



What Every City & County Should Know Before Approving a PACE Program

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Property Assessed Clean Energy (“PACE”)

PACE is a financing program that allows cities and counties to provide private property owners financing for renewable energy, energy conservation and water conservation projects for residential and non-residential projects.

Repayment installments are added to and payable on the annual property tax bill.

AB 811 (Assessment District) & **SB 555** (Mello Roos) authorize cities and counties to develop financing programs to provide property owners financing for energy and water conservation improvements and energy generation to new and existing structures which can be repaid on their property tax bill.



PACE Legislation

2008 - AB 811 Amended Streets & Highways Code to allow improvements on non-contiguous private property

2009 - SB 555 Amended Government Code to allow non-charter cities & counties to provide PACE under Mello Roos structure

2009 - AB 474 Authorized water efficiency improvements

2011 - AB 184 Added seismic retrofit improvements

2013 - SB 96 Authorized & directed CAEATFA to establish PACE Loan Loss Reserve to indemnify lenders

2014 - AB 1883 Authorized PACE financing in conjunction with Solar Leases for Commercial property

2014 - AB 2597 Amended PACE Loan Loss Reserve to allow financing: 15% of value to \$700K and 10% of value in excess of \$701K



PACE Legislation

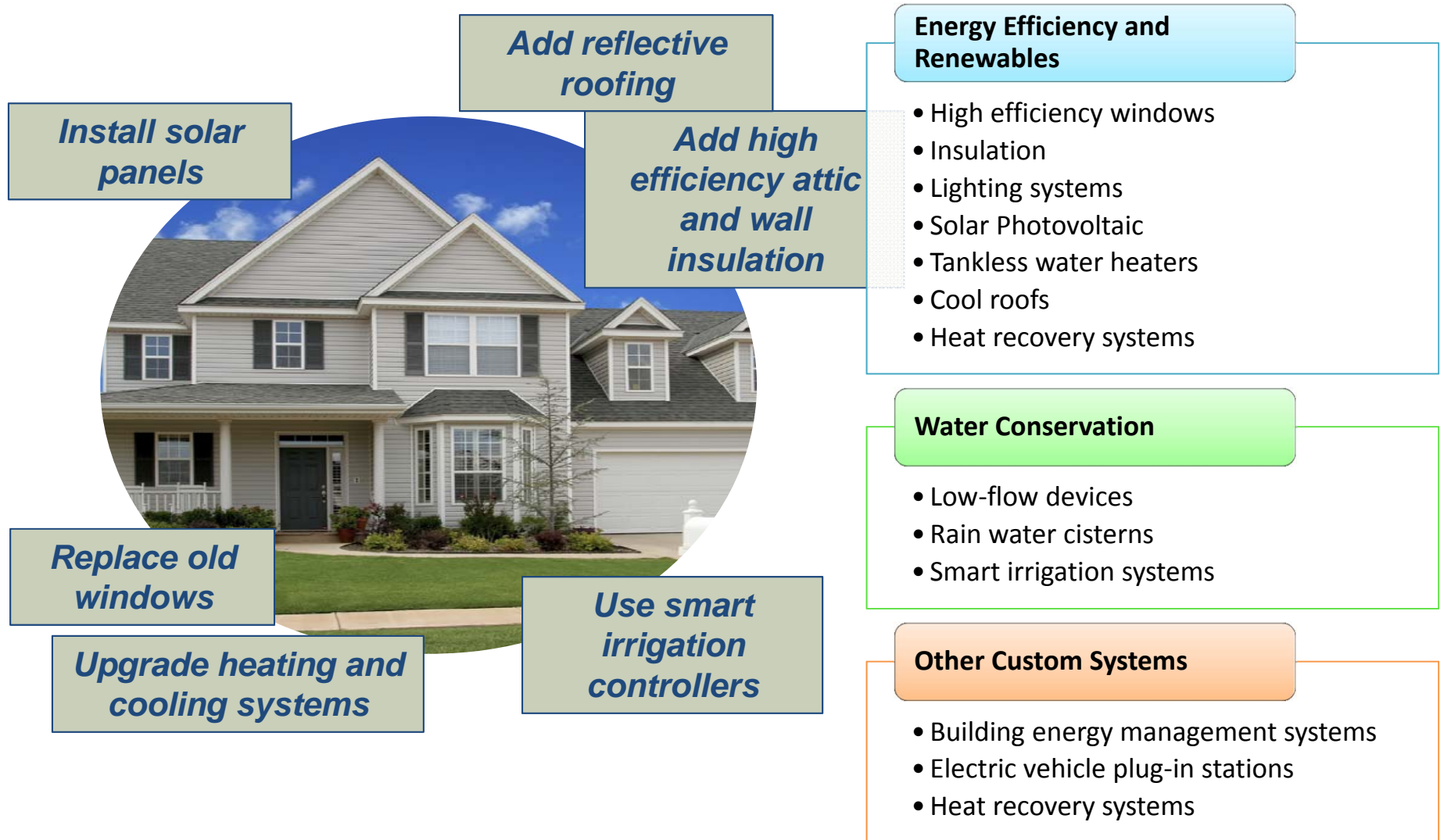
PACE is based on California Law in existence for over 100 years (assessments) or since 1982 (Community Facilities Act).

