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## Keeping “PACE” with energy technology in school districts

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Ohio is one of at least 30 states that have authorized the use of Property Assessed Clean Energy or “PACE” financing. As the name suggests, PACE financing uses property assessments to finance clean energy and energy efficiency technologies. This publication briefly introduces PACE financing, describes the mechanics of PACE financing in Ohio and highlights some advantages PACE financing may present for school districts.

### The concept

PACE financing allows owners of real property to pay the costs of alternative energy and energy efficiency upgrades to their properties over time without taking on debt. Specifically, PACE enables property owners to work with their local municipal corporation or township to have special assessments levied on the real property that will be benefited by the energy upgrades. The special assessments are levied over a period of years and can be pledged to a lender in exchange for the capital required to pay the upfront costs of the energy upgrades. As a current obligation on the real property tax bill, a special assessment payment is not a repayment of indebtedness. It is the payment of a current obligation. And as an assessment collected with real property taxes, the security for the payment of a special assessment is the state’s lien

for the payment of real property taxes. A lease, mortgage or other security agreement is unnecessary.

PACE is, therefore, an alternative to the typical project financing model. Rather than issuing bonds or notes and agreeing to make periodic debt service payments to retire them, a property owner using PACE receives the upfront capital from a bank or other lender and agrees to pay its real property taxes, including the special assessments, on time.

The mechanism in Ohio

Chapter 1710 of the Ohio Revised Code contains Ohio's law authorizing PACE financing. Under Chapter 1710, property owners may use PACE financing for solar, geothermal, customer-generated energy, and—significantly—energy efficiency projects. Energy efficiency projects include any technologies, products and activities that reduce or support the reduction of energy consumption or that support the production of clean, renewable energy. Practically, energy efficiency projects include projects like lighting upgrades, building automation and control upgrades, energy efficient HVAC systems, energy efficient windows, energy efficient insulation and energy efficient roofing.

Chapter 1710 authorizes almost all types of property owners to use PACE, including governmental entities like school districts, even though school properties are ordinarily exempt from real property taxation. A school district, like any other property owner, would simply determine the scope and cost of an eligible project and would then work with its local municipal corporation or township to have the special assessments levied. The levy of the special assessments would not jeopardize the exemption from real property taxation otherwise applicable to the school district's property. The special assessments would simply be an additional item—and perhaps the only item—due on the school district's real property tax bill.

As with all real property tax items in Ohio, special assessments are paid semi-annually or, in some cases, annually (if determined by the applicable county auditor). The repayment schedule for PACE financing is, therefore, a series of semi-annual or annual special assessment payments due at the same time as real property taxes.

Potential advantages of PACE financing

As mentioned above, a primary advantage of PACE financing for school districts is its classification as a current obligation rather than debt. Contrast Section 133.06(G) of the Ohio Revised Code, which authorizes school districts to issue notes for the purpose of financing energy upgrades similar to those authorized for PACE financing. The notes issued under Section 133.06(G) classify as debt and are subject to the special debt limitation within Section 133.06(G). The special assessments due through PACE financing are current obligations subject to appropriation. PACE financing is, therefore, not subject to debt limitations.

A second advantage of PACE financing is speed to market. Absent an independent requirement, PACE financing does not need to be approved by the Ohio Facilities Construction Commission. In addition, if a PACE financing transaction is structured correctly, it can be exempt from the school district's competitive bidding procedures. School districts could work with a chosen energy auditor or energy project developer to analyze current energy performance, determine the correct scope and costs of the project, design upgrades, implement the upgrades and measure their performance. That is another distinction from Section 133.06(G), which requires both Ohio Facilities Construction Commission approval prior to issuance and the usual competitive bidding procedures.

PACE financing also frequently offers the advantage of neutral or positive cash flows. In many instances, 100 percent financing is available with no required upfront cash investment by the property owner. Energy upgrades often reduce the energy consumption and associated energy costs of the property enough to fully offset, and sometimes exceed, the amount of the special assessments due each year. Given the right circumstances, a school district could potentially expend no cash up front, pay special assessments over time and experience neutral or positive cash flow due to the reduced energy costs.

Conclusively, school districts may be able to use PACE financing to finance energy upgrades to school district properties without incurring debt, without acquiring Ohio Facilities Construction Commission approval, without proceeding through competitive bidding, without expending any cash up front and without experiencing a negative effect on cash flow. A school district interested in PACE financing should consider whether it has energy projects that qualify under Chapter 1710 and whether it has funds available to pay semi-annual or annual special assessments to repay the upfront capital used to pay the costs of the energy upgrades. Legal counsel, financial advisors, and energy auditors or energy project developers can help evaluate the appropriateness of PACE financing for particular energy upgrades.