

# Municipal Energy Financing

*a.k.a.* Property Assessed Clean Energy (PACE)

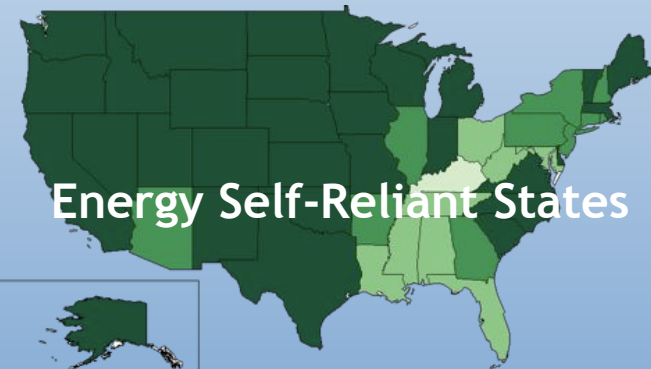
John Farrell  
Institute for Local Self-Reliance  
Presentation to the *Southwest Renewable Energy Conference (SWREC)*  
Santa Fe | September 14, 2010

# New Rules Project @ ILSR

- Public Broadband
- Local Banking
- Independent Retail
- Community Energy



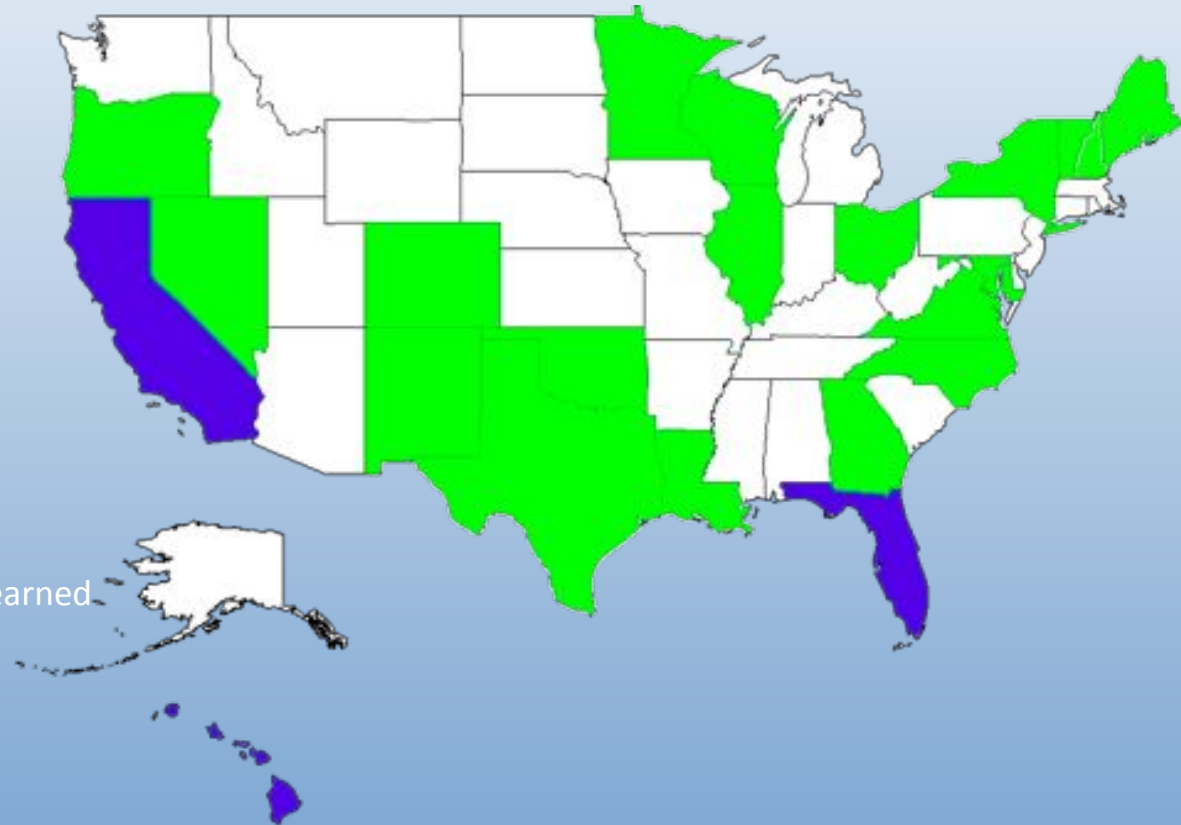
[www.muninetworks.org](http://www.muninetworks.org)



