

## **POLICIES TO WATCH: RENEWABLE ENERGY/ENERGY EFFICIENCY SPECIAL IMPROVEMENT DISTRICTS**

### ***The essentials***

- Renewable Energy/Energy Efficiency Special Improvement Districts (E-SID) are funding mechanisms for energy efficiency and renewable energy projects within each district.
- Funds are collected through a voluntary, 20-year property assessment tax.
- AZ State Rep. Chad Campbell introduced Arizona HB 2298 in the 2012 legislative session, which would allow for the establishment of E-SIDs in Arizona. However, this bill has been shelved for now, while the Federal Housing Finance Agency issues rules related to lien seniority for PACE (spell out) in residential housing.

***What is a Renewable Energy/Energy Efficiency Special Improvement District (E-SID)?*** It is a mechanism which allows property owners in participating communities to finance the cost of installing and operating energy efficiency and renewable energy systems (including solar, geothermal, wind and other technologies) and allows the cost to be repaid over 20 years through a special voluntary tax on their property bill. The financing is known as a Property Assessment Clean Energy (PACE) program, which operates similar to a government issued bond for public improvements. There will be no cost to property owners who do not participate in the program. Participation is voluntary.

E-SIDS have been implemented in 27 states and Washington, D.C. The City of Palm Desert in California implemented its popular Energy Independence Program in 2008, and by date? has made over \$5 million in loans. Nevada, New Mexico and Texas also have similar renewable energy and energy efficiency loan policies.

***Opportunities and benefits*** Up-front costs for energy efficiency and renewable energy projects can be expensive, even though these projects can save money in the long term. An E-SID creates and runs a financing program that alleviates these initial costs for individual property owners.

***Current challenges and concerns*** Because PACE financing is via property tax assessments, under traditional lending practices PACE liens become senior to existing mortgages on a property. Mortgage lenders are therefore unwilling to support such financing mechanisms, and in 2010 the Federal Housing Finance Agency (FHFA) urged states to discontinue their residential underwriting until consumer protection standards are developed. At this time, some states have addressed this issue by explicitly rejecting senior lien status for PACE programs or by requiring participants to sign an additional disclosure statement detailing the

lien concerns and risks. FHFA is creating lien rules for residential PACE programs. The public comment period for the FHFA PACE rulemaking ended March 26, 2012.

***Learn more:***

**List of PACE financing in the U.S.**

<http://www.dsireusa.org/incentives/index.cfm?EE=1&RE=1&SPV=0&ST=0&searchtype=PTFAuth&sh=1>

**AZ HB2298 Bill text can be found here**

<http://www.azleg.gov/legtext/50leg/2r/bills/hb2298p.htm>

***Contact information***

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***Latest developments***

State Representative Chad Campbell introduced a bill authorizing the establishment of E-SIDs for PACE financing in the Arizona House of Representatives on January 12, 2012. Due to lien concerns, it has currently been shelved.

FHFA is creating lien rules for residential PACE programs. The public comment period for the FHFA PACE rulemaking ended March 26, 2012. The FHFA is now reviewing those comments. You can view submitted comments here:

<http://www.fhfa.gov/Default.aspx?Page=89&ListNumber=5&ListID=21591&ListYear=2012&SortBy=>