Legislation amended Streets and Highways Code related to Assessment Districts and Government Code related to Mello Roos Districts to:

- Declared energy efficiency, water conservation and renewable generation improvements to be of public benefit – and therefore eligible for public financing
- Required voluntary participation and allowed non-contiguous parcels (assessment districts)
- Required Program Reports (engineer's report) and Rate & Method of Apportionment of Special Tax (rate & method of apportionment [RMA])
- Communication with County Auditor
- Specify types of “permanently affixed” energy efficiency and renewable generation improvements



Types of Improvements





General Benefits

Designed to be a Win/Win

	Property Owner	Contractor	Lender	Local Agency
Lower cost of capital	X	X		
100% financing eliminates upfront cost	X	X		
Assessment can be passed through to renter who also receives benefit of reduced utility cost	X			
Balance of assessment may be passed to new owner when sold	X	X	X	X
Can help with regulatory compliance and promotes energy efficiency & climate goals		X		X
Local economic activity, job creation & increased tax revenue		X	X	X
Assessment may not be considered debt on balance sheet	X			
Net positive cash flow	X			X
Improves the marketability of the asset	X		X	X
Increased property value	X		X	X



Project Success

Project: Solar Photovoltaic – Auburn R.V. Park

Return on Investment Example*	
Project Cost	\$473,088
Less Federal Tax Credit	-141,926
Less PBI Payments**	-39,636
Less Tax Depreciation Benefits	-188,355
Net Cost before Utility Savings	103,171
Annual Utility Savings	33,575
Payback Period (years)	3.7
Value Increase***	\$1,144,588

*Figures are taken from an actual mPOWER Placer project

**Performance Based Incentive as determined by the participating utility provider paid over a 5 year period.

***Value increase = Cost of the improvement + \$20 for each \$1 in annual energy savings
(Estimate by the Appraisal Journal)





PACE Financing in California



Funded Projects ¹	56,000
Amount Financed ¹	\$1.2 billion
Estimated Jobs Created ²	24,000
Estimated kWh saved ³	297,514,769
Greenhouse Gas emission reductions ⁴	226,141 tons



**= electricity use
for one year for
28,219 homes⁴**



**= 43,190 passenger vehicles off the road⁴
= 488,456,206 total passenger vehicle miles**

¹California Alternative Energy & Advanced Transportation Authority as of March 2016

²American Council for an Energy-Efficient Economy (estimated 17.3 additional jobs/million financed created from increased disposable income generated from decreased utility costs.

