

Assembly Committees on Local Government and Banking and Finance

Keeping Up with PACE: A Joint Oversight Hearing on Residential

Property Assessed Clean Energy Programs

The Assembly Committees on Local Government and Banking and Finance requested that PACE administrators participating in the hearing complete the chart attached and answer the questions below during testimony.

- 1) What is the structure of your residential PACE program? Please provide specifics regarding your contractual relationships with local governments, any private capital partners, solar or energy efficiency companies, and contractors and the flow of money within that structure including the cost of third-party administration.
- 2) When did your program begin? How has your PACE program changed since inception?
- 3) What is your application process?
- 4) After you contract with a city or county (either directly or via a JPA) how do you work with the local governments on issues raised by homeowners? Do you provide homeowners with information on where they can go to lodge complaints or ask questions?
- 5) Do you require homeowners to use specific contractors? Do you provide any training to contractors regarding their interaction with customers?
- 6) How do you market your program to local governments and homeowners. Do you allow contractors to produce their own marketing?
- 7) How do you address the issues raised by FHFA and challenges homeowners face in selling or refinancing their home? Do you offer contractual lien subordination agreements to homeowners? How do you notify a homeowner that this option exists? How many have been requested and how many entered into, to date?

	mPOWER Placer Placer County Public Financing Authority and City of Folsom	Sonoma County Sonoma County Financing Authority	HERO Renovate America	California First Renew Financial	Ygrene Works Ygrene Energy Fund
Financing Organization					
Government Entity	Yes	JPA	Western Riverside Council of Governments (WRCOG) San Bernardino Associated Governments (SANBAG) Los Angeles County	California Statewide Communities Development Authority (CSCDA) - CSCDA was created by and for local governments in California, and is sponsored by the California State Association of Counties (CSAC) and the League of California Cities ("the League"). Currently, more than 500 cities, counties and special districts have become Program Participants to CSCDA. CSCDA is governed by a seven-member commission that are appointed by CSAC and the League. Renew Financial also works under contract with Los Angeles County. LA County selected Renew Financial as a PACE administrator as part of an RFP process in 2014. We work in the unincorporated County and its 88 incorporated cities.	Golden State Financing Authority (GSFA); Coachella Valley Association of Governments (CVAG)
Statutory Authority	AB811 & SB555	AB811	AB 811	AB 811 (2008)	SB 555 (Ch. 2011)

Participating Jurisdictions	Cities of Auburn, Colfax, Folsom, Lincoln, Loomis, Rocklin, Roseville, and the unincorporated areas of	all 9 cities and the unincorporated area	415 communities across California	363	https://ygreneworks.com/serviceareas-california/
Current Projects and Costs	Applications Approved: 1,717 Amount Approved: \$65,716,610		Over \$1.5B in financing extended to fund 72,871 projects since program inception.	\$204,050,857.13	Projects Completed & Under Contract = 17,910 worth \$395.3M
Outstanding Debt Issued	\$52,958,697 as of May 31, 2016 including City of Folsom	\$49,033,780	Securitized \$1.3 billion through seven securitizations	CSCDA: \$50B+ since 1988.	Ygrene currently has \$400M in warehouse debt facilities, and has completed \$150M in PACE ABS securitizations.

<p>Process for Debt Issuance</p>	<p>Draw on Line of Credit Bond issued by finance authority, aggregated assessments bundled and sold to third-party investors</p>	<p>yes</p>	<p>Debt issuance is governed by an executed Master Bond Purchase Agreement and Master Trust Indenture, which is each executed by the issuer. Renovate America advances funds for each project, and then requests/purchases Bonds from issuer that have repayment streams secured by the executed assessment contracts.</p>	<p>CSCDA and Los Angeles County issue PACE bonds on a weekly basis. The bonds issued by CSCDA are limited obligations of the borrower, not CSCDA or the Program Participant. The CSCDA JPA expressly provides that CSCDA is a public entity separate and apart from the Program Participants, and "its debts, liabilities and obligations do not constitute debts, liabilities or obligations of any party to the JPA." Program Participants are not responsible for any repayment of debt by borrowers, nor are they named in any of the bond documents.</p>	<p>PACE instruments are issued by Governmental Authorities in concert with bond trustee Zions Bank. These PACE assets are financed by and held in a warehouse debt facility until a sufficiently-sized pool of assets has accumulated. The pool of PACE assets is then transferred to a long-term debt facility through an asset-backed securities (ABS) transaction which is rated by national rating agencies and financed by the capital markets.</p>
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Interest Rate	6%	7% simple	5 year = 6.75%; 10 year = 7.69%; 15 year = 8.15%; 20 year = 8.35%	Residential: 5-year: 6.75%; 10-year: 7.59%; 15-year: 7.99%; 20-year: 8.29%; 25-year: 8.39% Commercial: depends on capital source, 6.0% or less fixed for 20 years is prevailing	6.50% - 8.49% (based on term)
Terms	5,10,15 and 20 years	10 and 20 year	Interest rates are fixed and fully amortizing; interest-only or negative amortization structures are prohibited. The terms are between 5-20 years and are limited to the useful life of the improvements being installed.	5-, 10-, 15-, 20-, 25-year	5-30 years (based on useful life of improvement)

