PACE - Frequently Asked Questions

Prepared by the UC Berkeley Renewable and Appropriate Energy Laboratory

General FAQs

What is PACE?

PACE is a program designed to allow property owners (residential and commercial) to install electric and thermal solar systems and make energy efficiency improvements to their buildings and pay for the cost over 20 years through an annual special tax or assessment on their property tax bills. The program is pioneered by the City of Berkeley (where it is known as Berkeley FIRST) with a number of other cities and counties following closely behind. No property owner pays additional taxes or fees unless they have work done on their property as part of the program. Those who do have work done on their property pay only for the cost of their project (including interest) and fees to administer the program. Individual property owners contract directly with qualified private solar installers and contractors for energy efficiency and solar projects. The municipality provides the upfront funding for the project through proceeds derived from the creation of a bond, which is repaid from special taxes or assessment on participating property owners' tax bills.

Why are cities initiating this program?

PACE can be a significant component of a city's effort to reduce local greenhouse gas emissions, to promote energy efficiency improvements in its buildings, to make the shift to renewable sources of energy more affordable, and to reduce energy costs for residents and businesses. Energy efficiency improvements, solar photovoltaic and solar hot water systems are already cost effective for many residential and commercial property owners with the existing state and federal subsidies. PACE addresses two of the major remaining financial hurdles to solar and energy efficiency installation – the high up-front cost and the possibility that those costs will not be recovered if the property is sold. Under the PACE plan, there is no up-front cost to the property owner, and if the property is sold prior to the end of the repayment period the new owner takes over the remaining special tax payments as part of the property's annual tax bill.

Who will provide the up-front funding for the program?

Cities and counties provide funding for the program through the issuance of a bond that is repaid semi-annually through special taxes or assessments on the annual tax bill of participating property owners.

What energy projects can be funded by PACE?

PACE can fund solar electric, solar thermal, and major energy efficiency projects.

What is the timeline for launching PACE?

The process for adopting and implementing PACE is approximately 3-4 months depending on Council schedules.

Participant Information FAQs

Who is eligible to participate?

All private property owners – both residential and commercial – are eligible to participate in the program. A city or county may choose to limit eligibility for certain policy reasons.

What is the amount of increase in a participant's property taxes?

Participants only pay a tax exactly equal to the cost of their project – plus a charge for interest and administration. For example, if the program finances $12,000 of energy efficiency and solar projects for a property, the incremental property tax assessment would be approximately $900 per year, or $75 per-month, before tax deductions.

How much will a participant save on their electric bill?

Every property is different. For most property owners a few simple calculations - based on a potential participant's current energy consumption - can estimate the expected reduction in their utility bill. The goal is for utility bill savings from solar and efficiency improvements to be the same or greater than the amount of the incremental property taxes during the 20-year financing period.

How will this plan affect property owners who choose not to participate?

Property taxes will remain unchanged for people who choose not to participate in the program. Property owners will pay an incremental special tax only if they "opt-in" and have work done on their property as part of the program.

What is the effective interest rate for solar and energy efficiency loans?

The interest rate depends on a number of factors, including market conditions at the time funding is provided, administrative fees charged by the city or county, and program details.

Can participants use any contractor for solar installation or other energy projects?

This is partly up to the city or county. In Berkeley, the property owner can contract directly with any qualified private solar installer approved for participation in the California Solar Initiative.

What happens if a participant sells their property?

The tax obligation will generally remain as an obligation of the property when the property is sold. If a participant sells their property prior to the end of the 20-year tax period, the new owner takes over the tax obligation as part of the annual tax obligation on the property in most cases. The energy systems are part of the property and ownership of the energy system transfers to the new owner at the close of the real estate sale.

Are participants eligible for the California solar rebates and other energy efficiency incentives?

Yes, participation in this financing plan does not reduce rebates available through the California Solar Initiative ("CSI") program. More information on the CSI can be found at: http://www.gosolarcalifornia.ca.gov/. Other energy efficiency rebates available from utilities and the State of California would also be unchanged.

Can participants deduct the solar financing costs on their income taxes as they do for other property taxes?

Participants will be permitted to deduct the interest component of their solar financing tax, similar to a home equity line or a home mortgage.

How will a property owner apply to participate in the Program?

This will vary depending upon the city and the financial vendor. The application can be as simple as a five-minute on-line form or as complicated as a home mortgage application, depending upon how a city or county chooses to set up their program. Legally, all that is required is to verify exact ownership of the property.

What will be the City's approval criteria?

While a city or county has discretion on the criteria, the three essential elements for approval are (1) the applicant is the legal owner of the property, (2) the property owners are current in the payment of all mortgages, taxes, and other obligations secured by the property, and (3) there are no significant involuntary liens or defaults.

Financial Issues FAQs

How is the Special Tax calculated for each Property Owner?

The annual special tax amount for each property owner is calculated based upon (a) the cost of the energy project installed in that property owner's residential or commercial property, (b) the interest rate paid by the City on Special Tax Bonds or other monies used to fund the cost of that property owner's energy project, and (c) an upfront and annual administrative charge levied by the City and financing partner.

How will the interest rate on the Bonds be calculated?

This will depend upon the terms provided to the City by its financial partner and is based upon conditions in the municipal bond market, program specifics, and other factors.

Who will buy the Bonds?

Bonds of this type will be purchased by banks or other investors in the same way other municipal bonds issued by cities are purchased. Interest on the bonds will be taxable to the investor at the federal level, but exempt from California State income taxes.

Who collects the Special Taxes or Assessment?

Special tax or assessment payments are collected on the property tax bill by the County and will be due on the same dates as ad valorem property taxes.

What if the Special Tax or Assessment is not paid by the property owner?

The Special Tax or Assessments, like other property taxes, will be secured by a lien on the subject property, which ranks senior to the first mortgage. As a general matter, if a property owner fails to pay ad valorem property taxes for five years, the county will foreclose on the property to collect delinquent taxes.

Is a participant obligated to continue repaying if the solar system stops working?

The special tax or assessment obligation will continue for the entire 20-year period whether or not the solar system (or any other approved energy improvement) continues to work.

Investment Tax Credit FAQs

The federal government provides a 30% Energy Tax Credit for the costs of specified energy projects, including most residential and commercial solar installations. Before February 2009 expenditures made from funds considered "subsidized energy financing" were not considered eligible for the purpose of calculating the Energy Tax Credit. But the economic stimulus bill passed by Congress gave a major boost to PACE. Congress amended the federal tax code to ensure that all participants in PACE programs can take full advantage of the 30% solar energy tax credit. Congress also authorized the use of Clean Renewable Energy bonds to fund the program. (Please note this information does not constitute tax advice nor do we take any responsibility for the use of the information.)

Program Description

The PACE program uses municipal bonds to finance the cost of installing solar photovoltaic systems on private property. Participants repay the costs of the solar installations through a special tax or assessment on their semi-annual property tax bill. A lien against the property secures the repayment obligation. The municipal bonds do not benefit from federal tax exemption, and the interest rate is based solely on the credit quality of the special taxes.

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