



Department Source: City Manager - Sustainability

To: City Council

From: City Manager & Staff

Council Meeting Date: February 6, 2017

Re: Property Assessed Clean Energy (PACE) informational report

Executive Summary

Council Member Skala requested a report on Property Assessed Clean Energy (PACE). PACE is a financing mechanism that allows property owners to fund energy efficiency improvements or renewable energy systems with the annual energy savings achieved on the project through a yearly assessment. This voluntary tax assessment is secured by a lien on the property and does not require upfront payment. In most cases, the assessment and the lien are transferred upon sale. There are currently two clean energy districts operating in Missouri – Missouri Clean Energy District and Show-Me PACE. If Council wishes to enact PACE in Columbia, direct staff to draft an ordinance enabling the City of Columbia to join either or both districts.

Discussion

Property Assessed Clean Energy (PACE) is a financing mechanism that allows property owners to fund energy efficiency improvements or renewable energy systems with the annual energy savings achieved on the project through a yearly assessment. This voluntary tax assessment is secured by a lien on the property and does not require upfront payment. In most cases, the assessment and the lien are transferred upon sale. Missouri enacted PACE legislation in 2010 (HB 1692) that authorizes the formation of clean energy development boards by one or more municipalities for the purpose of establishing PACE programs (Sections 67.2800 – 67.2835, RSMo). Municipalities are defined as counties, cities or incorporated towns or villages in Missouri. Boards will establish application requirements and criteria for project approval, evaluate proposed projects and the credit-worthiness of property owners. PACE boards also oversee assessment contracts and administer the loans or use third party providers for financing origination.

The Missouri PACE legislation allows PACE to be used for energy efficiency and renewable energy improvements. Energy efficiency improvements include any acquisition, installation or modification on or of publicly- or privately-owned property designed to reduce the energy consumption of such property, including, but not limited to:

- Insulation in walls, roofs, attics, floors, foundations, and heating and cooling distribution systems;
- Storm windows and doors, multi-glazed windows and doors, heat-absorbing or heat-reflective windows and doors, and other window and door improvements designed to reduce energy consumption;
- Automatic energy control systems;



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- Heating, ventilating, or air conditioning distribution system modifications and replacements;
- Caulking and weatherstripping;
- Replacement or modification of lighting fixtures to increase energy efficiency of the lighting system without increasing the overall illumination of the building unless the increase in illumination is necessary to conform to applicable state or local building codes;
- Energy recovery systems; and
- Daylighting systems.

Through the creation of PACE financing districts, property owners can finance renewable onsite generation systems and energy efficiency improvements. This voluntary assessment is repaid on tax bills (commercial is collected using a 3rd party collector, not taxing mechanism) over a period up to 20 years. Renewable energy improvements include any acquisition and installation of a fixture, product, system, device, or combination thereof on publicly- or privately-owned property that produces energy from renewable resources, including, but not limited to photovoltaic systems, solar thermal systems, wind systems, biomass systems, or geothermal systems. Commercial PACE can install and utilize nontraditional systems if a PE certifies the technology and its savings. Statute also requires the project to be economically beneficial to the property owner.

Residential PACE

The PACE financing model allows a residential property owner to overcome the barrier of not having access to up-front capital necessary to implement energy efficiency and renewable energy improvements. Property owners voluntarily choose to participate in a PACE program to repay their improvement costs over a set time period—typically 10 to 20 years—(through annual property assessments), which are secured by the property itself, and then paid back as a special assessment as an addition to the owners' annual property taxes. PACE may lead to low interest rates because of the high security of repayments through the property tax bill, helps some property owners deduct payments from their income tax liability and allows municipalities to encourage energy efficiency and renewable energy projects.

PACE is only available to property owners for clean energy options that are affixed to the property; PACE does not finance portable items (refrigerators, light bulbs, etc.); and may not be appropriate for investments below \$2,500. PACE programs are not for everyone. It is an alternative to unsecured credit card debt, a traditional variable rate home equity loan, or construction loan options. PACE may be accessible when other forms of credit are cost-prohibitive or not available because as a secured option, PACE financing eligibility does not rely on a borrower's credit score; they are based on attributes related to the property, consistent payment of taxes and bills, home equity and other factors. Homeowners should evaluate financing options that are available to them for home improvements.

HERO, which stands for Home Energy Renovation Opportunity, is the largest residential PACE program in the United States and was made accessible to homeowners in Missouri in 2016. Since September more than \$1 million in energy efficiency improvements have been added to more than 70 homes. This has helped these homeowners lower utility bills by replacing HVAC systems, upgrading windows and doors, adding insulation, going solar, and



more. When an increasing number of homeowners are making energy efficient upgrades, it creates an increased demand for contractors, therefore creating jobs.

