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Local Energy Improvements Financing Program

An important provision of the 2010 Jobs Bills (Chapter 216) is the Local Energy Improvements Financing Program. Under the measure, local units of government in Minnesota can provide low-interest loans that enable owners of residential, commercial and industrial properties to retrofit their buildings with cost-effective energy improvements.

The energy improvements can be any permanent change to a building that leads to a net reduction in energy consumption without altering the principal source of energy. Installing renewable energy systems such as solar thermal, solar photovoltaic, wind or geothermal also will qualify for loans under this program, as will new or upgraded electrical circuits and other equipment that enable electrical vehicles to be charged.

Before a building can qualify for the funding, an energy audit must be conducted to identify appropriate energy improvements in the structure and to estimate how long it will take for the energy improvements to pay for themselves. A loan under the program is limited to no more than 10% of the assessed value of the property to be improved. The property owner needs to be current on the payment of both their property taxes and any mortgage in order to participate.

The program will be funded through revenue bonds issued by participating local governments. Building owners will pay back the loans through a special tax assessment, not to exceed 20 years. The program requires no state funding or overarching state agency oversight. Communities will decide on their own whether they want to establish the program.

In addition to promoting energy conservation, the Local Energy Improvements Financing Program is a promising economic development tool. The measure will:

- Contribute to the growth of Minnesota companies by financing energy improvements that cut costs and increase competitiveness, particularly in manufacturing.
- Help put vacant industrial and business facilities back in use by providing financing for improvements that will make them more energy efficient.
- Create jobs in the construction industry, especially for contractors who specialize in energy conservation improvements and in installing renewable energy systems.
- Stimulate business for companies that specialize in manufacturing energy-efficient windows, doors, glass, HVAC equipment and other components.

Similar measures, commonly called Property Assessed Clean Energy programs (PACE), have been established elsewhere in the country, including California, Colorado, Connecticut, Maryland, New York, Ohio, Oregon, Texas, Vermont, Virginia and Wisconsin. Berkeley, Calif., pioneered the concept when it issued the first PACE bond in January 2009.

One of the advantages of the PACE model is that it allows property owners to install improvements without large up-front cash payments. The financing is secured with a lien on the property. In the event of foreclosure, the local unit of government that financed the project is paid before other claims against the property. If the property is sold before the end of the repayment period, the new owner inherits both the remaining repayment obligation and the financed energy improvements.