³California Alternative Energy & Advanced Transportation Authority as of October 2015

⁴As calculated by <https://www.epa.gov/energy/ghg-equivalencies-calculator-calculations-and-references>



Issues & Challenges

2010 FHFA Statements, Fannie Mae & Freddie Mac cannot purchase or guarantee mortgages on properties with PACE liens and red-lined PACE jurisdictions

2015 Consumer complaints

2016 AB 2693 would make judgment lien status, sponsored by CAR, CBA, CCL, CLTA

2016 Disposition of Renewable Energy Credits (sold on the east coast?)

2015 “Open Market Place” regulation

2015 Deferment of Foreclosure, aka “Limited Subordination”



mPOWER Placer

mPOWER utilizes municipal tax lien and bonding authority to achieve public policy goals. Since direct benefits are provided, the program is unsubsidized and self-supporting and is therefore cost recovery based and not profit driven.

- mPOWER launched in March of 2010, re-launched residential August 2013
- Placer County, including six cities and the City of Folsom in Sacramento County
- 2 climate zones
- 2 Investor owned utilities, 2 municipal utilities
- Funded \$48.7 million
- Approximately 1,400 applications funded
- 350 Contractors actively working with the program



mPOWER & the Environment

2,570 tons or the equivalent of 496 cars off the road annually*

Environmental benefits remain a local asset/are not sold out-of-state

Renewable Energy Credits (RECs) can be used for local government AB 32 compliance and/or economic development purposes

Utility bill (meter based) data tracking and analysis for environmental impact reporting

*Calculations derived from PG&E Greenhouse Gas Emission Factors: Guidance for PG&E Customers, November 2015, Data for funded projects through December 2015



mPOWER Seminar

Informed consumers make good choices

Review application process - funding

Review financing terms, capitalized interest, timing for property tax bill

Consideration of other finance options

Advise FHFA issue and potential refinancing and sale impacts of Fannie Mae/Freddie Mac restrictions

Advise participants to consult a tax advisor for interest deduction

Energy Efficiency vs. generation "Reduce before you produce."

Contractor selection, references, licensing



mPOWER Practices

Disclosure and on-going communication are key

- Professional staff with building trades background engaged in the process
- Consistent policies and procedures
- Bridge between property owner and contractor
- No contractor executed contracts

No equity information provided to contractors without property owner consent

- Contractors bid the job, not the equity

No pre-qualification

- No marketing tactics that cut underwriting requirements
- Complete underwriting prior to notice to proceed protects property owners and contractors
- No “pre-qualification”, “pre-approval”, or “15 minute iPad approval”

Property tax records checked timely (Dec & April) for all assessments, including those not yet on the roll

- Delinquencies promptly pursued
- Lender notified early in the default
- Stripped from roll for separate collection



Cooperative Agreements

Some “Open Market” jurisdictions are requiring a “Cooperative Agreement with PACE Providers

The CA creates some measure of obligation to ensure compliance

More experienced programs are discovering problems and experiencing challenges in monitoring the CA

PACE continues to evolve and new issues and concerns are not included in the CA, amendments are needed and must be obtained

Long-term staffing resources and related costs may be needed to monitor compliance with the CA



Cooperative Agreements

- Encourage efficiency measures and analysis
- Property owner satisfaction measures
- Lending disclosures
- FHFA disclosures
- Discretion to terminate program due to Federal regulation
- Lender consent requirements
- Use of “local” contractors
- Use of rebates
- Building permits, CEQU regulations
- CAEATFA PACE Loss Reserve Fund participation
- Financing limits 10%/15% of value
- Limit on aggregate property tax amount
- Property owner qualifications
- Data and information (APN, \$ amount, improvements financed, etc.)
- Contractor standards: licenses, Worker’s Compensation, bonds, insurance
- Prohibition against contractor recommendations, endorsements, guarantees
- Indemnification and release of liability by PACE provider and contractor
- Environmental credits and benefits
- Conflict of interest, employment discrimination, lobbying prohibitions
- Audit of records

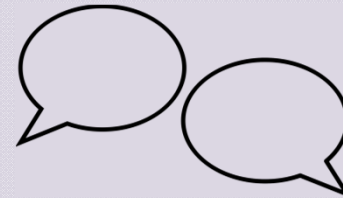


PACE

Questions



Discussion





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