Improvement Types	renewable generation, energy efficiency and water conservation	energy, water, solar	Eligible improvements are limited to those which either generate renewable energy or are certified to be energy or water efficient by the U.S. Department of Energy, the U.S. Environmental Protection Agency, the California Energy Commission, the California Department of Water Resources, or by a regional body.	Water-, energy-efficiency, and renewable energy generation (some seismic on commercial properties).	Energy efficiency, Renewable generation, Water conservation, EV charging infrastructure, seismic retrofits, and others as permitted by PACE statutes.
Number of Each Type of Improvement	Solar 1266, HVAC 299, cool roof 94, windows/doors 102, water heater 49, insulation 89, pool equipment 88, water conservation 58, stove	2,184 - energy, 74 water, 1,494 solar	\$930 million in energy efficiency; \$520 million in renewable energy; \$67 million in water conservation	Energy-Efficiency: 50%, Renewable: 48%, Water-Efficiency: 2%	Solar 37% (6,626), EE 55% (9,850), Water 7% (1,253), Other 1% (179) - figures are approximate/as of 6-1-16.
Minimum Financing Amount	\$ 2,500.00	\$2,500	\$5,000	\$5,000	\$5,000.00

Maximum Financing Amount	No maximum, staff approval up to \$59,000, Committee approval \$60,000 to \$500,000, over \$500,000 requires Board of Supervisors Approval	up to 10% of the market value of property	The amount to be financed under the Program must be less than 15% of the value of the Property on the first \$700,000 of value, and less than 10% of any remaining value of the property thereafter; the combined amount to be financed under the Program plus the mortgage related debt must not exceed 100% of the value of the Property	15% of estimated home value or \$200K, whichever is smaller.	15% of FMV up to \$700,000; 10% thereafter
Energy Audit Requirement	Required for Non-Residential Projects	no - residential, yes - commercial	None	Encouraged.	Required for projects <\$250,000; recommended for all projects

Lender Notification and/or Consent	Required for Non-Residential Projects	only for commercial	None	Recommend that homeowners notify their first mortgage lender of the PACE lien once the project has funded, so that homeowners with an impound account can start putting funds toward the annual PACE payment as soon as possible, rather than face a large bill come time to make the property tax payments.	Lender notification required; acknowledgment/ consent where applicable
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Disclosure to Homeowner	<p>Seminar attendance required includes FHFA Disclosures and likelihood that new financing will require lien payoff, TRID Compliant: Good Faith Estimate & Closing Statement</p>	yes	<p>The program documentation and processes include numerous disclosures that heighten homeowner awareness and understanding of the key financing terms and risks associated with PACE financing, including, but not limited to, (i) the amount financed, repayment process, payment amounts, term of the financing, rate of interest charged, right to prepay financing and other relevant terms regarding the financing (ii) the nature of the lien or obligation created upon recordation, (iii) the specific improvements to be installed, (iv) the right to withhold approval of payment until the project is complete and (v) FHFA risks. See also Attachment 1.</p>	<p>Full disclosure throughout project application, approval, install, completion/funding processes. Disclosure forms modeled after The federal Consumer Finance Protection Bureau's Know Before You Owe form, and contains stand alone homeowner acknowledgement sections to ensure awareness of FHFA-related issues.</p>	<p>All required disclosures under PACE statutes, state and local regulations; specific FHFA-related disclosures; financing terms and conditions disclosure.</p>
Pre-Lien Loan to Value	90%	90%	Mortgage-related debt on the property must not exceed 90% of the value of the Property	No greater than 90% LTV.	90% or less (except where specified by local policy)

