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Statement of  
**LUIS P. SALAVERIA**  
**Director**  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION**

February 2, 2016  
8:30 A.M.  
State Capitol, Conference Room 325

in consideration of  
**HB 1524**  
**RELATING TO CLEAN ENERGY.**

Chair Lee, Vice Chair Lowen, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers comments on HB 1524, which establishes an additional form of financing for commercial and residential property owners to implement energy efficiency improvements and install renewable energy systems.

DBEDT supports the promotion of increased access to capital for residential and commercial renewable energy projects to reach the State's clean energy goals. In this regard, DBEDT has participated in the legislature's statutory development of the green infrastructure financing program (Act 211 Session Laws of Hawaii (SLH) 2013) and the PUC's on-bill financing program (Act 204 SLH 2011 as amended by Act 201 SLH 2015).

DBEDT has concerns that:

1. There are no resources appropriated if it is to implement the activities required to establish, manage and administer the Property Assessed Clean Energy (PACE) program envisioned by HB 1524.

2. This legislation is duplicative in its objective of lowering the barrier of access of capital for property owners to install energy improvements. The Hawaii Green Infrastructure Authority's green infrastructure loan program, which has the potential to use on-bill repayment, also offers this same benefit.

Due to the special assessments on qualified real property to be undertaken by counties under this measure, DBEDT respectfully defers to the Counties on the feasibility and implementation of a PACE program.

DBEDT also defers to the Department of Budget & Finance on the bond financing and fiscal impacts of the bill, especially those proposed under Chapter 39 "State Bonds."

Thank you for the opportunity to offer these comments on HB 1524.



DAVID Y. IGE  
GOVERNOR

TARA M. YOUNG  
EXECUTIVE DIRECTOR

## HAWAII GREEN INFRASTRUCTURE AUTHORITY

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Statement of  
**TARA M. YOUNG**  
**Executive Director**  
Hawaii Green Infrastructure Authority  
before the  
**HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION**

Tuesday, February 2, 2015  
8:30a.m.  
State Capitol, Conference Room 325

in consideration of  
**HB 1524**  
**RELATING TO CLEAN ENERGY.**

Chair Lee, Vice Chair Lowen, and Members of the Committee.

The Hawaii Green Infrastructure Authority (HGIA) offers comments on HB 1524, which establishes an additional form of financing for commercial and residential property owners to implement energy efficiency improvements and install renewable energy systems.

The HGIA supports the intent of this measure to promote increased access to capital for residential and commercial renewable energy projects to reach the State's clean energy goals. However, this legislation is duplicative in its objective of lowering the barrier of access to capital for property owners to install energy improvements as the HGIA's Green Energy Market Securitization (GEMS) loan program was statutorily created in 2013 and capitalized with a \$150 million bond issuance in 2014 to allow underserved customers (those who do not meet traditional underwriting requirements) access to financing options so that they, too, can be afforded the benefits of cost-effective renewable energy and energy efficiency.

The HGIA defers to the Departments of Business, Economic Development, and Tourism, the Counties, and the Department of Budget & Finance on the feasibility, implementation and administration of this measure.

Thank you for the opportunity to offer these comments on HB 1524.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: REAL PROPERTY, Property Assessed Clean Energy Program

BILL NUMBER: HB 1524

INTRODUCED BY: THIELEN

EXECUTIVE SUMMARY: The proposed program, though touted as an innovative mechanism for financing energy efficiency and renewable energy improvements on property, is complex and will require county participation. In addition, the State now has a similar program called GEMS that is financed by ratepayers; consideration should be given to fixing this program before moving forward with the proposed one.

BRIEF SUMMARY: Establishes a property assessed clean energy program to promote renewable energy systems and energy efficiency improvements by making available financing for such improvements that would be secured by the real property on which the improvements are built. Increases a property's tax assessment to make loan payments. Authorizes the issuance of revenue bonds and appropriates bond revenues to finance the program.

EFFECTIVE DATE: July 1, 2016

STAFF COMMENTS: This measure would create a property-assessed clean energy program, which can be described as follows, according to the U.S. Department of Energy Office of Energy Efficiency and Renewable Energy:

The property-assessed clean energy (PACE) model is an innovative mechanism for financing energy efficiency and renewable energy improvements on private property. PACE programs allow local governments, state governments, or other inter-jurisdictional authorities, when authorized by state law, to fund the up-front cost of energy improvements on commercial and residential properties, which are paid back over time by the property owners.

PACE financing for clean energy projects is generally based on an existing structure known as a "land-secured financing district," often referred to as an assessment district, a local improvement district, or other similar phrase. In a typical assessment district, the local government issues bonds to fund projects with a public purpose such as streetlights, sewer systems, or underground utility lines.