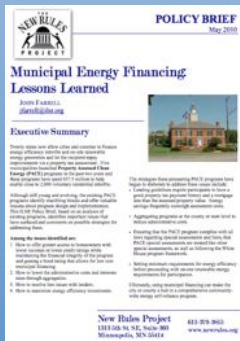
@ Inst. For Local Self-Reliance

# Municipal Energy Financing

- Overview
- Rationale
- Potential
- Issues

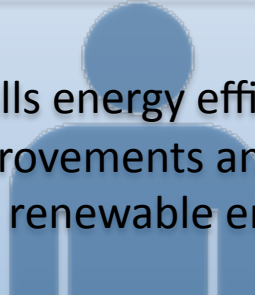


Municipal Energy Financing: Lessons Learned  
<http://bit.ly/munienergyfinance>




Municipal Energy Financing  
@ SWREC


# Overview




Installs energy efficiency improvements and on-site renewable energy




Pays with long-term property tax assessment



Sells bonds



Pays for property improvements



Assesses property for cost plus interest

# Rationale: Financing Mismatch

Average time in one residence:

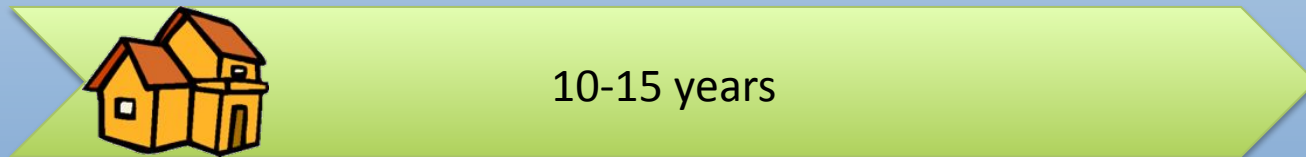


Finance terms:

