Q&A from the November 18th PACE Financing Webinar

Webinar presentation slides available here:
http://www.eecbg.energy.gov/solutioncenter/webcasts/default.html

Q: Is PACE financing limited to solar?

A: No, most programs offer financing for efficiency retrofits.

Q: In WA state we have not been able to implement a PACE program because of legal concerns that this violates our constitutional prohibition of allowing public funds for private good. How have other states overcome this?

A: WA laws are more restrictive on this point than most states. In general, legislation needs to pass at the state level to allow local governments to create assessment districts for this purpose. See the PACE How-To Guide for details on legislative authority: http://rael.berkeley.edu/financing/resources

Q: How do you get legislation needed for PACE going?

A: See link above. Getting your local legislators to champion the state legislation is especially important. Also, www.dsireusa.org collects info on the legislation that has passed in other states that you can use as a template, available here:
http://www.dsireusa.org/incentives/index.cfm?EE=1&RE=1&SPV=0&ST=0&searchtype=PTFAuth&sh=1

Q: How do federal tax credits figure in when a homeowner takes advantage of PACE programs? Do they still qualify?

A: Homeowners still qualify for the federal income tax credits for solar and efficiency.

Q: What is the typical lead time to set up a PACE program?

A: It varies greatly based on the resources that can be devoted to developing a program. In a state that already has enabling legislation, it can take 3 to 12 months.

Q: Is PACE easier to do on the county or city level?

A: This varies based on the local political will and which entities have taxing authority (which can vary from state to state). If possible, the county level is more ideal due to economies of scale.

Q: Money is very tight right now. Can stimulus funds be used to fund PACE projects? Stimulus funds?

A: Yes, stimulus funds can be used to set up a PACE program. In addition, most programs build in fees or additions the interest rate that covers administrative and marketing expenses. The capital for financing often comes from municipal bonds, though other sources of funds are possible.

Q: In terms of maximizing efficient use of energy and cost savings, are buildings required to meet a certain efficiency standard before they can be approved for solar installations?

A: This varies based on the individual program's requirements. The Town of Babylon, for example, does require that efficiency be done before solar or other renewables.

Q: Is there any advantage in designating/restricting the energy work done to an approved list of contractors?

A: It is important that the contractors used for these programs are qualified to do the work. Some programs only require that contractors have the basic business licenses; other programs (such as Babylon's) require that contractors have Building Performance Institute training. A program with contractor certification is preferred, but is not always possible in areas where training programs do not exist yet or are just being developed. In either case there should be reasonable quality assurance to ensure that the work is being done correctly.

Q: What happens if the forecasted energy savings do not actually materialize? How do you ensure accuracy and quality of the audits?

A: It is extremely difficult (and potentially expensive) to guarantee the forecasted level of savings for residential efficiency projects (for institutional, commercial and industrial projects it tends to be easier, in fact Energy Service Companies (ESCOs) often guarantee their work for the non-residential sectors). There is great variation in how occupants respond to a retrofit (some may turn up the heat for example), and behavior is a large factor especially in residential energy use. You can encourage quality retrofits by requiring specialized training for contractors and having an aggressive quality assurance program that checks the work. However, there is a tradeoff between ensuring quality and ensuring affordability. If work is faulty (not performing as designed), contractors need to be either fix their work or face consequences (such as ineligibility to participate in the program).

Q: What is best practice for ensuring funds are disbursed for approved improvements? With a post-installation examination?

A: Invoices for the work should be reviewed closely to make sure the measures fit the requirements of the program, and that the costs are reasonable. Most program also spot check contractors' work to make sure the correct measures were installed. While you can use a third party to "test out" the work (review all the installed measures and test them to ensure they are functioning properly), it adds significant costs. It may be most effective to review the first few jobs of contractors that are new to the program, and then spot check after that.

Q: What is the response of residential and commercial property mortgage holders?

A: Tax assessments take priority over the mortgage in the case of foreclosure. This has made some mortgage holders concerned, and in a couple states mortgage holders have opposed enabling legislation. One purpose of the federal government's Policy Framework for PACE Financing Programs (http://www.whitehouse.gov/assets/documents/PACE_Principles.pdf) is to protect lenders. Also, most programs limit the amount you can finance with PACE. Details about the most appropriate way to respond to this issue are still being worked out, and this will be a topic of discussion on our December 15th webinar on PACE legal issues.

Q: Will the city or county sponsor reimburse bondholder if the homeowner does not make a timely property tax payment – or will bondholders only be paid once the property tax is paid by the property owner or the property is sold at auction?

A: While there is usually a reserve fund for this purpose, the city/county is not liable for payments due to bondholders for this program.

Q: Does the city/county obtain your property if you default on this lien? So do lose your house because you did an energy efficiency project?

A: As with any unpaid tax assessment, the local government can foreclose on your property if you do not pay. However, it is more likely that the mortgage holder will foreclose long before the city or county would, as local governments tend to have some leniency for late payments (as compared to lenders).

Q: Can PACE programs achieve monthly billing (as opposed to annual, which would seem to be the more common property tax cycle)?

A: If the assessment is on the tax bill, participants are billed on that cycle (as a line item on the bill). If the work is done through an "improvement district" such as waste collection and there is an existing billing system, the charge can be levied on a monthly basis as a "benefit assessment". However, most programs thus far bill on the annual and bi-annual property tax bill.

Q: Do existing PACE programs cover mostly single family homes? Has there been active participation by owners of multifamily homes or condominiums in existing programs?

Most of the existing programs have served single family home owners, however multifamily properties and commercial property are usually eligible for the program.

Q: Based on the existing PACE programs, what is a realistic or typical interest rate for the borrower?

A: The interest rates for existing programs are between 3% and 7%.

Q: Was any consideration made to aggregate white tags or carbon avoidance for EERE work?

A: No programs have done this so far, but several programs are looking into this. For example, Long Island Green Homes has established an agreement with its power authority that carbon credits from the work financed by local entities (such as the Town of Babylon) could be aggregated.

Q: Can the homeowner save enough (or more) on their energy bills to cover the cost of PACE payments?

A: Yes, this is especially attainable for efficiency improvements like insulation, air sealing, and duct repairs.

Q: Would this work with a tribe, on trust land?

A: This hasn't been done yet. The participants would need to pay property taxes or have a municipal utility that had the authority to create assessment districts. If anyone has information about the opportunities on trust land, please email financingrapidresponse@ee.doe.gov.

Q: Are PACE bonds are tax-exempt?

A: In general, PACE bonds are not tax-exempt because they fund improvements on private property. However, there is a very limited amount of tax-exempt private activity bonds that can be used to fund work; for example Boulder County uses tax-exempt bonds for income-qualified participants, which lowers their interest rate.

Q: Have any communities tried to establish a non-profit group to administer this program versus the City actually trying to do it?

A: Not so far, though this is an option. Most programs are run in-house or cities/counties hire a firm to do some or all of the program administration, marketing, and/or financial management.

Q: I'm not familiar with any of the acronyms. Will you publish an index of acronyms?

A: Here are a few:

- BPI Building Performance Institute
- PACE Property-Assessed Clean Energy
- DSIRE Database of State Incentives for Renewables & Efficiency
- EE Energy Efficiency
- EECBG Energy Efficiency and Conservation Block Grants
- EIP Energy Independence Program
- ESCO Energy Service Company
- FICO Fair Isaac Corporation (a credit rating agency)
- GHG Greenhouse Gas
- HPwES Home Performance with Energy Star
- SEP State Energy Program