts or experience.

Consumer Protections

How can property owners be sure that they will save money?

Experience has shown that energy audits (or evaluations) performed by experienced, accredited and licensed contractors are good predictors of energy savings. Weather sealing, improved insulation, and upgrading heating and cooling systems alone, typically reduce energy consumption by as much as 35%. PACE programs are designed so that annual energy cost savings will exceed annual assessment charges.

Have steps been taken to ensure that PACE programs conform to certain standards?

PACE advocates and program pioneers worked closely with the U.S. Department of Energy to establish best practices and guidelines that ensure safety for home owners, private capital providers, and existing mortgage lenders. The FHFA’s blanket rejection of residential PACE programs came after many months of discussions during which the agency’s position only became increasingly calcified.

General Questions for Policy Makers

Isn't PACE another government program that will raise my taxes?

PACE programs aren't mandated by Washington or state governments. They are created by citizens and their local governments and provide local benefits. Because participation is voluntary, only property owners who opt-in will receive an additional assessment. PACE programs have no direct cost to residents who choose not to participate.

Won't PACE losses just end up costing taxpayers money?

PACE programs are a tremendous opportunity for taxpayers. Every 100,000 homes that are made more energy efficient results in \$1 billion in direct spending for American materials and labor. It is estimated that five jobs are created for every \$1 million in spending. Each year, those 100,000 households would save about \$45 million in energy costs, net of assessments, money that can be used to pay mortgages, reduce debt, or purchase other local goods and services. Losses, spread across the entire mortgage market, are likely too small to measure, and as noted already, could be self-insured.

Congress recently created the FHFA...shouldn't the regulators be left to do their job as they see fit?

The FHFA was created to be the regulator and conservator for Fannie Mae, Freddie Mac, and other regulated GSE's. Just as they were not created to define public purpose and benefits that merit local assessment financing, they were not established to weigh broader public policy goals. Those responsibilities rest with our elected representatives in government. Congress has every reason to act in this instance.

Aren't there plenty of alternatives to PACE that could work just as well?

The FHFA would have you believe this is true. The fact is that virtually all other programs to encourage energy efficiency and renewable energy projects rely on heavy government subsidies to enhance credit, reduce interest rates, and support substantial marketing efforts. PACE is uniquely powerful for many reasons, including:

- PACE programs are locally driven, voluntary, and **require no** federal government subsidies
- PACE programs do not increase taxes or drive up energy costs
- PACE programs are self-supported by participants and are not a burden to local municipal budgets
- PACE programs rely on private capital for funding

What about subordinate PACE subordinate?

PACE subordinate programs really aren't PACE, and will not establish a new asset class that will be attractive to private sector investors. A subordinate PACE lien will require substantial government credit support. Again, PACE is the only financing tool that attracts capital on its own.