



# Property Assessed Clean Energy (PACE) in California

*Assembly Committees on Local Government and Banking and Finance  
Joint Informational Hearing  
June 9, 2016*



# Meet CAEATFA



- Housed within the State Treasurer's Office
- Board of five:
  - State Treasurer (Chair)
  - State Controller
  - Director of Department of Finance
  - President of the CA Public Utilities Commission
  - Chair of the CA Energy Commission
- Uniquely positioned at the intersection of state energy and finance policy since the 1980s.
- Develops market-driven financial assistance programs to support the State's energy and environmental policy goals.

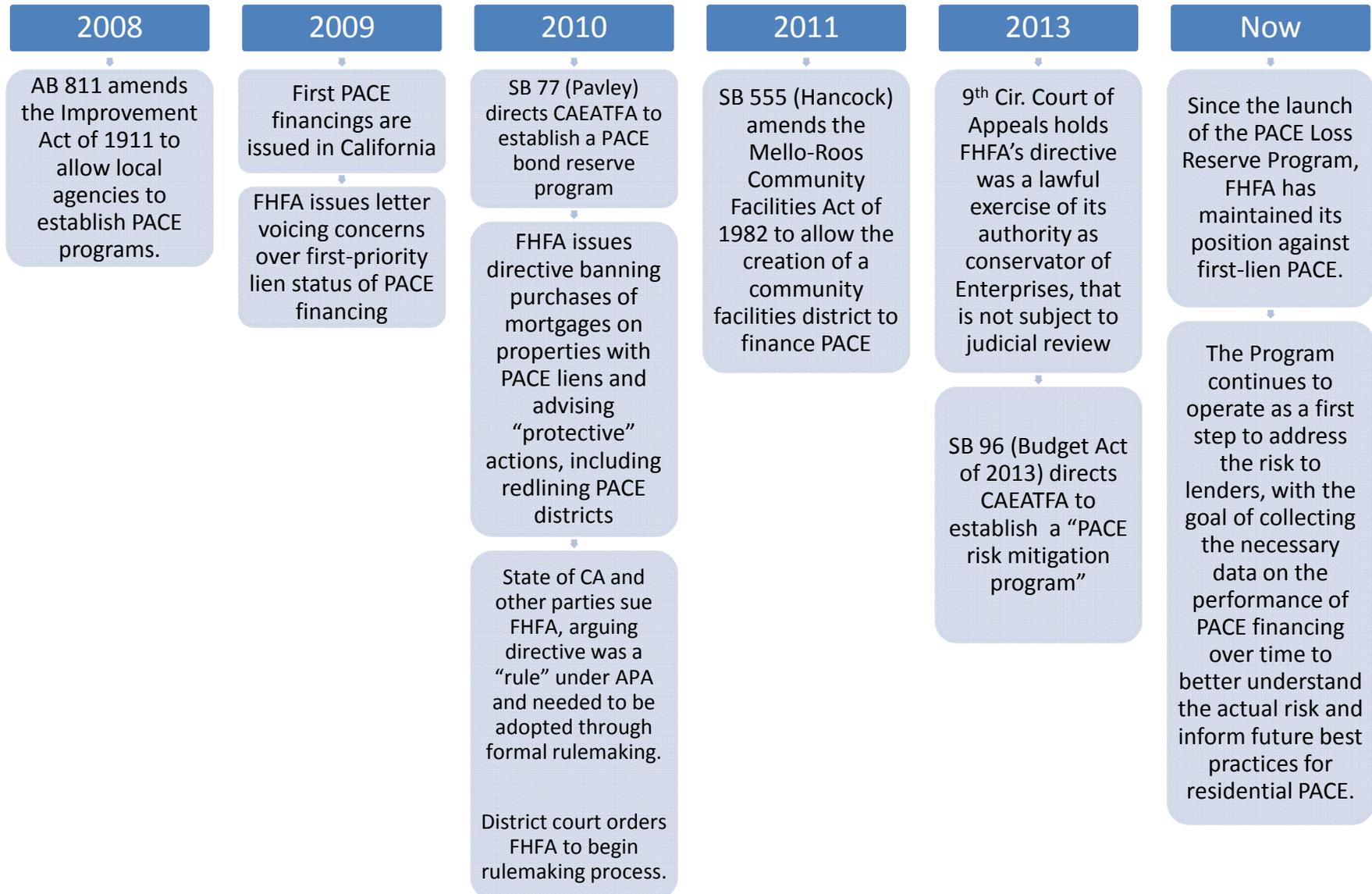


# Existing Programs

- **Residential PACE Loss Reserve - \$10 Million**
  - Currently supporting over \$1.2 Billion in residential PACE Financings
- **Working Group on Energy Efficiency Financing Programs**
  - Pursuant to a legislative directive, CAEATFA is creating a working group to develop criteria for a comparative assessment of CA energy efficiency financing programs.
- **California Hub for Energy Efficiency Financing - \$65 million**
  - Unique collaboration on open market platform between CPUC, IOUs, CAEATFA, CSE, Lenders & Contractors
- **Sales and Use Tax Exclusion - \$100 million annually**
  - Tax benefit on manufacturing equipment for advanced manufacturers, and manufacturers of alternative source and advanced transportation technologies (EE, biogas, electric vehicles, storage, etc.).
  - Recently expanded by legislation to include manufacturing equipment that processes or utilize recycled feedstock.
- **Main State Issuer for Energy Related Bonds - \$212 million** in outstanding bonds (QEGBs, CREBS, District Heating and Cooling)



# California PACE Timeline



# PACE Loss Reserve Program Structure

- Senate Bill 96 (Committee on Budget and Fiscal Review, Chapter 356, Statutes of 2013) authorized CAEATFA to create “a PACE risk mitigation program for PACE financing to increase their acceptance in the marketplace and protect against the risk of default and foreclosure.”
  - Received one-time appropriation of \$10 million for the loss reserve.

Reserve puts first mortgage lenders in the same position they would be in without a PACE lien.

