Assembly Local Government Committee

Informational Hearing

Update on Implementation of Property Assessed Clean Energy (PACE) Programs at the Local Level

Wednesday, March 19, 2014

1:30 pm, Room 126

Agenda

1) Welcome and Opening Remarks

   Assembly Member Katcho Achadjian, Chair, Assembly Local Government Committee

2) Overview of PACE Programs in California

   a) **Tiffany Roberts**, Energy and Climate Change Analyst, Legislative Analyst's Office

   b) **Deana J. Carrillo**, Executive Director, California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)

3) Case Studies on Implementing PACE Programs

   a) **Barbara Spoonhour**, Program Manager, Western Riverside Council of Governments

   b) **Jane Elias**, Program Manager, Sonoma County Energy Independence Program (EIP)

   c) **Jenine Windeshausen**, Placer County Treasurer-Tax Collector, mPOWER Placer

4) Public Testimony

5) Closing Remarks and Adjournment

Informational Hearing on
Property Assessed Clean Energy (PACE) programs in California

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Hearing Goal

The goal of this hearing is to provide information to members about PACE programs in California, including enacting and follow-up legislation, the role of the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) in facilitating PACE financing, and the experience to date of local agencies that have implemented PACE programs in their jurisdictions.

Background on PACE

First conceived in Berkeley in 2007, PACE is a financing tool that residential or commercial property owners can use to pay for renewable energy upgrades, energy or water efficiency retrofits, or electric vehicle charging stations for their homes or buildings. Local agencies create PACE assessment districts in their jurisdictions via a resolution of their legislative body, allowing the local agency to issue bonds to finance the up-front costs of improvements. In turn, property owners enter into a voluntary contractual assessment agreement with the local agency to re-pay the bonds via an assessment on their property tax bill. The assessment remains with the property even if it is sold or transferred, and the improvements must be permanently fixed to the property.

At least 30 states have enacted PACE legislation and/or have established PACE programs. In California, some local governments administer their PACE programs themselves, while others partner with a third-party organization – such as Figtree Financing or Home Energy Renovation Opportunity (HERO) – to carry out their PACE programs. The cost of third-party administration is not borne by the local agency, but is built in to PACE loan financing. Some of these programs focus on residential projects, others target commercial projects, and some handle both residential and commercial portfolios. Joint powers authorities (JPAs) also administer PACE programs and/or are involved in issuing bonds for third-party administrators. A wide variety of projects can qualify under PACE programs, from building weatherization and solar panels to low-flow plumbing fixtures and energy efficient lighting.

PACE loans can be more attractive to borrowers and lenders because they can offer a longer pay-back period (up to 20 years) with smaller payments than other types of loans, and they are securitized by the property assessment rather than the borrower. In addition, the contractual assessment can glean lower interest rates on bond issues and, in turn, the loans extended to the consumer. Property owners own the improvements, allowing them to claim tax benefits and rebates (this is not the case for leased improvements under power purchase agreements). PACE can also offer a financing option that doesn't inhibit a property owner's credit.

PACE is just one of many methods of achieving California's climate change and energy efficiency goals. PACE focuses on improving energy and water efficiency in existing residential and nonresidential buildings, which the Air Resources Board identified in its AB 32 Scoping Plan as the single most important activity to achieve reductions in greenhouse gas emissions in the electricity and natural gas sectors.

Role of CAEATFA in PACE financing

In 2010, the Federal Housing Finance Agency (FHFA) raised concerns that residential PACE financing could pose a risk for federal mortgage enterprises (Fannie Mae and Freddie Mac), because PACE loans are a first-priority lien in the case of foreclosure and lenders would have to pay outstanding PACE assessments before paying mortgage costs. In August of 2010, Fannie Mae and Freddie Mac announced they would not purchase mortgages for homes with first lien priority PACE obligations. The FHFA's action triggered many local governments to suspend their residential PACE programs.

To address this concern, the Legislature enacted SB 96 (Committee on Budget and Fiscal Review), Chapter 356, Statutes of 2013. This budget trailer bill tasks CAEATFA with administering a PACE loss reserve program that will use a $10 million reserve fund to keep mortgage interests whole during a foreclosure or a forced sale. CAEATFA recently filed its regulations for the program, and is now accepting applications from PACE administrators.

Chaptered PACE legislation

AB 811 (Levine and Beall), Chapter 159, Statutes of 2008, authorized all cities and counties in California to create PACE programs by designating areas within which the local agency and willing property owners may enter into contractual assessments to finance the installation of distributed generation renewable energy sources and energy efficiency improvements.

AB 474 (Blumenfield), Chapter 444, Statutes of 2009, expanded local agencies' PACE authorization to include water efficiency projects.

AB 44 (Blakeslee), Chapter 564, Statutes of 2010, expanded the use of voluntary contractual assessments to include financing of power purchase agreements, and prohibited contractual assessments if the total amount of the assessments and taxes on the property exceeds 5% of the property's market value.

SB 77 (Pavley), Chapter 15, Statutes of 2010, authorized CAEATFA to develop and administer a state PACE bond reserve program to pay bondholders in the event a PACE program had insufficient funds, which would reduce risk to bondholders and facilitate smaller interest rates. CAEATFA has suspended development of this program pending resolution of FHFA's concerns described above.

SB 1340 (Kehoe), Chapter 649, Statutes of 2010, expanded the use of voluntary contractual assessments to finance electric vehicle charging infrastructure and correspondingly expanded the PACE bond reserve program.

SB 96 (Committee on Budget and Fiscal Review), Chapter 356, Statutes of 2013, created a PACE loss reserve program with a $10 million reserve fund to keep mortgage interests whole during a foreclosure or a forced sale, to be administered by CAEATFA.

Additional Resources

California Alternative Energy and Advanced Transportation Financing Authority, PACE Loss Reserve Program:
http://www.treasurer.ca.gov/CAEATFA/pace/index.asp

Western Riverside Council of Governments, HERO Program:
http://www.wrcog.cog.ca.us/energy/energy-efficiency-and-water-conservation-program

Sonoma County, Energy Independence Program:
http://www.sonomacountyenergy.org/

Placer County, mPOWER Placer Program:
http://www.mpowerplacer.org/

PACE*Now*, non-profit organization that broadens awareness and adoption of PACE programs:
http://pacenow.org/