Post-Lien Loan to Value	100%	100%	The combined amount to be financed under the Program plus the mortgage related debt must not exceed 100% of the value of the Property	No greater than 100% LTV.	100% or less (except where specified by local policy)
Total Amount of Property Taxes/Assessments	up to 5%	\$74,012,855	The total amount of any annual property taxes and assessments (including but not limited to all PACE, Mello Roos or other local assessments/special taxes) may not exceed five percent (5%) of the Property's fair market value (determined at the time Program financing is approved)	No greater than 5.0%.	Current total of annual assessments in place equals 14,239 for an annual amount of \$41.8M
Capitalized Interest	Can be paid upfront or included in financing, cannot to exceed amount necessary for tax bill cycle	yes	See underwriting criteria above	Yes (varies).	Varies - calculated on the total amount financed for the period between the dates when the PACE project is funded and the due date of the first tax payment.

<p>Prepayment Penalty</p>	<p>None</p>	<p>no</p>	<p>HERO currently does not levy prepayment penalties against homeowners. The amount being pre-paid must be at least \$2,500.</p>	<p>None for full prepayment payoff. No fees for partial prepayment option (minimum of \$2,500 per prepayment), which lowers principal, providing a re-amortized, lower annual payment amount.</p>	<p>0-5%</p>
<p>Homeowner Fees and Costs (Application Fee, Admin fee, closing fee, etc.)</p>	<p>\$500 Residential and \$1,300 Non-Residential Processing Fee, \$140 Title Fee, \$66 Recording Fee, \$25 Annual Admin Fee</p>	<p>\$203 plus an annual admin. fee of \$45</p>	<p>As of 7/1, \$25 per year (County assessment fees); \$55 one-time fee (County recording fees)</p>	<p>Application fee: None Admin/closing fee: Not to exceed 6.4%.</p>	<p>Application (\$50; typically waived), Processing & Underwriting (\$250 max.), Documentation (\$200 max.), District cost recovery (Up to 1%, min. \$100), Origination (Up to 4%).</p>

Underwriting	County staff with building trades experience (former building inspectors)	yes	<p>Property tax payments for the assessed Property are current. Additionally, the homeowner must certify that there has been no more than one late payment for the shorter of (i) the previous three years, or (ii) since the present homeowner acquired the Property. The applicant has not had any active bankruptcies within the last 7 years; provided, however, that this criterion can be met if a homeowner's bankruptcy was discharged between two and seven years before the application date, and the homeowner has had no past due payments (mortgage and non-mortgage) for more than 60 days in the most recent 12 months. The homeowner has no involuntary lien(s) recorded against the Property in excess of \$1,000</p>	<p>PROPERTY: Property must be in a Participating Community. Property must be Residential. Improvements must be made to existing properties or new residential properties where the initial construction is undertaken by the intended owner or occupant. Manufactured homes approved if permanently attached to Property. At least 10% equity in the Property (mortgage related debt no greater than 90% LTV). No current involuntary liens and/or judgments totaling more than \$1,000 for all Property Owners. Applicant(s) must be the owner(s) of record of the Property. PROPERTY OWNERS: All Property Owners must sign all required documentation. Property Owner(s) must be current on their property taxes for the prior 12 months. Property Owner(s) must certify that property taxes have not been paid late more than once during the prior 3 years (or since the purchase if owned by them for less than 3 years). Property Owners must be current on all subject Property-secured debt at the time of application and cannot have had more than one 30-day mortgage-related late payment over the previous 12 months. There must be no notices of default or foreclosure filed against the Property within the last 2 years. No bankruptcies (business or personal) in the last 2 years. The Property must not be an asset in any bankruptcy proceeding. Property title cannot be subject to power of attorney, easements or subordination agreements restricting authority of the Property Owner(s) to a PACE lien. PRODUCTS: Energy efficiency, renewable energy, and water efficiency products; new products; products must be permanently fixed to the property; products must stay with the property upon sale or transfer of ownership; must meet minimum efficiency and/or other requirements for Eligible Products.</p>	<p>Conforms with all applicable PACE statutes, state and local policies, and financial partner criteria.</p>
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Credit History Requirements	No Property Tax Default in last three years.	no	See underwriting criteria above	Not based on credit score.	<p>While a consumer credit report is pulled, approval is not based on credit score. Mortgage pay, NOD, property tax pay, bankruptcy (see below), and involuntary liens are the primary 'credit' criteria.</p>
Bankruptcy History Requirements	Property owner not in bankruptcy and, if the property owner was subject to bankruptcy it has been at least five years since discharge and the property cannot be an asset in a bankruptcy proceeding	yes	See underwriting criteria above	No bankruptcies (business or personal) in the last 2 years. The Property must not be an asset in any bankruptcy proceeding.	<p>Conforms with all applicable PACE statutes, state and local policies. Various standards exist ranging from 'not currently in bankruptcy' to 'no bankruptcy in last 7 years'.</p>