Reimburses PACE payments made by first mortgage lender while in possession of property with a PACE lien (**foreclosure**).

Reimburses losses, up to outstanding PACE payment amount, resulting from PACE assessment being paid before outstanding mortgage in a **forced sale** for unpaid taxes or special assessments.

- PACE administrators can participate in the Program by applying to CAEATFA and demonstrating that they meet the Program’s eligibility criteria.
- Once a PACE program is enrolled, the loss reserve will cover PACE financings issued by that program for their full terms, or until funds are exhausted.



# How the Program Works

Property owner receives PACE financing for energy efficiency upgrades

- Principal Amount: \$20,000
- Annual Payment Amount: \$2,500

Foreclosure: Property owner defaults on mortgage. Bank takes possession of the property for two years until the property is sold, paying the property taxes to maintain its interest in the property.

- PACE Loss Reserve would reimburse bank for the two \$2,500 annual PACE payments made by the first mortgage lender.

Forced Sale: Property owner cannot pay property taxes, and the property is sold to repay the outstanding property taxes.

- Auction sale price: \$210,000
- Outstanding property taxes: \$50,000 (including \$15,000 in outstanding PACE payments)
- Outstanding mortgage: \$180,000
- Total loss to first mortgage lender: \$20,000
- PACE Loss Reserve would reimburse first mortgage lender for the loss, up to outstanding PACE amount: \$15,000.



# Program Eligibility Criteria

- Financing is for energy and water efficiency, EV charging infrastructure, and clean energy improvements
- Residential property of three units or fewer
- Property taxes current for previous three years
- No involuntary lien in excess of \$1,000
- No notices of default
- Not currently in bankruptcy proceedings
- Current on all mortgage debt
- Party seeking financing is the holder of record on the property
- Property is within the geographical boundaries of the PACE program
- Financing is for less than 15% of the value of the property, up to the first \$700,000 in value, and less than 10% of the property value above \$700,000
- Total mortgage-related debt and PACE financing does not exceed the value of the property

Reference: Public Resources Code §§26061, 26063(a); 4 CCR § 10081(b)



