FESC
Florida Energy Systems Consortium

PROPERTY ASSESSED FINANCING (E.G., PACE)

Introduction

Florida House Bill (HB) 7179[1] provides counties, municipalities, and dependent special districts with the ability to enter into financing agreements with private property owners to fund qualifying building energy conservation/efficiency retrofits, renewable energy generation, and/or wind resistance improvements with repayment occurring through non-ad valorem property assessments on participating properties.[2] Beginning with California, over 15 states have now adopted legislation enabling property assessed financing (PAF) programs for energy related initiatives.[3]

This type of financing mechanism and related variations go by many names including the following:[4]

- Property Assessed Clean Energy (PACE)
- Energy Loan Tax Assessment Programs (ELTAPs)
- Financing Initiative for Renewable and Solar Technologies (FIRST)
- Voluntary Environmental Improvement Bonds (VEIBs)

What is Property Assessed Financing (PAF/PACE)?

Much of the country now refers to the broader sector of property assessed financing as PACE, though the term may be a misnomer with its focus on "clean energy" as qualifying property improvements often include energy efficiency, water efficiency, and in Florida's case, wind resistance measures. Throughout this fact sheet, we've chosen to use the acronym PAF/PACE to minimize confusion in light of this naming trend.

PAF/PACE programs are primarily designed to overcome the "first cost" barrier to households or businesses who would like to pursue qualifying improvements but have limited financial means or motivation to do so. However, as described later in this fact sheet, effective programs must address a multitude of other barriers.

Generally PAF/PACE programs involve a local government delineating a "district" (i.e., a geographic boundary for the program), raising capital, and loaning funds to willing property owners within the district. The investment capital used to finance these measures may arise from public and/or private sources, depending on program design. In Florida, these funds can only be used to finance "qualifying improvements" permanently affixed to real property (e.g., homes, commercial buildings, etc.) including, but not limited to, the options shown in *Table 1*.

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[1] Bill text available for download on the Florida House of Representatives website. (See References and Resources section of this document to find directions to access entire bill.)
[2] HB 7179 was enacted by the Florida Legislature on April 30, 2010 and signed by the Florida Governor on May 27, 2010.
[3] These states include California, Colorado, Illinois, Louisiana, Maryland, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Texas, Vermont, Virginia, and Wisconsin.
[4] Other financing programs exist as detailed on the US DOE EERE Solution Center "Types of Financing Programs" page (http://www1.eere.energy.gov/wip/solutioncenter/financialproducts/financingprograms.html)

Program participation is voluntary and assessments are only assigned to property owners who willingly choose to participate and procure an improvement loan. Thus there should be no direct financial impact on non-participating property owners. Assessments are typically paid over a long term (e.g., 10-20 years) as an item on the property owner's non-ad valorem tax bill. [5]

Table 1: Qualifying Improvements Applicable to Florida PAF/PACE Programs[6]

Energy Conservation/Efficiency Improvement Options *(Section 163.08(2)(b)1.)*	• Air sealing and insulating • Installing energy-efficient heating, cooling or ventilation systems • Building modifications to increase the use of daylight • Replacement windows • Installing energy controls or energy recovery systems • Installing electric vehicle charging equipment • Installing efficient lighting equipment • Other similar measures to reduce consumption through conservation or more efficient use of electricity, natural gas, propane, or other forms of energy
Renewable Energy Improvement Options *(Section 163.08(2)(b)2.)*	• Biomass • Geothermal • Hydrogen • Solar • Wind
Wind Resistance Improvement Options *(Section 163.08(2)(b)3.)*	• Improving the strength of the roof deck attachment • Creating a secondary water barrier to prevent water intrusion • Installing wind-resistant shingles • Installing gable-end bracing • Reinforcing roof-to-wall connections • Installing storm shutters • Installing opening protections • Other similar improvements

What are the Benefits of PAF/PACE Programs?

Cross cutting approaches are emerging as the most effective tools to address the complex but interrelated challenges of mitigating climate change, stimulating the economy, and moving beyond carbon/hydrocarbon energy sources. With limited natural, human, and financial capital to invest in potential solutions, PAF/PACE programs present local governments a cross cutting approach with an opportunity to realize diverse benefits (Figure 1).