<p>Other Consumer Protection</p>	<p>Property owner must attend seminar about: PACE financing, alternative financing, contractor selection, FHFA disclosures, etc. Contracts are executed with a staff member outlining key points. Each property owner is assigned a program specialist who reviews contractors bid and property owner application, provides TRIDs and executes contract signing.</p>	<p>yes</p>	<p>Payment Protection - Contractors are NOT paid for any products or services until the homeowner submits a signed Completion Certificate to the HERO Program to validate that the Contractor has met all commitments. Product Eligibility - Eligible improvements are limited to those which either generate renewable energy or are certified to be energy or water efficient by the U.S. Department of Energy, the U.S. Environmental Protection Agency, the California Energy Commission, the California Department of Water Resources, or by a regional body. Permit Verification - Depending on the property location and the product's installation, compliance with certain city and/or county building permits might be required along with other applicable federal, state, and local laws and regulations. Program requires verification that homeowners have pulled the necessary permits for qualifying products. Market Value Pricing - HERO evaluates the cost of projects against historical prices for similar projects and products. Those with costs beyond a reasonable range are flagged and the Program follows up with the Contractor to determine whether there is a justification for the cost differential. If not, HERO will not approve the financing. Terms Confirmation - HERO requires homeowners to confirm that they have read and are aware of the terms of their financing documents prior to approval.</p>	<p>65+ years old receives add'l explanatory call with option of third party consultation to ensure full project and payment understanding. Clear Financing Statement w/ APR, Total payment obligation, 3-day Right of Rescission, Completion Certificate signed by both Homeowner & Contractor, Dispute Resolution process, and remove bad actor contractors. Find CSCDA's adopted Consumer Protection policies here. CaliforniaFIRST will also have an audit process in place this summer to ensure compliance. Find additional information on CSCDA's adopted Consumer Protection policies in the link. http://www.cscda.org/Open-PACE/Documents/PACE-Consumer-Protection-Policies-final-12-1-15</p>	<p>See attached policy documents.</p>
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Contractor Selection	Open to all contractors who attend seminar, properly licensed/bonded and insured, foregoing is independantly verified for each application	yes	<p>To be a HERO Registered Contractor, the Contractor must maintain an active California Contractor State License Board (CSLB) license which requires the company remain in good standing with the CSLB, maintain the required bond, and carry worker's compensation insurance. The CSLB license holder and all Registered Contractor Affiliated Individuals (such as in-home sales personnel) must complete an identity verification and must comply with a HERO Contractor Code of Conduct. Upon successfully completing all registration, testing, and training requirements, HERO Registered Contractor Representatives are issued a HERO Registered Contractor Certificate. In addition, consumers may search www.heroprogram.com to ensure that Contractors are in fact HERO registered and approved. To remain registered with the Program, Contractors and their representatives are required to comply with all Program terms and conditions and may be suspended or removed from the Program if they violate such terms and conditions.</p>	Encourage multiple bids from Certified Contractor list.	Property owner selects certified contractor; if not certified, Ygrene does so before the project; Ygrene recommends obtaining multiple bids.
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Contractor Fees	None	no	None	None.	Program does not charge the contractor for participation. There is an origination fee (up to 4%) that may be either included in the project bid or listed separately.
Contractor Training	Contractor required to attend in person seminar explaining program details, requirements, and application process and contractor requirements and procedures	yes	The HERO Program provides a training program designed to get contractors comfortable with the financing terms and the property owner approval process. Training resources include: sales training, software training, product eligibility, document processing, completion certification, payment options, as well as marketing policies and brand usage guidelines.	Training required to become registered with the program, with ongoing new program feature retraining opportunities available.	In person training and regular updates and/or re-training. Contractor certification, oversight and discipline part of compliance process.
Complaint Process	Addressed by county staff and escalated up to an elected official	yes, but not formalized	If homeowners have a dispute, they may call 1-888-720-HERO or email heroprotect@heroprogram.com and Renovate America will provide support and assistance to homeowners seven days a week.	In-house dispute resolution services hotline.	Dedicated email and telephone support; staffed by senior/experienced Ygrene professionals.

