Property Assessed Clean Energy (PACE) Funding

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PACE Finances Clean Tech for Sustainable Energy

Technology for producing clean energy (power production with minimal CO_2 and pollutant emission as well as efficient distribution) is undeniably capital intensive. Cash strapped municipalities and property owners may be concerned that it is financially out of reach. If your property meets specified criteria for sun exposure, solar companies will exchange space on your roof for the lion's share of profits made on electricity production. The hardware is owned by the power company (e.g. Tesla) and can be returned to the company when the house is sold, or the financial deal can be transferred to the new owner.

For cleantech other than solar, there will be more financing opportunities ahead. Property Assessed Clean Energy financing **(PACE financing)**, is slated to be part of the State's Clean Power Plan.

Labor Force Takeaway

This tech brief is part of a series focusing on changes to the labor market in its move to a clean energy economy. Governor Murphy is aiming for New Jersey to be powered by **100% clean energy by 2050**. The financial services market will see new competition for loans and financial products starting with PACE financing – property assessed clean energy. The way the industry handles this competition – either by ceding market share to private investors and environmental non-profits – or by upskilling their workplace to complement PACE will determine the evolution of their workforce.

TAN recommends upskilling the current workforce on PACE financing in advance of the passing and implementation of bill S-1611 and AB 1758. Training on elements of the plan to help businesses navigate the application and eligibility process will be needed.

The challenge for New Jersey banks will be to first develop a PACE program with business incentives tied to jobs, revenue retention, and a commitment to staying in the Garden State. These elements can be used to buy down interest rates and make investments in commercial real estate more attractive to businesses. Once the programs are developed and approved, associate training can be developed and delivered.

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Financing for Distributed Clean Energy Trends

Property Assessed Clean Energy (PACE) financing programs allow local governments to provide financing for energy efficient, renewable energy, and water efficiency projects. Typically, building owners (either residential or commercial) pay back the loans through property tax assessments directly to the state government, who set aside a pool of funds in the form of grants and/or bonds. However, some states are using the banking system to administer the loans, and have creatively added business incentives, such as job creation, investment, and revenues to buy down interest rates and apply the lower rates to the state-funded pool.

The consumer gets improved, more energy efficient facilities. The state stimulates business profitability and ensures employers stay in state. The banks get interest and fees for loan servicing and administration. Everybody wins. PACE has stimulated energy saving investments and rapidly spread across the United States.

In the New Jersey Senate**,** bill S-1611 is modeled on PACE programs already operating successfully in more than 30 states. The law would allow clean energy assets to be tacked onto a mortgage or land title. Banks have been fighting this law for 10 years, because it essentially puts them third in line to get repaid in the event the borrower is unable to repay their loan. Back taxes are always paid first, then PACE financers would get paid, followed by the bank and then any liens in order of placement. New Jersey House Bill AB 1758, currently pending, however establishes funding “districts” through which bonds can be floated for long term financing. It authorizes municipalities to establish renewable energy financing districts after holding public hearings. Municipalities may use the special assessment revenues to secure bonds issuance, debt service and administrative costs. Projects would be financed over 20 years, and solar improvements may be financed over 15 years with repayment of the obligation wholly or partially offset by solar renewable energy certificates.

Banks can participate actively in the financing of these state and community generated pools. North Dakota has implemented a working model that combines state and local funding with bank interest rates that they then service. The fund combines the resources of the local community and the state government to use as principal, and eligibility requirements ensure the businesses contribute either jobs or efficiencies to apply. These contributions effectively buy down the interest rate on the loan. The buydown is based on either the total investment OR the number of jobs created, as follows:

	Bank Buydown	Minimum investment	Jobs created
Tier One	\$100,000	\$750,000-\$1,200,000	2-5
Tier Two	\$200,000	\$1,200,001-\$2,200,000	6-10
Tier Three	\$300,000	\$2,200,001-\$3,500,000	11-15
Tier Four	\$400,000	\$3,500,001-\$4,500,000	16-20
Tier Five	\$500,000	\$4,500,001 +	20+

The Community contributes to the fund through a combination of sales tax, employment, property tax and population. The PACE program then assigns an interest rate buydown up to \$500,000 that is matched by the community. The bank services the loan and receives all interest payments in second position once the PACE interest buydown has been fully expended. A trustee is appointed to act as the transfer agent for the buydown. Both the community and the PACE fund makes payments to the trustee to cover the interest rate buydown. Businesses get improvements at below market rates and add new jobs. **Everybody wins.**

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