The recent extension of this financing model to energy efficiency (EE) and renewable energy (RE) allows a property owner to implement improvements without a large up-front cash payment. Property owners voluntarily choose to participate in a PACE program repay their improvement costs over a set time period—typically 10 to 20 years—through property assessments, which are secured by the property itself and paid

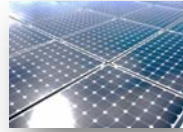
as an addition to the owners' property tax bills. Nonpayment generally results in the same set of repercussions as the failure to pay any other portion of a property tax bill.

A PACE assessment is a *debt of property*, meaning the debt is tied to the property as opposed to the property owner(s), so the repayment obligation may transfer[] with property ownership depending upon state legislation. This eliminates a key disincentive to investing in energy improvements, since many property owners are hesitant to make property improvements if they think they may not stay in the property long enough for the resulting savings to cover the upfront costs.

Under the bill, the administration of this program is proposed to be within DBEDT, but the financing mechanism, the real property tax, is exclusively within control of the counties. Thus, lots of coordination will be required. Counties may object to what promises to be high legal and administrative costs, and would need to make provisions for county staff who can help support the program.

The State already has in place a recently created GEMS (Green Energy Market Securitization) program that is supposed to accomplish the same or similar objectives. GEMS, however, has faced significant operational delays and has been unable through Sept. 30 of last year to deploy *any* of the \$150 million it raised on the bond market in November 2014. Consideration therefore should be giving to propping this program up or folding the proposed program into it if it works; or, if it doesn't work, finding out what the problems are and fixing or scrapping the GEMS program before enacting a program that promises to be more complex than GEMS.

Digested 1/29/16



## **HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION**

February 2, 2016, 8:30 A.M.

Room 325

**(Testimony is 1 page long)**

### **TESTIMONY IN SUPPORT OF HB 1524**

Aloha Chair Lee, Vice Chair Lowen, and Committee members:

The Blue Planet Foundation strongly supports House Bill 1524, a measure that makes available bond funding for energy efficiency and clean energy investments on residential and commercial properties and allows for the bond to be repaid over time through property tax assessment on the subscribed properties.

While the legislature has considered such a financing program in previous sessions, concerns brought by the Federal Housing Finance Agency (FHFA) over the loan lien priority stymied progress. New action by the federal government over the past year, however, has addressed the FHFA's concerns through guidelines on how such loans are treated.

The establishment of the innovative financing program proposed in HB 1524, frequently called "property assessed clean energy"—or PACE, overcomes the biggest barrier to energy efficiency and clean energy investment: the up-front cost. The concept behind PACE is to make bond funding available for residential efficiency improvements and clean energy installations. The bond financing is then repaid over time through the investing residents' property tax bills. Residents benefit by having a lower total cost of home ownership immediately; the state benefits with an increase in efficiency and clean energy; and the economy benefits from having steady growth in high-tech clean energy and efficiency jobs.

Consumers have proven to be terribly short-sighted in their purchasing decisions when it comes to energy saving technologies. Despite the environmental and long-term economic advantages of converting to solar water heating, for example, only one in four Hawai'i homes take advantage of this technology. By eliminating the up-front cost and enabling residents to pay for the investment through the energy savings over time, adoption of efficiency and clean energy will accelerate. The PACE model makes such financing even easier by enabling the investment payback to be integrated in the residential property tax—keeping the default rate low.

The program works like this: proceeds from the PACE bond are lent to residential property owners to finance efficiency improvements and small renewable energy systems. Owners then repay their loans over a prescribed time period via an annual assessment on their property tax bill. The liability to repay the bond is attached to the property, rather than to the individual, as an assessment on real property.

[info@blueplanetfoundation.org](mailto:info@blueplanetfoundation.org)

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PACE bonds were ranked one of the Top 10 “Breakthrough Ideas for 2010” by Harvard Business Review. Twenty-nine other states have already established property assessed clean energy bond financing or loan programs and other states have pending legislation.

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*"PACE bonds are also very attractive to political leaders. As opt-in solutions, they raise taxes only for the property owners who choose to take loans. Other constituents' pocketbooks are unaffected...What politician would not want to lay claim to a program that increased property values, lowered monthly utility costs, and created jobs?"*  
*- Harvard Business Review, Jan 2010*

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This bond financing with property tax repayment for clean energy projects and efficiency investments in Hawai'i will provide jobs as well as long-term energy, environmental, and economic benefits. The PACE program will increase energy security, encourage economic diversification, provide increased career opportunities for Hawai'i residents, and attract funding and investment into the State.

Please forward HB 1524 in its current form.

Thank you for the opportunity to testify.