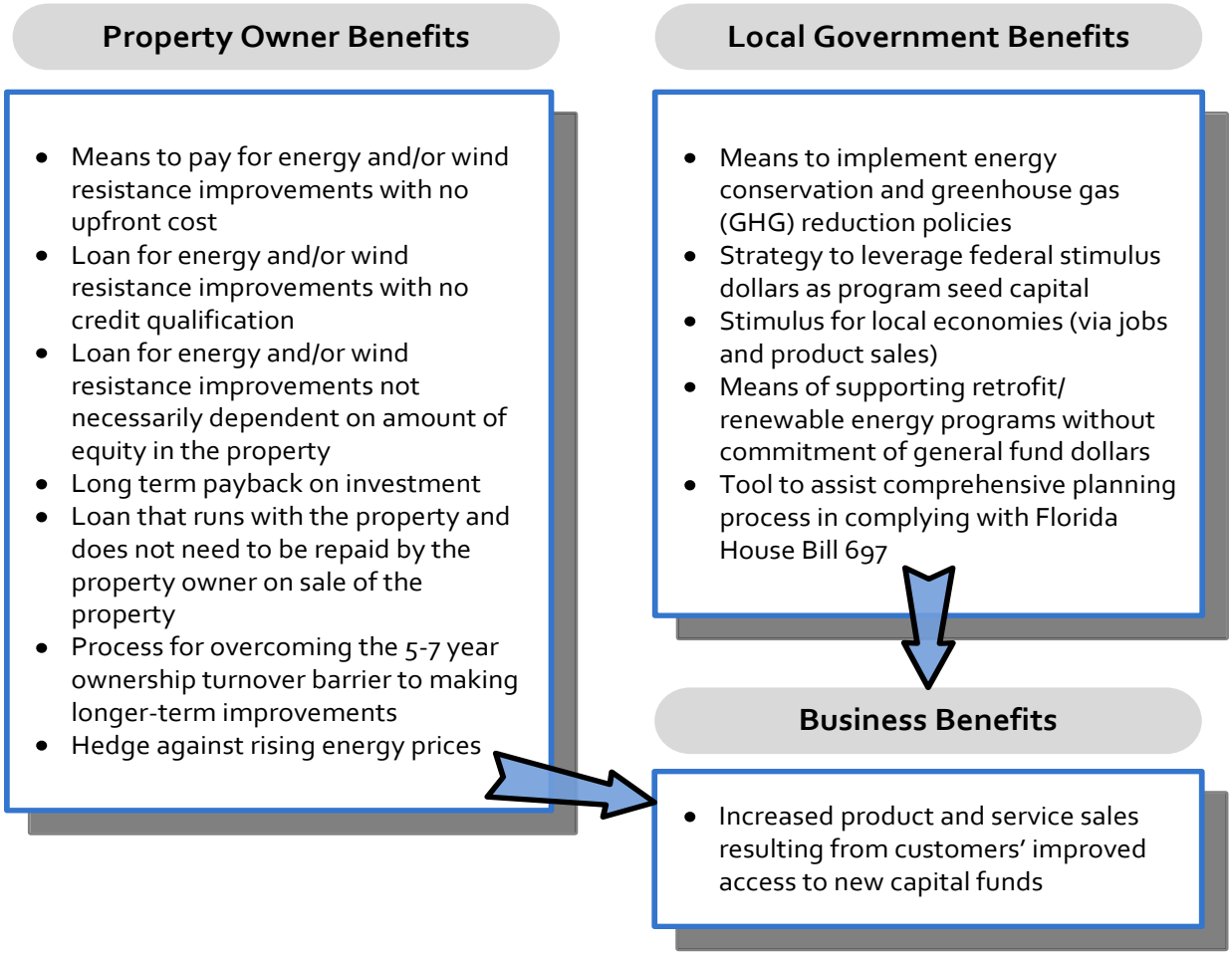
Though energy efficiency, renewable energy, and wind resistance products may be manufactured in places distant from the PAF/PACE program area, the businesses selling the products and the labor necessary to install and maintain them is an entirely local affair. PAF/PACE programs will necessitate the spread of new professional knowledge and additional "feet on the ground" in each jurisdiction in which they are implemented. The recession-sensitive construction industry in Florida may have the most to gain from these added jobs and new training.

