

Massachusetts May Pick Up the PACE

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A financing concept for energy efficiency and renewable energy projects that seems to be sweeping the nation has made its way to Massachusetts. A provision of a major bill now pending in the House Ways and Means Committee would enable Massachusetts municipalities to issue Property Assessed Clean Energy ("PACE") bonds to finance energy efficiency or renewable energy generation projects in commercial and residential properties. PACE bonds are typically issued by municipalities. The proceeds are lent to property owners to finance energy efficiency retrofits or the up-front costs of installing renewable energy systems. The projects are treated as "betterments", much like a sewer or septic system fees; the borrower repays the loan over time through annual assessments on their property tax bill.

The PACE mechanism introduced in Massachusetts is part of [An Act Relative to Municipal Relief](#), a comprehensive economic support package for municipalities that is expected to move quickly through the legislative process. More specifically, Sections 56 and 57 of that legislation describe a "Renewable Energy Revolving Fund" and betterment program that may be adopted by Massachusetts municipalities by ordinance or bylaw. The legislation would give municipalities the authority to "make loans to owners of real estate to finance or refinance the costs of energy conservation and renewable energy projects on their properties" after an energy audit has been completed. The funds would be repaid pursuant to a recorded betterment agreement between the municipality and the property owner. Importantly, the assessment is treated as a priority lien on the property until repaid in full. Therefore, a buyer of the property would inherit both the energy improvements and the betterment payments.

Similar enabling legislation has been [approved in at least 16 other states](#) and road-tested by a handful of municipalities across the country. Of course, each program is a slightly different animal. It remains to be seen how effective PACE bonds would be as a financing tool, how readily they would be adopted by municipalities, and to what extent they might displace other financial mechanisms, such as leases, power purchase agreements, home equity and other bank financing, that provide property owners with the up-front capital for renewable energy

installations. For those in the Massachusetts energy efficiency and renewable energy industries, this is a legislative initiative worth tracking.