The HERO program has developed consumer protection policies that all participating contractors must follow. Only registered, verified, and approved contractors can participate in Renovate's HERO program. Contractors participating in the program have the ability to serve homeowners utilizing the HERO program. Consumer protections and policies are crucial to delivering the results necessary to generate the energy savings and a high quality consumer experience. It is imperative for consumers to understand how PACE financing works along with homeowner obligations, all program fees, the interest rate, the amount of the PACE assessment and how it is to be repaid, how to transfer the assessment if the home is sold and how long the homeowner has to cancel the purchase after a contract is signed.

Joining a PACE District

Missouri counties, cities, and incorporated towns and villages have the opportunity to join one of Missouri's statewide clean energy districts and may do so by passing an ordinance formally adopting the PACE lending program. There are currently two statewide PACE districts operating in Missouri and one in the City of St. Louis.

Missouri Clean Energy District - In January 2011, Jefferson City formed the first local PACE clean energy development board in Missouri --- the Mid-Missouri Clean Energy Development Board, now known as the Missouri Clean Energy District (MCED) because it offers funding statewide to participating communities. It has contracted with the Missouri Clean Energy Fund, LLC as it's PACE Administrator. There is additional information on MCED's website that details program eligibility, costs to participate, and local governments participating. Eligible properties and projects include commercial, industrial, agricultural, multi-family, not-for-profit and public facilities; most recently residential properties in Jackson County have been included for eligibility.

Show Me Clean Energy District - In July 2015, the Show Me PACE Clean Energy District became the second entity offering funding statewide for clean energy project improvements. Show Me Pace has selected the Missouri Energy Initiative, a Missouri based 501(c)3 nonpartisan nonprofit, as the administrator. Show Me PACE is an open market program with multiple funding originators that allow on-demand financing from \$50,000 to \$50 million for energy efficiency, renewable energy, and water conservation projects. Commercial, industrial, agriculture, multi-family residential, nonprofit and public (governmental) properties are eligible for this program. Current PACE lenders approved by the Show Me PACE Board include PACE Equity, Greenworks Lending, TWIN Financial Partners, and CleanFund.

With the MCED and Show-Me PACE Programs, Local Governments in Missouri may provide access to unlimited funding for energy-saving projects to citizens and businesses within their community. The benefit of the PACE program is that it does not require additional work load, budget impact or liability for local governments because the energy districts provide the necessary administrative of the program.



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Benefits to Municipalities:

- Job Creation and Retention
- Increased Tax, Permit and Sales Revenue
- Encourages Investment by Property Owners
- Improved Building and Housing Stock
- Increased Property Values
- Stabilization of Energy Costs for Constituents

Current participating municipalities for Show Me PACE:

- Bel Nor
- Berkeley
- Bolivar
- Cape Girardeau
- Chesterfield
- Crestwood
- Creve Coeur
- Grandview
- Pleasant Hope
- Hannibal
- Jefferson City
- Kansas City
- Lee's Summit
- Maryland Heights
- Manchester
- Park Hills
- Shrewsbury
- City of St. Charles
- St. James
- University City
- Wentzville
- Mercer County
- Putnam County
- Sullivan County

Current Members of the Missouri Clean Energy District:

- Arnold
- Anderson
- Ballwin
- Barton County
- Bates County
- Berkeley
- Belton
- Boliver
- Branson
- Canton
- Cassville
- Charlack
- Chesterfield
- Cole County
- Cooper County
- Cottleville
- Crestwood
- Creve Coeur
- Doniphan
- Ellisville
- Eureka
- Farmington
- Ferguson
- Franklin County
- Galena
- Gentry County
- Golden City
- Greene County
- Hartville
- Hazelwood
- Hollister
- Holts Summit
- Independence
- Indian Point
- Jefferson City
- Jackson County
- Kansas City
- Kirksville
- Kirkwood
- Lamar
- Maryville
- Moberly
- Mercer County
- Mississippi County
- Monett
- Nixa
- North Kansas City
- O'Fallon
- Olivette
- Otterville
- Ozark
- Ozark County
- Peculiar
- Pettis County
- Pilot Grove
- Pineville
- Reeds Spring
- St. Peters
- St. Charles
- St. Charles County
- Springfield
- Stoddard County
- Sullivan County
- Taney County
- Town And Country
- University City
- Valley Park
- Village of Four Seasons
- Warrensburg
- Wentzville
- West Plains



Fiscal Impact

Short-Term Impact: N/A

Long-Term Impact: N/A

Vision & Strategic Plan Impact

Vision Impacts:

Primary Impact: Environment, Secondary Impact: Community Character, Tertiary Impact: Economic Development

Strategic Plan Impacts:

Primary Impact: Social Equity, Secondary Impact: Secondary, Tertiary Impact: Tertiary

Comprehensive Plan Impacts:

Primary Impact: Not Applicable, Secondary Impact: Secondary, Tertiary Impact: Tertiary

Legislative History

Date	Action
N/A	N/A

Suggested Council Action

If City Council would like to enact PACE in Columbia advise staff to draft an ordinance enabling legislation to join either or both clean energy districts.