One report estimates, "12.5 direct and indirect full-time equivalent jobs [are] created per $1 million invested in building efficiency retrofits."[7] This same study suggests compounding benefits beyond job creation, including the following:

[5] According to Investopedia (http://www.investopedia.com/terms/a/advaloremtax.asp), "ad valorem taxes are incurred through ownership of an asset [e.g., municipal property taxes], in contrast to transactional taxes, such as sales taxes, which are incurred only at the time of transaction."
[6] As excerpted from Florida HB 7179.
[7] *Rebuilding America: A National Policy Framework for Investment in Energy Efficiency Retrofits*, Center for American Progress and Energy Future Coalition, August 2009, p. 8. (http://www.americanprogress.org/issues/2009/08/rebuilding_america.html)

"Other social benefits of energy efficiency include improved air quality due to decreased energy generation (which in turn leads to improved public health outcomes), increased property values as the building stock is improved, and gains in consumer spending in other sectors due to lower energy bills, creating a ripple effect of included economic activity." [8]

Figure 1: Local Community Benefits of PAF/PACE Programs



Additional PAF/PACE Considerations in HB 7179

In addition to delineating the qualifying improvements allowed to be financed with PAF/PACE mechanisms, Florida HB 7179 also lays out additional guidelines and requirements for PAF/PACE programs including, but not limited to, the following:

- *Local Government Administrative Requirements:* No delinquent liens or non-current debt will be allowed on participating properties.
- *Limits on Loan Amounts:* Non-ad valorem assessments may not exceed 20% of county property appraiser's just value for participating properties without prior lender consent or energy audits that suggest monthly savings will exceed new assessment costs.

[8] Ibid, p. 12.

- *Program Administration:* Either a for-profit entity and/or not-for-profit organization may administer the program on behalf of the local government.
- *Funding Sources:* Local governments may incur debt payable from participating non-ad valorem property tax revenues or any other available revenue source authorized by law.
- *Existing Mortgages:* At least 30-day advance notifications of intent to existing loan holders/servicers must be given and include maximum principal to be financed and maximum annual assessment needed for repayment. No prohibition on escrow increases necessary to pay for annual qualifying improvement assessment is permitted.
- *Collection as Non-Ad Valorem Assessment:* Financing repayment may be collected by non-ad valorem assessments.
- *Collaboration Among Local Governments:* One or more local governments will be allowed to partner in creating/implementing PAF/PACE programs.
- *Licensing:* Any work requiring a license to make qualifying improvements must be performed by a contractor that is properly certified or registered through the appropriate licensing board.
- *Notice to Subsequent Purchasers:* A state-mandated disclosure statement must be provided in large, boldface and conspicuous type that is located immediately prior to the space reserved in the contract for purchaser signature.
- *Utility Provider Restrictions:* Provisions in agreements between local governments and public or private power or energy providers or other utility providers to limit or prohibit any local government from exercising its authority under Florida HB 7179 are not enforceable.

Additional PAF/PACE Barriers and Strategies to Overcome Them

When implementing a PAF/PACE program for energy, wind resistance, or other qualifying improvements, a local government must acknowledge and address other potential barriers to individual action beyond first costs including the following:[9]

- Lack of information
- Transaction costs
- Lack of confidence in expected or anticipated savings
- Split incentives[10]
- Length of payback

To overcome these barriers, local governments should start from the premise that a successful energy finance program puts a participating property owner in a breakeven or better financial position in terms of savings relative to assessment payment. This breakeven premise requires, at a minimum, an analysis of the relationship between the following criteria:

- Property owner's historical utility consumptive use data/costs and insurance costs[11]
- Combined financial value of the projected energy/water/insurance savings potentially achievable each month
- Loan repayment term as it relates to the useful life of the improvements

[9] Excerpted from US DOE EERE Solution Center Financing Overview. Full details and additional information about each barrier can be found at the following link. (http://www1.eere.energy.gov/wip/solutioncenter/financialproducts/financingoverview.html)

[10] "Split incentives occur when the decision-maker does not receive many of the benefits of the improvements. An example is the case of rental property owners who lack incentives to invest in building efficiency upgrades when the tenant pays the utility bill." (http://www1.eere.energy.gov/wip/solutioncenter/financialproducts/financingoverview.html)

[11] "Pilot programs should collect the data necessary to evaluate the efficacy of PACE programs. Examples of typically collected data would include: installed measures, investment amount, default and foreclosure data, expected savings, and actual energy use before and after measures installation. To the extent possible, it's important that programs have access to participant utility bills, ideally for 18 months before and after the improvements are made. The Department of Energy will provide more detailed information on collecting this data, obtaining permission to access utility bills, and how to report program information to enable a national PACE performance evaluation." (http://www1.eere.energy.gov/wip/pdfs/arra_guidelines_for_pilot_pace_programs.pdf)

- Loan interest rate
- Reserve funds necessary to accommodate requirements of the financing sources for local government administration of the program
- Any application or other property owner advanced fees
- Any interest rate buy down funds from public and/or private collaborators, grants, etc.
- Any rebates or incentives from federal, state, and/or local policies or manufacturers available at the time of property owner improvement installation

(It should be noted that while PAF/PACE assessment liens are designed by statute to have priority over pre-existing mortgages, lenders have raised concerns regarding this priority issue.[12] Local governments should stay abreast of the issues as this dialogue continues at the national level for any potential impact on their local programs.)

