

FAQs

What is EPAD?

House Bill 100 of the 2015 Kentucky General Assembly (KRS 65.205) was passed to allow local governments to establish Energy Project Assessment Districts (EPAD) – in other states this is sometimes known as Property Assessed Clean Energy (PACE). The details vary from state to state, but PACE and EPAD are the same concept for financing energy efficiency improvements to lower energy use and reduce costs, and potentially increase property value.

What type of energy efficiency improvements qualify?

EPAD includes a variety of energy efficiency measures, including:

- Heating, ventilation, and cooling equipment
- Building automation systems
- Combined heat and power systems
- Renewable energy systems such as geothermal and solar
- Lighting and lighting controls
- Building envelope measures
- Industrial and manufacturing equipment
- Building data center equipment
- Pumps, motors, and drives
- Elevator improvements
- Water management systems and controls
- Other qualifying energy saving measures

Does this affect neighboring properties?

No, the assessment only applies to the property voluntarily electing to participate. No public funds are used to finance projects and no property owners are affected unless the property owner requests to participate.

What types of property does this apply to?

Under Kentucky law (KRS 65.205), EPAD is available to all commercial properties (commercial office space, schools, industrial facilities, and multifamily housing) in communities that have established EPAD programs. The only buildings excluded are single family residential and multifamily properties with fewer than five units.

Who else is doing this?

Thirty-one other states have approved an EPAD model. Texas, Arkansas, Virginia, and Utah have approved EPAD-type legislation similar to Kentucky for their states.

Why not utilize more traditional financing mechanisms, i.e. bank loans?

Traditional lending for these types of improvements typically has a limited term (5-7 years). For short-term energy efficiency payback measures, like lighting, this works well. However, when longer-term payback measures are considered (e.g., HVAC, insulation/air sealing improvements, upgrades to more complex energy equipment), an extended-term loan can be very helpful. Further, because the financing attaches to the property, rather than the individual, it can transfer with ownership. Many property owners see value in this, as the improvements themselves will transfer when the property is sold (presumably with greater value). EPAD financing can also be valuable in shifting to off-balance sheet or off-credit financing, so that project costs are recorded as operating expenses.

What happens if a property should go into default?

Because projects are developed to be cost neutral (where annual savings exceed project costs), the property owner is in a better position to pay their mortgage. The main object of EPAD projects is to make

businesses more competitive (as energy costs increase, this tool will become more valuable to support business development and growth). Additionally, unlike a traditional mortgage where the entire outstanding balance is due, upon default of an EPAD project, only the past-due amount is due, reducing the risk. As a result, if the property enters foreclosure, the financial burden is reduced (typically no more than one or two payments).

How does the EPAD assessment affect the existing mortgage?

One of the lessons learned from other jurisdictions is the need to protect mortgage-holder interests. The EPAD law includes a provision whereby any existing mortgage lender would need to provide consent. If an existing mortgage holder does not give consent, a project does not move forward (no EPAD assessment).

Nationally, the trend is an increased interest from existing mortgage holders to consent to EPAD projects. First, projects improve the value of the existing property. Second, projects result in operational and energy cost savings. As such, the property owner is in a better position not only to pay the assessment, but also the existing mortgage. Third, EPAD transactions can offer banks additional investment opportunities with existing customers. Nationally, the list of consenting banks includes Bank of America, JP Morgan Chase, US Bank, Wells Fargo, and Fifth Third, among others.

Where does the money come from?

Capital to fund EPAD upgrades can come from banks or bond investors. Financial institutions, like insurance companies, are increasingly using EPAD investments as a way to help ensure stable, long-term returns.

Why should local government be doing this?

Generally, when government gets involved with energy projects, it usually means incentives, subsidies or tax breaks—i.e., spending taxpayer dollars. EPAD is not a subsidy. Instead, EPAD offers a free market method to help businesses save money and create jobs without any new public funds or government investment. The only government role is to facilitate a process, just as in the case of a Tax Increment Financing district.

The key to the EPAD model is that projects are structured, financed, and paid for entirely by the private sector. Rather than using subsidies, EPAD supports businesses to take control of their own project needs.

What if my community does not have an EPAD program?

For EPAD to be available as a financing mechanism, a local government must voluntarily establish a local program. For more information on how to get started with EPAD in your community, contact us.

For More Information, Contact:

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