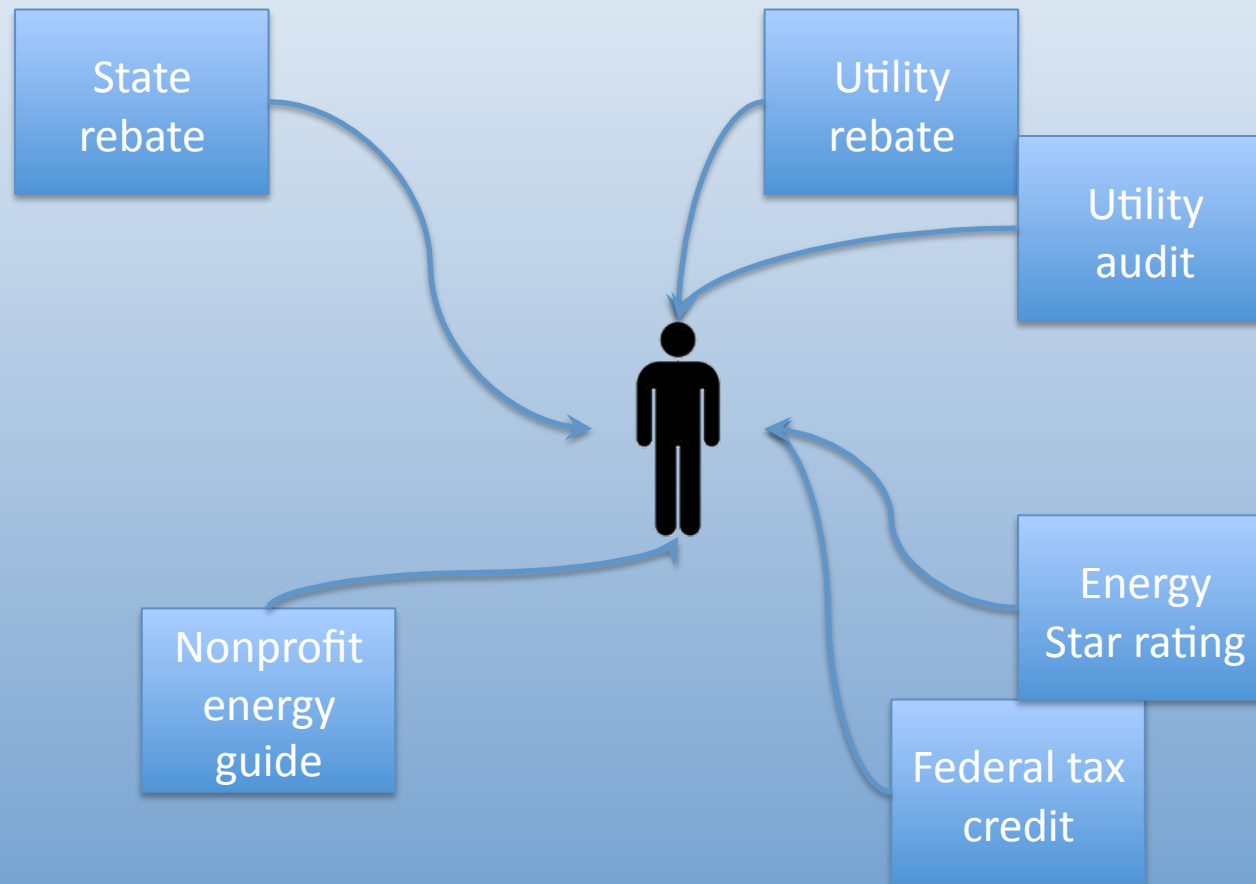


# Solution: Property Tied Financing

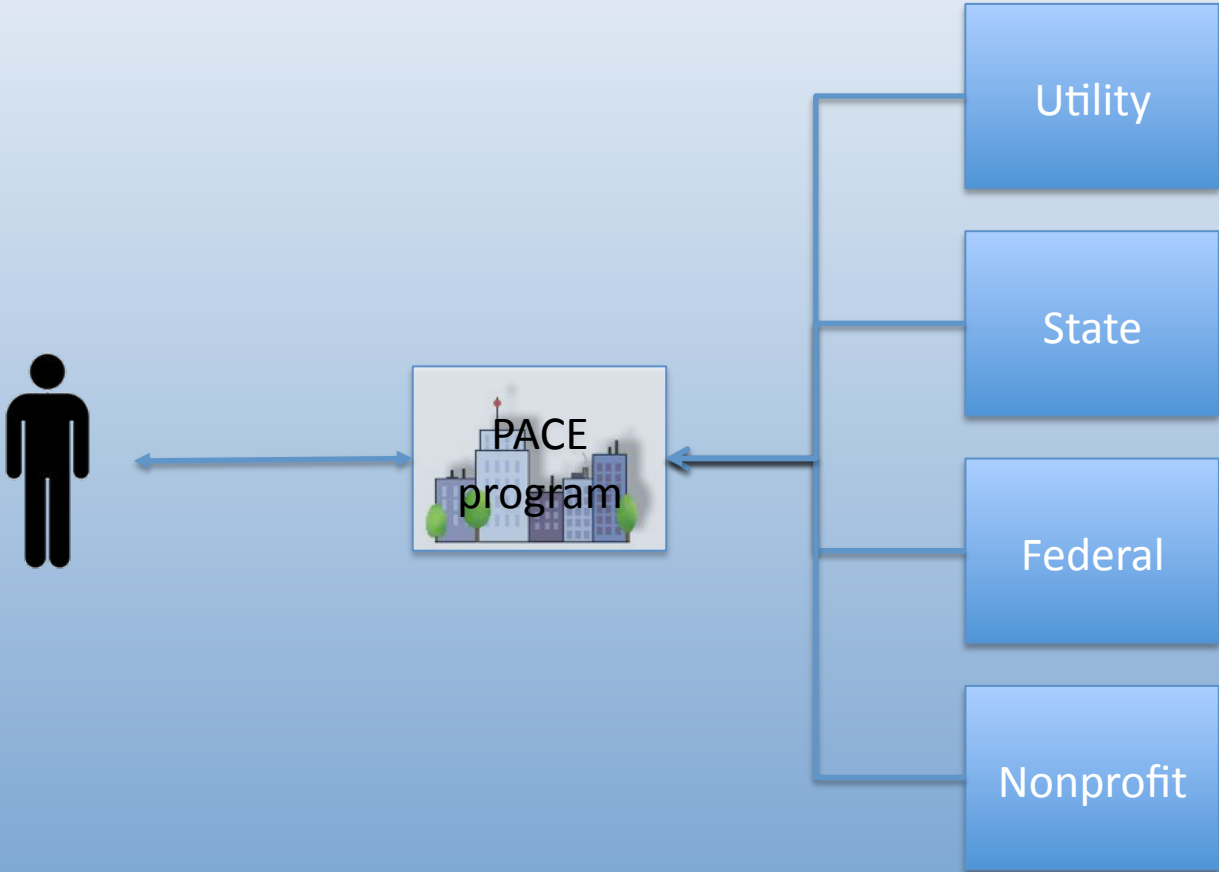
Long-term financing stays with property



# Rationale: Information Disjointed



# Solution: One-stop Shop





# PACE Process

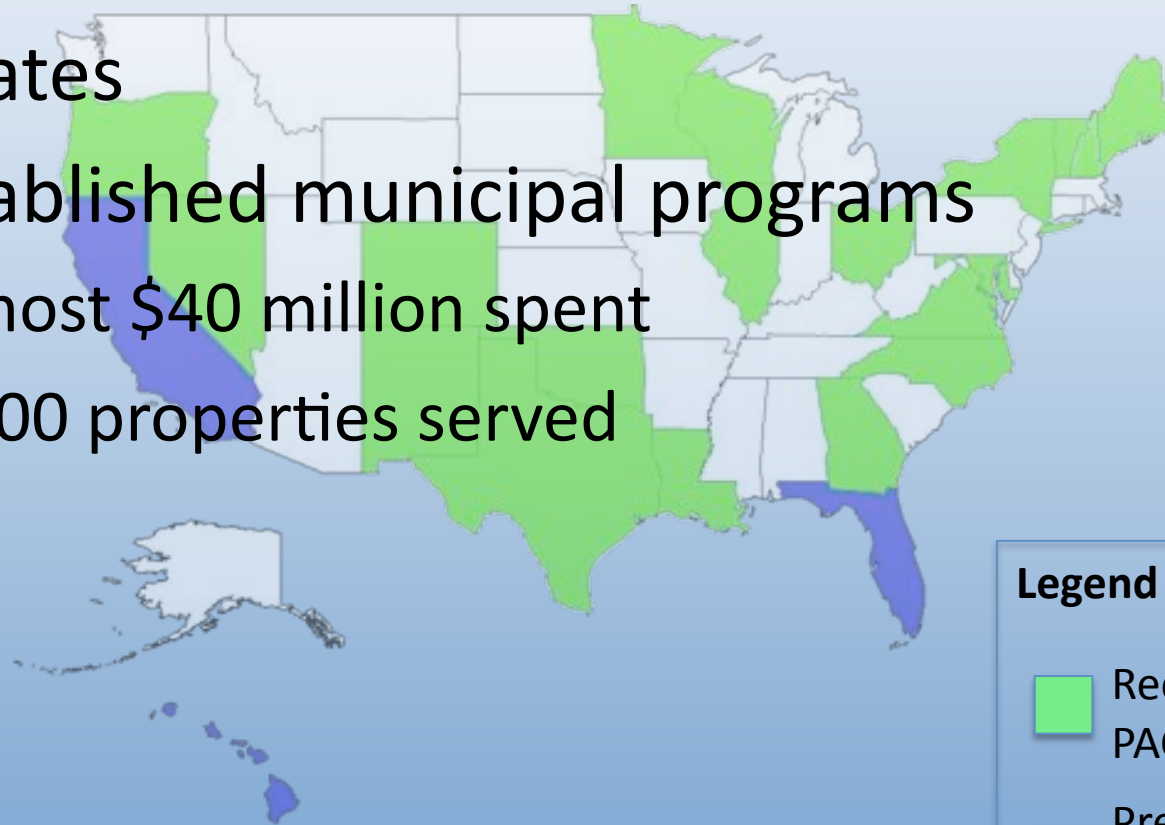


# PACE Process



# PACE Status

- 22 states
- 4 established municipal programs
  - Almost \$40 million spent
  - 2,000 properties served