# Enrolled PACE Programs

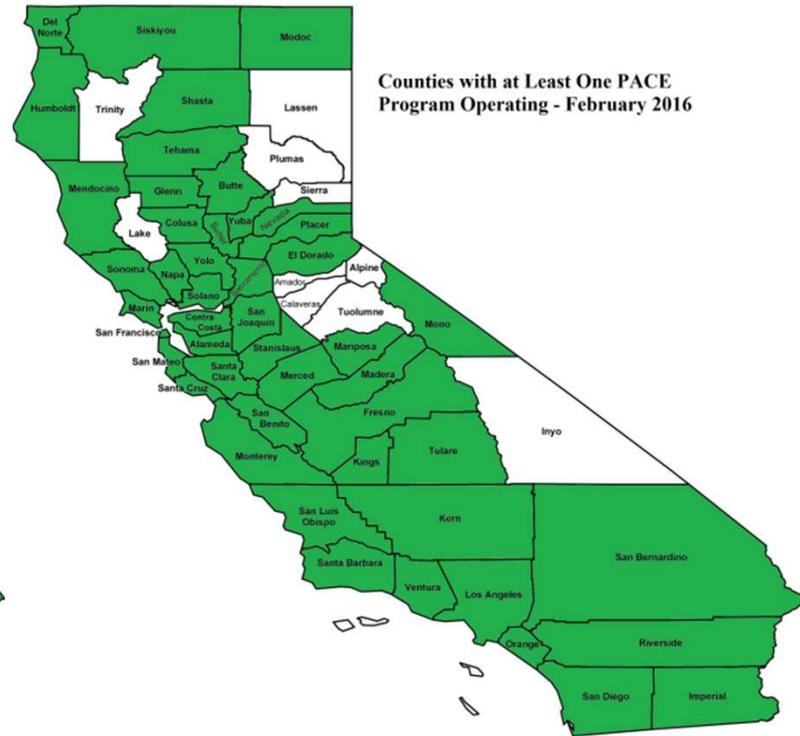
Program Name	Local Agency	Program Administrator	Areas Served	Date Enrolled
<a href="#"><u>mPOWER Placer</u></a>	County of Placer	County of Placer (Treasurer-Tax Collector)	Placer County	June 18, 2014
<a href="#"><u>mPOWER Folsom</u></a>	County of Placer	County of Placer (Treasurer-Tax Collector)	City of Folsom	June 18, 2014
<a href="#"><u>Berkeley FIRST</u></a>	City of Berkeley	Renew Financial	City of Berkeley	June 20, 2014
<a href="#"><u>Sonoma County Energy Independence Program</u></a>	County of Sonoma	County of Sonoma (Auditor-Controller Treasurer-Tax Collector)	Sonoma County	June 26, 2014
<a href="#"><u>CaliforniaFIRST</u></a>	California Statewide Communities Development Authority (CSCDA)	Renew Financial	State of California	June 19, 2014
<a href="#"><u>WRCOG HERO</u></a>	Western Riverside Council of Governments (WRCOG)	WRCOG and Renovate America	Western Riverside County	June 23, 2014
<a href="#"><u>SANBAG HERO</u></a>	San Bernardino Associated Governments (SANBAG)	SANBAG and Renovate America	San Bernardino County	June 23, 2014
<a href="#"><u>California HERO Program</u></a>	WRCOG	WRCOG and Renovate America	State of California	June 23, 2014
<a href="#"><u>AllianceNRG Program</u></a>	CSCDA	CounterPointe Energy Solutions	State of California	August 20, 2015
<a href="#"><u>LA HERO Program</u></a>	County of Los Angeles	County of Los Angeles and Renovate America	Los Angeles County	October 7, 2015
<a href="#"><u>CaliforniaFIRST in Los Angeles County</u></a>	County of Los Angeles	County of Los Angeles and Renew Financial	Los Angeles County	October 14, 2015
<a href="#"><u>Ygrene Works Program</u></a>	Golden State Finance Authority (GSFA)	Ygrene Energy Fund CA, LLC	State of California	October 19, 2015
<a href="#"><u>PACEfunding</u></a>	CSCDA	PACE Funding Group	State of California	January 22, 2016



