March 26, 2012

Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 7th St., N.W.
Washington, DC 20024

RE: RIN 2590-AA53 Mortgage Assets Affected by PACE Programs; Comments on Advanced Notice of Proposed Rulemaking and EIS Scoping Comments

Dear Mr. Pollard:

The state of Connecticut is committed to promoting cleaner and cheaper energy. With among the highest energy costs in the United States, our state has a particular need to reduce energy use in buildings. To meet this goal, we are interested in innovative financing mechanisms that will attract private capital to help us bring clean energy to scale in our state. With limited state dollars, policies to attract third-party capital to finance energy upgrades in buildings is a critical mechanism we need to meet our energy efficiency goals.

I am writing to strongly encourage FHFA to reconsider its opinion issued July 6, 2010 on residential Property Assessed Clean Energy (PACE). We believe that, with proper underwriting guidelines to protect property owners and mortgage holders, PACE could be a groundbreaking state and local government innovation. PACE can be done consistent with good banking practices and can be executed while maintaining stability in the mortgage markets.

By promoting widespread deployment of clean energy and energy efficiency, PACE has a clear public purpose: making our grid more resilient against power outages, reducing our reliance on imported fuel, promoting energy security, avoiding the cost of building new power plants and transmission systems, and protecting the environment. Thus, we believe PACE is a valid use of the public benefits assessment to meet the public energy policy objectives of the state.

Connecticut is well-positioned for a robust PACE program. We recently established a Clean Energy Finance and Investment Authority (CEFIA), known as the “green bank.” If FHFA changes its opinion, CEFIA would establish protocols and procedure designed to protect the interests of local governments, homeowners, and lenders. With a transparent and public process, we have no doubt the state of Connecticut could design a PACE program that would take into account the needs of the mortgage industry, property owners, and municipalities.

Like 28 other states that have passed PACE enabling legislation, the state of Connecticut is eager to use PACE programs to save homeowners money, create local jobs, and dramatically reduce our energy use. Because of FHFA’s guidance, our efforts on the residential sector have been significantly hampered. With very high state energy costs, this is of particular concern to us. While our legislature did pass a law in 2011 that included PACE, because the PACE lien was subordinated, we were unable to attract capital into the program. A PACE program that treats energy upgrades like all other public benefits assessments and gives it the senior lien position on the mortgage is critical for its success in Connecticut.

We are currently working with our legislature and municipalities to develop a PACE program for our commercial and industrial sectors that would put the PACE lien in the senior position. Our estimation is that this commercial PACE program will unlock a huge economic opportunity for our state. There are 36,000 commercial buildings in Connecticut. If the state upgraded 10% of those buildings to reduce their energy consumption by 20%, it will cost $264M. Doing so would save 273M kWh and reduce energy bills by $43M per year, resulting in a payback of just over 6 years with the annual savings accruing over the life of the building. Using conservative estimates, it will create 1,230 direct jobs per year the program is in effect, with 6,150 in indirect jobs (using a 5 multiplier for indirect job creation). The total state and local tax revenue will be $6.5M annually. It is a very significant economic opportunity for the state.

We are eager to explore the same economic opportunity for our residential sector, where our homeowners are saddled with high energy bills.

We believe that FHFA’s action to halt local government PACE programs on July 6, 2010 needlessly limits the ability of this innovative policy tool to finance the upgrades of America’s building stock. We appreciate the opportunity to provide these comments on residential PACE, and urge FHFA to look for ways to accommodate these broadly beneficial programs that will bring cheaper and cleaner energy to the residential housing sector.

Sincerely,

Daniel C. Esty
Commissioner
Connecticut Department of Energy and Environmental Protection