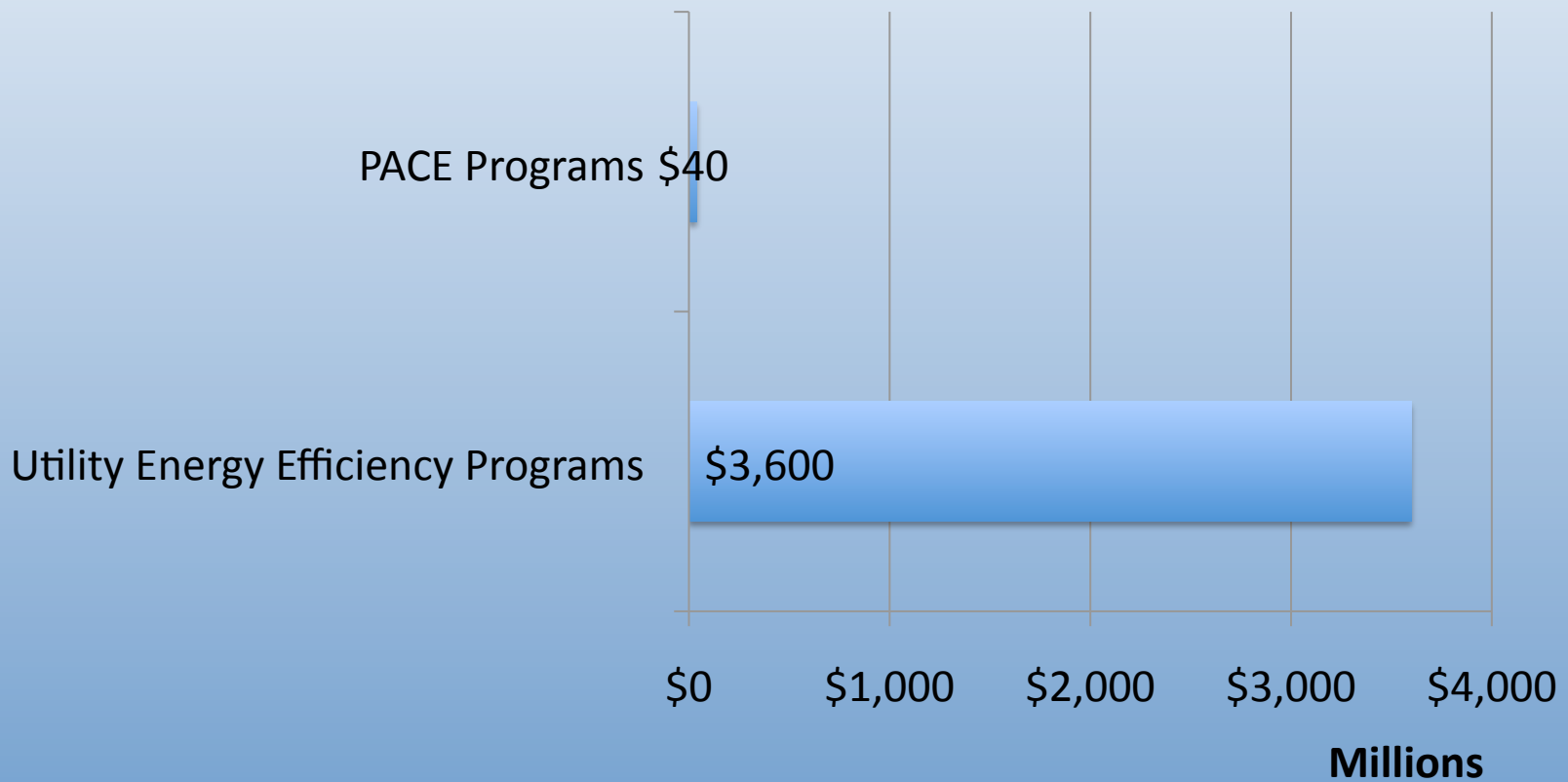


## Legend

- Recently enacted PACE laws
- Pre-2009 statutes supporting PACE

# PACE Status

## Spending in 2009



# PACE Potential

## Future Spending?



# Issue: Fannie Mae Objects

**Lender Letter LL-2010-06**

**May 5, 2010**

**TO: All Fannie Mae Single-Family Sellers and Servicers  
Property Assessed Clean Energy 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.

Lender letter: <http://tinyurl.com/3y2g4mw>

# Issue: Fannie Mae Objects

**Lender Letter LL-2010-06**

**May 5, 2010**

**TO: All Fannie Mae Single-Family Sellers and Servicers  
Property Assessed Clean Energy Loans**

1. We don't come second.
2. This isn't a public good.
3. "We're buried in a subprime mess. Nothing new, please."

# Solution #1: Lawsuits

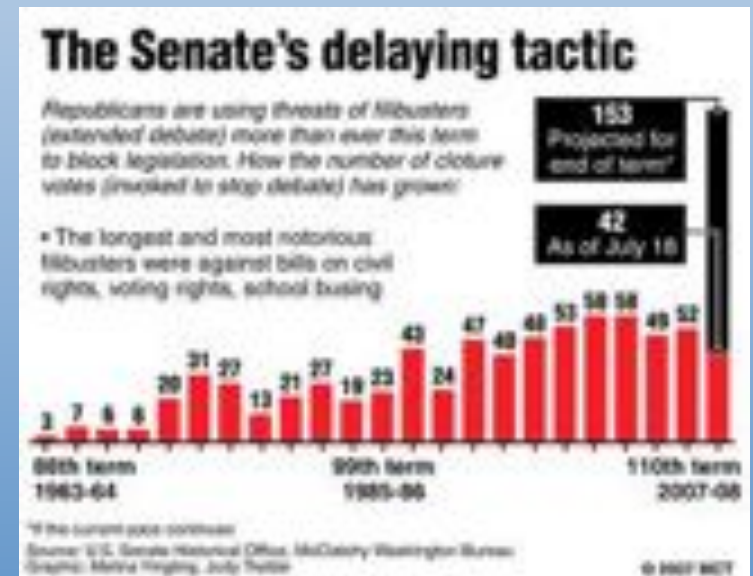
- FHFA, Fannie, & Freddie sued by:
  - California Attorney General
  - Sierra Club
  - Sonoma County, CA
  - Town of Babylon, NY





# Solution #2: Legislation

- **The PACE Assessment Protection Act of 2010**
  - Fannie Mae and Freddie Mac must revise their lending standards to conform with Department of Energy PACE Guidelines from May 2010.
  - FHFA, Fannie, and Freddie may not discriminate against any borrower in a community with a PACE program.



# Solution #3: Alternatives

- **On-bill financing**

- Utility finances improvements
- Utility ties billing to the meter instead of individual
- “Pay As You Save” (now defunct)

- **Drawbacks**

- Requires utility participation
- Utility billing system may need upgrade



# Solution #3: Alternatives

- **Junior liens** (e.g. Maine)
  - Does not come before mortgage in event of default
  - Still tied to property tax bill
- **Drawbacks**
  - No secondary market
  - Can't transfer between owners?

# Solution #3: Alternatives

- **Subsidized home retrofits**
  - E.g. weatherization
- **Drawbacks**
  - Who pays for subsidy?

