

Removing Key Barriers for Clean Energy Projects

ISSUE SUMMARY:

If you knew you weren't going to stay in your house for more than five years, would you buy a solar system or an efficient air conditioner that has a payback period of seven years (or more)?

Since the average homeowner in Texas only stays in their home for five years, this payback period dilemma is one of the major barriers to the widespread adoption of energy efficiency and renewable energy improvements. Upfront cost is another. Property Assessed Clean Energy, or PACE, programs eliminate both issues.

Under PACE programs, municipalities may offer financing for major energy efficiency and renewable energy improvements to **voluntary** participants and get repaid through tax assessments on those properties.

If a property is sold before an obligation is fully repaid, the assessment stays with the property and is transferred to the next owner.

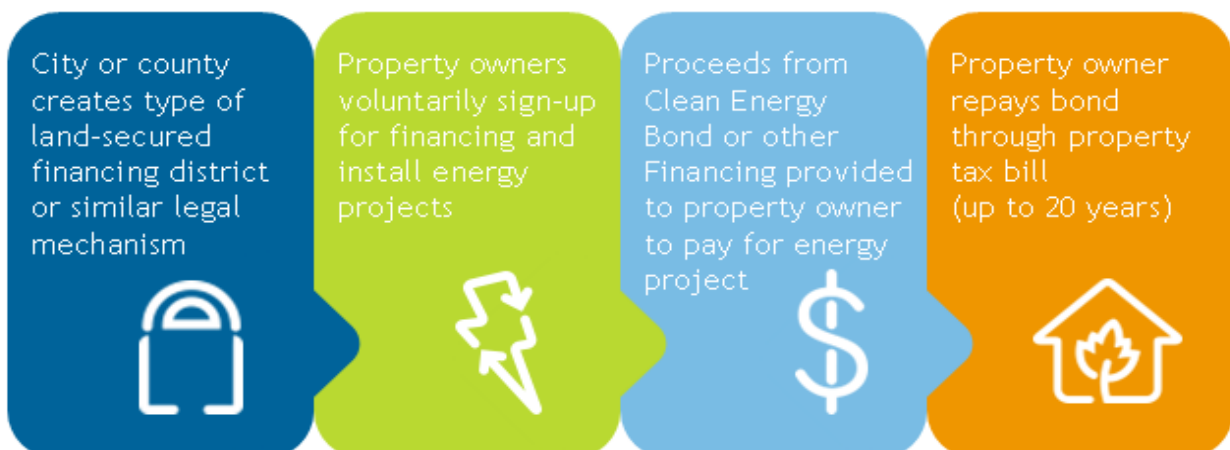
This assessment mechanism, which has been used for many years to pay for sewers, streetlights, and other improvements, removes two key barriers for clean energy projects.

HB 1937 from the 81st Texas Legislature in 2009 allows municipalities to offer PACE financing in Texas, but some clarifications would help address a few legal uncertainties that hindered implementation in 2009 and 2010.

KEY POLICY CONSIDERATIONS:

- Some modifications are required to give tax assessors/collectors or third-parties explicit authority to collect the assessments and to ensure PACE assessments in Texas are treated like other special assessments.
- Water efficiency projects could be added to the list of allowable projects.

PACE Financing Overview



Source: Renewable Funding

TALKING POINTS:

- PACE assessments and PACE programs are **voluntary**. No property owners nor municipalities have to use them.
- Similar assessments have been widely used for many years by other types of special districts nationwide and in Texas, such as Public Improvement Districts (PIDs), to finance sewers and streetlights.
- High upfront costs and the fact that people may sell their homes before the payback period of the improvements are reached are two of the main reasons why people do not invest in energy efficiency and renewable energy projects. PACE addresses both issues.
- The transferability of the PACE assessment to the subsequent owner is a key differentiator. Other financing is available, but it typically not transferrable to a subsequent owner.
- With PACE, property owners receive affordable financing that does not affect personal credit, and they only pay for the improvement(s) for the time they own the property.

OPPONENTS SAY:

- *“Wasn’t this found to be unconstitutional in Texas?”*

RESPONSE: No. There were some concerns expressed over ambiguities in the statute during implementation in San Antonio and Austin, however federal issues raised by Fannie Mae and FHFA stopped implementation of PACE programs in Texas, not issues with the Texas Constitution.

- *“I don’t want to vote to raise taxes.”*

RESPONSE: You’re not. PACE assessments and PACE programs are 100% **voluntary**. No property owners nor municipalities have to use them.

BACKGROUND AND HISTORY:

PACE programs use a well-established municipal financing mechanism called an “assessment” to encourage renewable energy and energy efficiency projects in a given region for their energy conservation, economic development, and/or emission reduction benefits. Assessments have traditionally been used to finance improvements like sewers and streetlights and have been collected with property tax bills.

Two of the earliest adopters of PACE programs were Palm Desert and Berkeley in California, one of the most conservative and one of the most liberal communities, respectively, in that state. Since then, 21 states, including Texas, have enacted PACE-enabling legislation. Texas enacted PACE in the 81st Session through HB 1937.

San Antonio, Austin, Houston, El Paso, Amarillo, areas of the Valley, and other Texas cities have explored implementing PACE programs. San Antonio and Austin each received \$10M in grants for PACE.

Unfortunately, almost all PACE programs are currently on hold due to issues raised by Fannie Mae and others at the federal level; however states continue to enact or improve upon their PACE-enabling legislation in anticipation of resolution of the federal issues.

RESOURCES AND CITATIONS:

Numerous resources and additional background materials can be found on PaceNow.org, including the following comprehensive paper: <http://pacenow.org/documents/PACE%20White%20Paper%20May%202013%20update.pdf>

Texas House Research Organization (July 2010). *Solar Energy in Texas*. <http://www.hro.house.state.tx.us/focus/Solar81-13.pdf>

State Energy Conservation Office (October 2008). *The Home Energy Efficiency Report*. http://www.window.state.tx.us/specialrpt/hb3070/96-1350_Home_Energy_Eff_HB3070.pdf