Furthermore, there are a multitude of steps involved in the process of establishing, developing, and implementing PAF/PACE programs. These steps in program formation and administration will require four major categories of services: (1) technical (e.g., training, auditing, and inspection); (2) financial (e.g., modeling and underwriting); (3) legal (e.g., counsel and document development); and (4) administrative (e.g., application processing, customer support, and fund disbursement).

PAF/PACE Program Process

Florida House Bill 7179 does not prescribe a process for formation of a PAF/PACE program. The legislation requires only that the program be established by resolution or ordinance. There are certain administrative requirements that do not impact program formation but will be relevant in ongoing administration. Therefore, local governments have broad discretion in how to form and deploy their programs. One possible model is exemplified in the nine-step process laid out in the adjacent figure.

Added Value of the Florida Energy Systems Consortium

Some of these innovative energy related financing mechanisms like PAF/PACE are currently being evaluated by faculty and collaborators within the Florida Energy Systems Consortium (FESC). Support materials and outreach networks for local governments are in development, such as the recently published *Energy Efficiency Retrofit and Renewable Energy Programs Using Property Assessed Financing: Florida Guide for Local Governments* (http://www.buildgreen.ufl.edu/PACE_Book_Order_Form.pdf).

This 82-page guide provides an in-depth look at five major issues: (1) factors motivating local governments to consider PAF/PACE; (2) background on the evolution of PAF/PACE nationally; (3) details on Florida's statutory

[12] In terms of mortgage holders and investors, Fannie Mae and Freddie Mac have expressed concerns about lien priority. See letter from Fannie Mae dated May 5, 2010, at https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2010/ll1006.pdf which provides,"Fannie Mae has received a number of questions from seller-servicers regarding government-sponsored energy loans, sometimes referred to as Property Assessed Clean Energy (PACE) loans. PACE loans generally have automatic first lien priority over previously recorded mortgages. The terms of the Fannie Mae/Freddie Mac Uniform Security Instruments prohibit loans that have senior lien status to a mortgage. As PACE programs progress through the experimental phase and beyond, Fannie Mae will issue additional guidance to lenders as may be needed from time to time. Fannie Mae supports energy-efficiency initiatives, and is willing to engage with federal and state agencies as they consider sustainable programs to facilitate lending for energy-efficiency home retrofits, while preserving the status of mortgage loans originated as first liens."

requirements for PAF/PACE as set forth in Florida HB 7179; (4) a framework for establishing and administering PAF/PACE consistent with Florida HB 7179; and (5) discussion about how the multiple factors and considerations impact financial models for PAF/PACE.

References and Resources

See the following links for more information about PAF/PACE and other mechanisms to fund energy conservation/efficiency, renewable energy, and GHG emissions reductions:

- Enabling Investments in Energy Efficiency: A Study of Energy Efficiency Programs that Reduce First-Cost Barriers in the Residential Sector
  http://uc-ciee.org/energyeff/documents/resfinancing.pdf
- Florida House Bill 7179: Qualifying Improvements to Real Property
  http://www.myfloridahouse.gov/
  (*Click on "Bill Finder." Choose Session 2010 and type 7179 in "Bill Number" field. Once the screen shows the bill, scroll down the page and click on "Enrolled."*)
- Rebuilding America: A Policy Framework for Investment in Energy Efficiency Retrofits
  http://www.americanprogress.org/issues/2009/08/rebuilding_america.html
- US DOE: Guidelines for Pilot PACE Financing Programs
  http://www1.eere.energy.gov/wip/pdfs/arra_guidelines_for_pilot_pace_programs.pdf
- US DOE EERE Solution Center: Financing for Energy Efficiency and Renewable Energy
  http://www1.eere.energy.gov/wip/solutioncenter/financialproducts/default.html
- US EPA State and Local Climate and Energy Program: Establishing Funding Sources and Financing Vehicles
  http://www.epa.gov/slclimat/local/activities/funding-options.html

Acknowledgements

Authors: Pierce Jones[a], Paul D'Arelli[b], and Hal S. Knowles III[a]

Editor: Kathleen C. Ruppert[a]

Reviewers: Ted Kury[c] and Barbra Larson[a]

[a] Program for Resource Efficient Communities, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL

[b] Berger Singerman, a Florida-based business law firm, Ft. Lauderdale, FL

[c] Public Utility Research Center, Warrington College of Business Administration, University of Florida, Gainesville, FL

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