# Solution #3: Alternatives

- **Loan loss reserves**
  - Can insulate lender
- **Drawbacks**
  - Who pays for reserve?
- **DOE webinar on Monday**
  - <http://tinyurl.com/37wt6o9>

# Solution #3: Alternatives

- **Loan insurance**
  - Insulates lenders
  - Low cost
- **Drawbacks**
  - Offered to FHFA, but rejected
  - No private market right now

# Thank you!

John Farrell

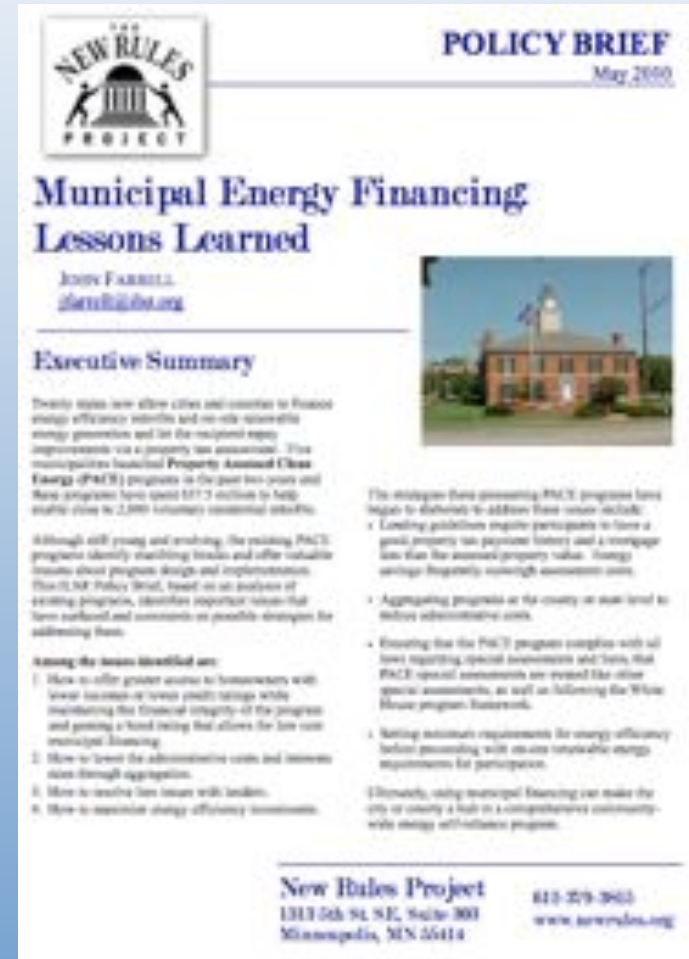
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**\*New\***

*Community Solar Power:  
Obstacles and Opportunities*



**NEW RULES PROJECT**

**POLICY BRIEF**  
May 2010

## Municipal Energy Financing Lessons Learned

JOHN FARRELL  
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### Executive Summary

Twenty states now allow cities and counties to finance energy efficiency retrofits and on-site renewable energy generation and let the recipient enjoy improvements via a property tax assessment. This municipality launched **Property Assessed Clean Energy (PACE)** programs in the past two years and these programs have spent \$17.7 million to help make close to 2,000 community residential retrofits.

Although still young and evolving, the existing PACE programs identify modeling benefits and offer valuable lessons about program design and implementation. This ILSR Policy Brief, based on an analysis of existing programs, identifies important issues that have surfaced and recommends six possible strategies for addressing them.

**Among the issues identified are:**

1. How to offer greater access to homeowners with lower incomes or lower credit ratings while maintaining the financial integrity of the program and getting a good return that allows for low cost municipal financing.
2. How to lower the administrative costs and increase rates through aggregation.
3. How to resolve lien issues with lenders.
4. How to maximize energy efficiency investments.

The strategies being pursuing PACE programs have begun to identify to address these issues include:

- Lending guidelines require participants to have a good property tax payment history and a mortgage rate that is around property value. Energy savings frequently outweigh assessment costs.
- Aggregating programs at the county or state level to reduce administrative costs.
- Ensuring that the PACE program complies with all laws regarding special assessments and taxes, that PACE special assessments are treated the other special assessments, as well as following the White House program framework.
- Setting minimum requirements for energy efficiency before proceeding with on-site renewable energy requirements for participation.

Ultimately, using municipal financing can make the city or county a high to a comprehensive community-wide energy efficiency program.

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Municipal Energy Financing: Lessons Learned  
<http://bit.ly/munienergyfinance>