



International Council of Shopping Centers

ISSUE PAPER

Property Assessed Clean Energy (PACE) Bonds

- PACE Bond revenues are loaned to property owners to finance on-site energy efficiency projects.
- The loan is repaid over 20 years by increasing the property taxes.
- At least 16 states have adopted PACE bond legislation, including New York, California, Illinois, Maryland and Texas.

Position: ICSC supports the PACE Bond concept.

For more information contact Kent Jeffreys at kjeffreys@icsc.org or 202-626-1405.

Background: A PACE bond is a relatively new mechanism for financing energy efficiency improvements and renewable energy systems. The proceeds from the sale of the bonds are loaned to commercial and residential property owners to pay for the project. This loan is repaid over 15 to 20 years by an annual assessment added to the property taxes. The annual energy savings offset the assessment, creating positive cashflow in year one.

Because the loan to the landlord is secured by future property taxes, PACE bonds can address the situation where a landlord expects to sell the property and is therefore reluctant to invest in improvements with multi-year paybacks. Since the loan is not due on sale, PACE bonds create immediate incentives to improve energy efficiency, creating jobs in the process. The next owner will continue to see lower energy bills while the remainder of the PACE bond loan is paid back. Property taxes are generally part of the tenant's share of operating costs each year, so the direct beneficiary also helps pay for the improvement.

Although the specific details vary from state to state, at least 16 states have adopted PACE bond legislation, including New York, California, Illinois, Maryland and Texas. Depending on the state's laws, PACE bonds are usually issued by municipal financing districts although private companies are becoming involved.

Current Legislation: The recently passed "Jobs for Main Street Act" (HR 2847) expanded the Department of Energy's loan guarantee program to encompass PACE bond programs.

In addition, Rep. Steve Israel (D-NY) was able to include federal incentives for PACE programs in House-passed climate legislation (HR 2454) although it has not become law. Rep. Israel has also introduced a stand-alone version of the bill (HR 3836). Rep. John Sarbanes (D-MD) has a separate PACE measure (HR 4155).

Rep. Mike Thompson (D-CA) has introduced legislation to insure that the interest on these state-issued bonds is exempt from federal taxation (HR 3525). This would help lower the interest rate charged on the bonds and make these programs more effective.

Position: ICSC supports the PACE bond concept.

Rationale: Raising the money to finance significant improvements in energy efficiency can be difficult – especially in the current economy. Often there is a split incentive at commercial properties: the landlord must pay for improvements but the tenant reaps most of the benefits of lower electric bills. The PACE bond model addresses these issues by enabling municipalities to offer a low-cost loan to pay for the improvements with costs and benefits equitably distributed.