PACE Becomes the Law of the Land in Arkansas
April 22, 2013

With Arkansas Governor Mike Beebe’s signature on Monday, April 15, 2013, Senate Bill 640, the Property Assessed Clean Energy Act, became law to enable local option clean energy financing in the Natural State for the first time.

The PACE Act becomes an important spoke in the expanding wheel of new energy policies in Arkansas that are driving rapid growth in the energy savings industry since 2010. While the state’s seven public utilities offer an impressive menu of rebates and incentives to encourage customers to implement energy savings measures under the state’s Energy Efficiency Resource Standard (EERS) program, the lack of access to financing has prevented many willing property owners from pursuing medium to large projects.

The fact that PACE was considered during one of the most turbulent legislative sessions in recent Arkansas history is only part of the new law’s unique path to enactment. A strong support base of business and advocacy groups, skilled leadership by the bill’s legislative cosponsors, key advice from city and county government officials and a dramatic one-vote majority on a busy day in the House of Representatives all contributed to the PACE Act story in Arkansas.

The new law authorizes government entities to voluntarily form energy improvement districts with the power to issue tax-exempt bonds to fund low-interest, long-term loans to interested property owners for energy efficiency improvements, water conservation improvements and renewable energy projects.

Interested property owners who own businesses or reside in an energy improvement district can finance projects for up to 20 years. Because energy savings exceed the loan payments which are assessed annually on the property owner’s property tax bill, PACE improvements not only make a business owner’s building more energy efficient, they also help increase the company’s cash flow.

How PACE Became the Right Choice for Arkansas

The Arkansas legislature meets in regular session only once every two years and then for just 60-90 days. This compressed schedule makes it more difficult to gain passage of complex legislation when committees sometimes hear dozens of bills in one day.

This may be one of the main reasons why an earlier version of PACE legislation fell short in 2011. The bill was introduced late in the session and proponents didn’t have adequate time to educate legislators and build support.

But fortunes for PACE would change in 2013. Importantly, two newly-formed organizations called the Arkansas Advanced Energy Association (AAEA) and its educational affiliate, the Arkansas Advanced Energy Foundation (AAEF) began in early 2012 to organize the disparate advanced energy industry. These organizations proved
instrumental in bringing industry to the table and helping to successfully steer PACE through another hectic session of the Arkansas General Assembly, marked this year by the first Republican majority since reconstruction.

AAEF convened nearly 70 industry leaders throughout 2012 in an Energy Efficiency Working Group to fashion a policy agenda that included PACE financing at the top of its list. The group examined best practices in other states and dissected the 2011 bill to identify areas for improvement. AAEF surveyed companies throughout the state and learned that in spite of a high level of interest among building owners, privately financed, energy improvement loans were very uncommon in the state due to unfavorable terms—namely higher interest rates and shorter terms than most business loans. The industry leaders worked closely with the Legislative Task Force on Sustainable Building Design & Practices and its co-chairs, Senator David Johnson (D) and Rep. Greg Leding (D) to fashion a bill that is more specific to Arkansas. Johnson and Leding are well-respected on both sides of the aisle and their leadership was crucial to the ultimate passage of PACE.

Whereas the emphasis in 2011 was to form a statewide energy improvement district, the 2013 initiative retained flexibility for local jurisdictions such as cities and counties to undertake formation of districts. This will allow regions of the state where PACE is well understood and readily supported to proceed as soon as program implementation rules are formalized.

During the summer of 2012, AAEF and the University of Arkansas Applied Sustainability Center cosponsored a series of candidate workshops on advanced energy for legislative candidates. PACE was addressed by business owner panelists as a common sense tool for property owners to reduce their energy costs and pay for improvements with their energy savings. The workshops were attended by nearly 40 candidates, most of whom won their elections and figured prominently in SB640’s successful path through the General Assembly this year.

Stakeholders, Advocates Join Forces

By the time Senator Johnson and Representative Leding introduced SB640, the Property Assessed Clean Energy Act, they had been joined by key Republican cosponsors like Senator Jon Woods and Representative Jonathan Barnett. AAEA leaders had met with state bankers, general contractors, municipal government officials and representatives of various levels of county government, including judges, treasurers, assessors and collectors. Many of these groups suggested important changes to the bill draft that served to customize the Arkansas PACE Act and make it more applicable to the state’s property assessment and collection system. All groups either supported SB640 or assured legislators that they had no objection to its adoption. AAEA corporate CEOs appeared before House and Senate Committees to explain the potential economic impact of a successful PACE program.

Two grassroots organizations, the Citizens First Congress and Arkansas Energy 2013, also joined the informal PACE coalition and played pivotal roles in organizing interested
Arkansas residents to contact their legislators in support of PACE. It is likely that every member of the 2013 Arkansas General Assembly was contacted by industry leaders or interested citizens urging their support of PACE at least once.

SB640 passed the Senate overwhelmingly by a strong, bipartisan 30-5 vote. It faced rougher sledding in the House of Representatives where, on a busy day in April with votes occurring just a few minutes apart, SB640 was called for consideration with nearly 30 House Members, many of them PACE supporters, off the floor. The final vote was 51 for, 13 against giving the PACE Act a bare one-vote margin for final passage. For PACE advocates in Arkansas, the close call will be nothing more than an anecdote in the history of energy efficiency financing in the state.

Importantly, the PACE Act did not become a political issue. It is an energy savings and economic development issue. Key message points focused on wealth retention, job creation, higher property values and more cash flow for business owners.

**The Path Forward**
Looking ahead, the ideal outcome will always remain the creation of a statewide improvement district. However, the new PACE law in Arkansas will also encourage interested regions of the state to organize local energy improvement districts that will facilitate private financing for property owners who want to take advantage of the program.

The Arkansas Advanced Energy Foundation will play an active role to provide expertise and assistance to consumers, contractors and local governments in forming and assisting the implementation of energy improvement districts in Arkansas.