Defaults and Foreclosures	No Defaults outstanding, No foreclosures	no	<p>Since program inception in 2012, there have been 21 foreclosures for a 0.03% foreclosure rate.</p> <p>While there have been 21 foreclosures, none have been triggered by HERO. There is a 0.04% delinquency rate.</p>	Zero defaults and zero foreclosures.	<p>Default rate = 0%</p> <p>Foreclosure rate (post-PAVE project) = 0.02%</p>
PACE Loan Loss Reserve Participation	Yes, since CAEATFA PACE Loss Reserve inception	yes	Yes (members of CAEATFA since inception)	Yes.	Yes (CAEATFA)
Time range from Application to Payment	Approximately 7 days to contract signing, payment subject to project completion, payment made after project has proof of final permit inspections	Application rec'd to "in-contract" as little as 4 days. 90 days to complete the work once contract is signed	<p>Renovate America's technology platform allows the HERO program to run applications through its underwriting criteria and reach a decision on an application - approved, declined, or in review within minutes.</p> <p>Project time cycles from application to funding completion varies by project type (HVAC vs Solar vs Roofing, etc.) however, average time from job completion to payment is between 12 hours to 2 days.</p>	Complete applications can receive approval in minutes. Project completion timeline depends on contractor, homeowner, and type of project. No more than 48 business hours for contractor payment if payment request is submitted by 10:00 am (and both homeowner and contractor have signed Certificate of Completion.	Varies widely based on project. Small, 'break-fix' (equipment replacement) projects could span as little as one week. Larger, more complex projects can take weeks or months, and possibly more than a year to complete.

<p>JPA/Local Government Oversight</p>	<p>Monthly reports, meetings upon request</p>	<p>yes</p>	<p>Western Riverside Council of Governments (WRCOG) San Bernardino Associated Governments (SANBAG) Los Angeles County</p>	<p>CaliforniaFIRST is overseen by LA County and CSCDA. LA County and CSCDA approve the program handbook, underwriting guidelines, all eligible measures, and sign every assessment contract. They issue PACE bonds on a weekly basis. Local governments have to opt in to participate and can opt out at any time. CaliforniaFIRST provides quarterly program reports to local governments, as well as on an as-needed basis.</p>	<p>GSFA and CVAG (legal, operational policies; project review & approval); additional, local oversight varies by jurisdiction</p>
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Application and Termination Process for Local Government	90 Days without cause immediate for cause, potentially immediate for FHFA Contravention	n/a	Communities can adopt a resolution to become associate members of JPA or other local government authority (e.g., a County). The JPA and/or County can enforce its rights to compel provider compliance under the terms of an administration agreement. Cities and Counties may also opt-out of the program with 30 days notice (does not impact completed or in-process applications).	Opt-in requires a resolution and membership in the JPA (if not already a member).	Local governments authorize the JPA-based by approving a resolution ('opt-in' process). Jurisdictions may 'opt-out' via the same process.
"Contractual Subordination" or "Limited Subordination Agreements" Offered	Not offered per Tax Collector policy	no	Contractual Subordination (offered since November of 2015)	CaliforniaFIRST offers contractual Limited Subordination upon request.	On a case-by-case basis.
Number Requested from Home-owners and Number Approved	None/none	3,170 applications rec'd, 2,496 approved	Approximately 1,082 subordinations have been requested, 965 have been approved, and 552 have been completed.	31 requested and 29 approved.	Have received inquiries, but no formal requests to-date.

<p>Other Financing or Energy Loan Programs Offered other than PACE</p>	<p>Utiltliy provided rebates and incentives when applicable</p>	<p>yes</p>	<p>Renovate America also offers an unsecured loan product called Benji that provides a simple financing option to homeowners designed to complement the HERO Program. Benji can finance any type of home renovation, even those that are not related to energy efficiency or water savings.</p>	<p>None in California.</p>	<p>N/A</p>
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