

MAKING WAVES



JOHNSON SHOYAMA
Centre for the Study of
Science and Innovation Policy
URREGINA ▽ USASK

May 13, 2020

▶ ACCELERATE THE PACE OF LOCAL ENERGY INNOVATION IN SASKATCHEWAN

Municipalities across Saskatchewan will soon have a decision to make as to whether they support a policy known as Property Assessment Clean Energy (or PACE). A recent amendment to the Municipalities Act would provide municipalities with the power to allow property owners to pay for environmental improvements through their property taxes. These changes from the province would take effect in early 2021.

It is well known that the biggest hurdle to energy-efficient retrofits is the upfront capital costs. It is, therefore, wise to consider policies to help businesses and homeowners overcome this barrier. PACE addresses this concern. By attaching a loan to property, homeowners and businesses would be able to finance their project, typically over a 10-20 year timeframe. If they choose to sell the home or business, the debt will follow the property—not the homeowner or business owner.

Proponents of PACE are more than optimistic about what a PACE program can deliver. It would unlock capital from financiers (namely pension funds and insurance companies). The construction industry would be put to work retrofitting homes and businesses. Homeowners and business owners would have lower utility bills—potentially even offsetting their increased property tax charges. Carbon emissions would be reduced. All the while, cities would not have to pay a dime.

If all seems too good to be true, that's because it is.

Opponents of PACE argue that such a policy would unleash a barrage of moral hazards and create opportunities for predatory behaviour. In California, at the forefront of PACE, there has been crackdown after an

increase in defrauded homeowners. There are also questions of property resale value.

What is the appetite from potential buyers to purchase a home or business with an existing loan attached to their property taxes? The answer: we don't know yet. With Canadians already overleveraged, is it wise to provide yet another mechanism for debt?

Perhaps the biggest concern for the future of PACE is from the mortgages, securitization industries and regulatory bodies. The Canadian Mortgage and Housing Corporation, for instance, does not underwrite PACE financed homes. In other words, potential homeowners would not qualify with CMHC mortgage insurance.

And finally, the problem that PACE purports to solve, overcoming the upfront capital cost, could potentially be solved by other policy instruments: energy services agreements, green mortgages, on-bill financing, or public loans.

At this point, it is important to point out that PACE programs have been successful.

Like many policies with vested interests, the answer often lies somewhere in the middle. The reality is that municipalities have been successful with PACE. In the U.S., there have been half a million projects and \$6.5 billion invested, with California receiving the lions share. The uptake has been slower in Canada. Ontario, Nova Scotia, and Yukon have active programs, with Alberta likely joining in the next year.

How are municipalities to proceed?

If municipalities want to consider a PACE program, they should learn from other jurisdictions. With adequate consumer protection, targeted financing, and administration support for smaller

“It is well known that the biggest hurdle to energy-efficient retrofits is the upfront capital costs. It is, therefore, wise to consider policies to help businesses and homeowners overcome this barrier.”

municipalities, PACE may provide an opportunity for municipalities to consider as part of their policy toolkit.



MARTIN BOUCHER, Faculty Lecturer, Johnson Shoyama Graduate School of Public Policy; and Energy Policy Researcher, Centre for the Study of Science and Innovation Policy

A JSGS faculty lecturer and academic lead for the online Master of Public Administration program, Martin is currently completing his PhD in Environment and Sustainability at the University of Saskatchewan (USask). Here, his research focuses on socio-technical pathways to clean energy in Canada, the United States, and Sweden.

Since joining USask in 2014, he has been the recipient of several scholarships and fellowships, including the SENS'Nexen Energy Graduate Scholarship and a Social Science and Humanities Research Council of Canada grant. Boucher has an MA in Integrated Studies with a concentration in global change from Athabasca University and a BSc (honours) in Natural Science from the University of Waterloo.