

Demystifying PACE Finance

What is PACE?

Property Assessed Clean Energy (PACE) is a local government mechanism intended to facilitate financing for energy efficiency upgrades and renewable energy projects at commercial properties. It is designed to address the challenges specific to efficiency and renewable projects by offering financing that requires no money down, allows longer loan terms, and fixed low interest rates.

A key differentiator of PACE financing is that the building is the collateral, not a person or particular business operation. A PACE loan assumes a senior obligation on an improved building and is repaid through a voluntary assessment added to the specific property tax bill. As a result, PACE financing does not require a personal guarantee or a high credit rating for the building owner or the business operating at the location. In addition to increased access to financing, this structure has other benefits for the building owner. For example, PACE repayments become an addition to the tax billing of a property allowing the costs of energy efficiency improvements and renewable projects to more easily pass through to the building occupants. This ability addresses a potential misalignment of interests whereby building owners pay for property improvements, but energy savings flow to the tenants in the form of lower monthly energy bills.

How does PACE work?

State legislatures enable local governments to establish PACE programs by ordinance to accomplish a specific goal or objective, such as incentivizing energy efficiency as a means of lowering business energy costs and consumption, promoting job creation and improving air quality. Once a local PACE program is created, the local government may issue revenue bonds, work with local lenders or access other funds to create a financing pool for PACE energy efficiency and renewable energy projects. Funds are then loaned to businesses for the energy efficiency retrofits and renewables projects that an energy audit has shown make economic sense for the specific building.

Once a local program is established and funds are available, PACE becomes a voluntary option for commercial property owners to use. An interested building owner must be current on property taxes and if applicable, current on their mortgage payments.

When is PACE a good fit?

PACE is an innovative approach to assist building owners in paying for the often high-up front cost of energy efficiency projects. PACE is available for enactment by local governments in states that have authorized the mechanism. Since PACE repayments attach to the tax bill for a specific commercial property, it will only be available in municipalities that levy a property tax.

PACE was partly conceived as an incentive for building owners who buy and sell commercial buildings frequently to make beneficial energy efficiency and conservation improvements. Since the energy efficiency or conservation improvements and equipment are funded by an assessment on the property itself, the repayment obligation transfers with the building and does not need to be unwound at the time of a property sale.

Many of the buildings that would benefit the most from improvements are owned by individuals that may not have the ability to finance efficiency and conservation projects through traditional methods. As a result, good buildings improve and stressed buildings become less efficient over time. PACE provides an opportunity for building owners with limited access to capital to secure financing they need to reduce the energy consumption and costs of their buildings.

House Bill 118 and Senate Bill 56 propose to authorize PACE financing in Alaska. For more information please contact Emily Ford (AEA) or Gene Therriault (AIDEA) at 907-771-3000.