



CLEAN ENERGY FINANCE CENTER

Written Testimony Submitted by Kerry O'Neill, Senior Advisor
Clean Energy Finance Center
Connecticut General Assembly Energy and Technology Committee
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Testimony Regarding Senate Bill 415

The Clean Energy Finance Center (CEFC) appreciates the opportunity to submit testimony to the Energy and Technology Committee regarding Senate Bill 415, specifically regarding Section 56: Property Assessed Clean Energy (PACE).

The mission of the nonprofit Clean Energy Finance Center is to dramatically expand investment in energy efficiency and small-scale renewable energy. The Center brings together investors, governments, environmental advocates and other stakeholders to develop clean energy financing solutions for states and communities.

The CEFC commends the Committee for its continued leadership on renewable energy and energy efficiency, particularly its leadership in supporting innovative financing strategies like PACE. Your ongoing commitment to clean energy in our state is critical to securing Connecticut's place at the forefront of the clean energy economy.

Why is PACE Needed?

PACE is a unique approach to financing efficiency and renewable upgrades that solves several of the challenges property owners face when deciding whether or not to invest in deeper energy improvements.

In particular, PACE solves 2 critical barriers to investment:

1. The concern that the owner won't live in the property long enough to earn back the investment in deeper energy measures. Deep energy measures have a longer payback period - one that is typically longer than the average ownership period. This is true for both the commercial and residential real estate sector.
2. The lack of up-front capital to afford the installation of deeper energy measures.

PACE solves these barriers using a tax-lien financing approach by allowing property owners to pay for allowable energy upgrades through municipal assessments with priority status. Using this approach, the repayments stay with the property in the event of a sale. Also, using a municipal assessment enables low-cost capital to be attracted to finance these upgrades. Tax-lien financing is a well-established financing strategy, well understood by investors, and is attractive to investors given its security and its priority.

Suggested Changes to the Language:

Priority Lien Status – Seniority of the municipal assessment is essential to attracting private capital to a PACE program. The current language accomplishes for Commercial Real Estate.

However this needs to be fixed for the residential sector. A municipal benefit assessment should always be a priority lien on a property as it is done for a clear public purpose. Language in Public Act 11-80 which subordinated the lien to existing mortgage holders should be removed so as not to undermine more than a century of precedent regarding municipal benefit assessments. The federal government (FHA) is currently in a rulemaking process regarding the acceptability of PACE with government-backed mortgages, and Connecticut should fix its legislative language to be ready for a residential PACE program if federal problems are resolved. Without priority status there is no reason why investors will lend at lower interest rates, and such a PACE program will not be viable.

Statewide Program – Given the relatively small size of the Connecticut market and the fact that the majority of our 169 municipalities will not have the expertise to run their own PACE programs, a statewide PACE program should be created that municipalities can opt to join. The Clean Energy Finance and Investment Authority (CEFIA) should be explicitly charged with the administration of a statewide PACE program to bring PACE to scale quickly in Connecticut, and to ensure solid program design that works for both investors and property owners.

Legislation vs. Program Design – Some of the bill language would more appropriately be determined at the program design stage by CEFIA, rather than locking Connecticut into one program design by statute.

1. We ask for the deletion of section (h) lines 3031-3032 (prepayment penalty) as overly prescriptive, and
2. Sub section (f) 3 regarding “total amount of any benefit assessment may not exceed twenty per cent of the fair market value of the qualified real property.” 20% may not be the right amount today or the right amount at some future time, so this line should be deleted.

Thank you for your leadership in enabling innovative clean energy finance strategies in Connecticut.

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