February 2, 2016

**The Honorable Chris Lee, Chair**

House Committee on Energy & Environmental Protection  
State Capitol, Room 325  
Honolulu, Hawaii 96813

**RE: H.B. 1524, Relating to Clean Energy**

**HEARING: Tuesday, February 2, 2016 at 8:30 a.m.**

Aloha Chair Lee, Vice Chair Lowen, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 8,800 members. HAR **offers comments** on H.B. 1524 which establishes a Property Assessed Clean Energy (PACE) program to promote renewable energy systems and energy efficiency improvements and increases a property's tax assessment to make loan payments. It also authorizes the issuance of revenue bonds and appropriates bond revenues to finance the program.

The PACE guidance issued by HUD's Federal Housing Administration (FHA) is a welcome development and we are pleased that they took steps to recommend that PACE loans remain in a subordinate position to the primary mortgage loan. HUD's FHA announced that properties with PACE loans that are subordinate to the primary mortgage loan can be purchased and refinanced with an FHA insured mortgage.

HAR would also add that while we are not opposed to energy retrofit financing programs that allow homeowners to improve energy efficiency, these programs must be structured to ensure protection of the core financing for the home and, therefore, cannot undermine the first-lien status of Fannie Mae and Freddie Mac mortgages which majority of Hawaii's mortgages fall into. Additionally, both these entities and Federal Housing Finance Agency (FHFA) under which they operate does not allow the purchase or refinance of properties if the property has a first-lien PACE loan attached to it.



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First, a homeowner with a first-lien PACE loan cannot refinance their existing mortgage with a Fannie Mae or Freddie Mac mortgage. Second, anyone wanting to buy a home that already has a first-lien PACE loan cannot use a Fannie Mae or Freddie Mac loan for the purchase.

HAR strongly believes in the need to maintain and strengthen mortgage markets while supporting energy efficiency through the PACE program. We look forward to continuing the dialogue on this issue.

Mahalo for the opportunity to testify.

EEPttestimony

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From: mailinglist@capitol.hawaii.gov  
Sent: Monday, February 01, 2016 12:15 PM  
To: EEPtestimony  
Cc: mendezj@hawaii.edu  
Subject: \*Submitted testimony for HB1524 on Feb 2, 2016 08:30AM\*

**HB1524**

Submitted on: 2/1/2016

Testimony for EEP on Feb 2, 2016 08:30AM in Conference Room 325

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Javier Mendez-Alvarez	Individual	Support	No

Comments:

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**LATE**

TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION  
ON  
HOUSE BILL NO. 1524

February 2, 2016  
8:30 A.M.

RELATING TO CLEAN ENERGY

House Bill No. 1524 establishes a property assessment clean energy program to promote renewable energy systems and energy efficiency improvements, increases a property's tax assessment to make loan payments, and authorizes the issuance of revenue bonds and appropriates bond revenues to finance the program.

The Department has a comment on the bill. The Department believes it would be more appropriate for the Department of Business, Economic Development, and Tourism (DBEDT) to be the issuer of the revenue bonds. DBEDT, as the proposed administrator of the Hawaii Property Assessed Clean Energy Program, will be responsible for overseeing the program and ensuring the program generates sufficient revenues to pay debt service on the bonds. Such revenues include, but are not limited to, property tax assessments which are the sole responsibility of the counties.

In addition, any proposed financing mechanism would need to be thoroughly analyzed through the credit process, and any future issuance subject to financing feasibility. The formation of credit and management of the financing structure will be critically important to ensure that investors and the market are interested in putting up

money for this program at a reasonable cost to the state, taxpayer, and/or property owner.

Thank you for the opportunity to provide testimony on this measure.



# SIERRA CLUB OF HAWAII

**MĀLAMA I KA HONUA. Cherish the Earth.**

House COMMITTEE ON ENERGY AND THE ENVIRONMENT

Tuesday February 2, 2016 8:30AM Room 325

In Support **HB1524** Relating to Clean Energy

**LATE**

Aloha Chairman Lee and members of the House Energy and Environment Committee,

On behalf of our 12,000 members and supporters, the Sierra Club of Hawai'i strongly supports HB1524 relating to clean energy. This bill would spark new investment in clean energy with bond funding paid for through tax assessments the commercial and residential properties that make those investments.

Hawaii is committed to a 100% clean energy future. The major challenge to making this transition is the expense of installing the necessary new equipment. With "Property Assessed Clean Energy" (PACE) bonds, homeowners and businesses can make the investment in clean energy technologies now and repay that invest through an additional assessment on property taxes.

The genius of this innovative funding tool is that payment for the bond is wrapped into the taxes assessed on each property. This means homeowners and businesses service the debt at the same time they pay their bill. This results in an extremely low-rate of default on the bonds.

PACE bond funding is an eloquently simple solution to an longstanding problem.

We strongly urge this Committee to move this measure forward. Thank you for the opportunity to testify on this measure.

Mahalo,

Martha Townsend  
Director