



TESTIMONY

May 18, 2021

SUBSTITUTE BILL 1 FOR BILL NO. 76 PACE LOANS

By David Stokes

Testimony before the St. Louis County Council Committee of the Whole

Ladies and gentlemen, thank you for the opportunity to testify today. My name is David Stokes. I am Director of Municipal Policy for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research and analysis that the Show-Me Institute has reviewed concerning the PACE loan program in St. Louis County.

A decade ago, Missouri created the Property Assessment Clean Energy (PACE) loan program to help homeowners and businesses get loans for clean energy improvements to their property. A PACE loan could be used to purchase energy-efficient windows, furnaces, water heaters, etc. Administration of the loan program has been contracted out to private entities around Missouri, generally authorized and “supervised” at the county level. Substitute Bill No. 1 for Bill No. 76 expands the PACE

Program to include unincorporated St. Louis County. I believe such an expansion would be a mistake.

The program was started with good intentions. Unfortunately, like so many other government programs, it has not worked out as intended. The PACE program has become another way for lenders to target the disadvantaged. The PACE program has several flaws:

1. It is a government program of questionable need in the first place.
2. Its administration was outsourced to the private sector, but with no meaningful oversight.
3. Most importantly and most egregious of all, it authorizes private lenders to use government taxing authority to collect on loans, up to and including losing one’s home at a tax sale.

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The third point is vital. We learned about the problems with this program through terrific reporting by investigators at *Pro Publica*. Jeremy Kohler and Haru Coryne documented how private lenders were making loans above the value of the borrower's entire house at relatively high interest rates to people with risky credit histories. They were targeting these people precisely because the lender bore greatly reduced risk if the borrower could not repay the loan. Here are examples from the *Pro Publica* report:

... in St. Louis, an elderly widow said she had no idea she had taken on thousands of dollars in PACE debt, though she saw her property taxes rise sharply. A disabled couple in the Kansas City suburb of Raytown said they weren't told of the impact on their property taxes; now they're two years behind on their property taxes.

A Vietnam veteran and his wife in Kansas City are struggling to pay off a \$21,658 loan for a solar panel array despite being enrolled in an energy assistance program; they said they just wanted to do something good for the environment.

A PACE loan is *not* a mortgage. It is instead like taking out a loan for a new car, and then losing your house if you can't make the payments. If the PACE private lenders had been assuming more of the risk themselves, they would have been much more careful about their loans.

According to *Pro Publica*, several Missouri counties have cancelled their participation in the PACE program due to concerns about how it is operated. That list includes several larger counties such as Clay, Cole, and Greene.

As a resident of St. Louis County, as a former employee of this council, and as a government policy analyst, I believe St. Louis County should cancel the entire program. At the very least, the ability of lenders to put the loan on a borrower's tax bill and take their home if they miss payments should be eliminated. Furthermore, St. Louis County should refuse to put any homes up for tax sale that are eligible due to PACE loan debts.¹

St. Louis County should neither expand the PACE program to the unincorporated area nor continue it within the incorporated areas without dramatic revisions to the program as stated above. Thank you for the opportunity to provide this testimony.

David Stokes is director of municipal policy at the Show-Me Institute.

NOTES

1. St. Louis County should negotiate these terms with any PACE partner who wishes to participate in the program within St. Louis County. If no PACE loan companies are willing to abide by these terms, then St. Louis County should refuse to expand the program within the county and end the program within municipalities. St. Louis County and other Missouri counties should also seek state legislation adopting these changes within the state PACE authorizing legislation. As we go to print, the state legislature is considering important changes to the PACE program.



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