Municipal Energy Financing

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

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New Rules Project @ ILSR

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

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Municipal Energy Financing

• Overview
• Rationale
• Potential
• Issues

Municipal Energy Financing: Lessons Learned
Overview

Installs energy efficiency improvements and on-site renewable energy

Sells bonds

Pays for property improvements

Assesses property for cost plus interest

Pays with long-term property tax assessment
Rationale: Financing Mismatch

Average time in one residence:

Finance terms:

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Solution: Property Tied Financing

Long-term financing stays with property

- 5-6 years
- 5-6 years
- 10-15 years
Rationale: Information Disjointed

- State rebate
- Utility rebate
- Utility audit
- Energy Star rating
- Federal tax credit
- Nonprofit energy guide
Solution: One-stop Shop

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PACE Process

1. PACE program advertised
2. Information sessions
3. Sign-up
4. Energy audits
PACE Process

1. Energy audits
2. Retrofit contract
3. Retrofit completed, City pays
4. Owner pays assessment, enjoys energy savings
PACE Status

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

Future Spending?

- PACE Programs 2010: $300
- PACE Programs 2011: $600
- Utility Energy Efficiency Programs: $3,600

Millions

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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
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](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

Municipal Energy Financing: Lessons Learned