# CA Residential PACE Growth



Counties with at Least One PACE Program Operating - June 2014



Counties with at Least One PACE Program Operating - February 2016



# PACE Loss Reserve Program Activity

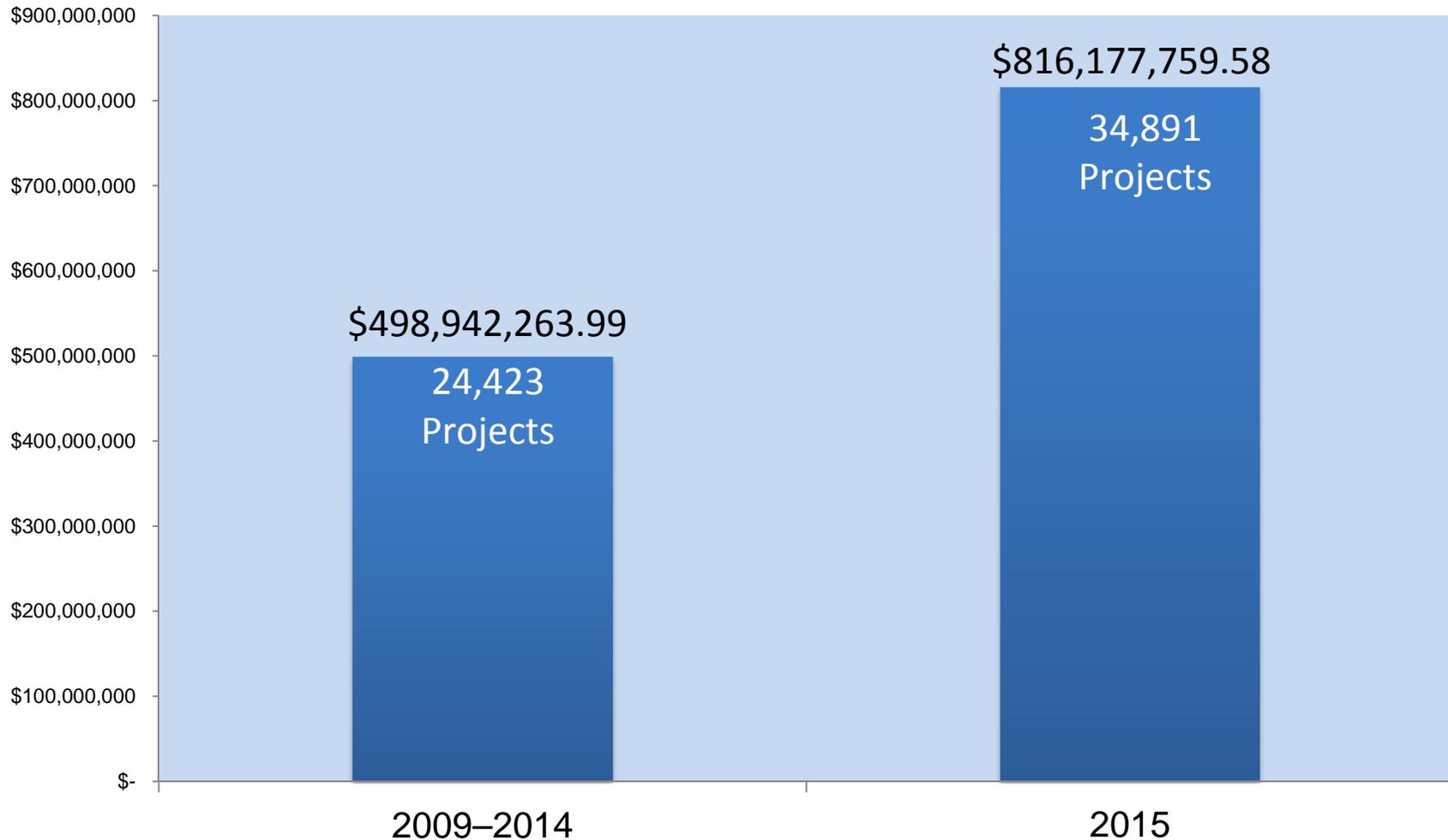
Represents residential program enrollment through December 31, 2015

Name	Program Launch (June 2014)		July–Dec 2014 Reporting Period		January–June 2015 Reporting Period		July–Dec2015 Reporting Period		Current Outstanding Portfolio Enrolled	
	Count	Amount	Count	Amount	Count	Amount	Count	Amount	Count	Amount
mPOWER Placer	464	\$10,502,382.62	312	\$9,540,534.04	313	\$9,007,272.29	361	\$10,422,668.14	1,239	\$54,960,030.88
mPOWER Folsom	3	\$54,181.18	4	\$86,847.90	12	\$358,423.79	10	\$229,578.67	29	\$1,087,937.26
Berkeley FIRST	13	\$299,233.74	0	\$0	0	\$0	0	\$0	12	\$272,231.98
SCEIP	1,550	\$43,702,974.25	65	\$1,524,472.34	67	\$1,659,819.77	46	\$1,288,617.74	1,521	\$42,446,160.72
CaliforniaFIRST	0	\$0	151	\$3,435,462.04	1,044	\$23,904,858.49	2,231	\$55,875,048.47	3,426	\$83,070,588.61
WRCOG HERO	9,911	\$189,339,784.00	1,757	\$34,971,957.65	1,535	\$33,837,187.89	2,361	\$53,783,476.55	15,156	\$306,161,498.60
SANBAG HERO	4,286	\$80,398,364.90	1,763	\$32,056,560.00	3,968	\$80,548,862.92	2,550	\$54,760,955.71	10,152	\$198,582,986.69
California HERO	1,174	\$25,974,938.48	2,970	\$67,054,570.85	6,035	\$138,783,046.73	8,032	\$191,433,540.91	18,358	\$431,739,846.26
AllianceNRG	---	---	---	---	---	---	1	\$25,474.99	1	\$25,474.99
LA HERO	---	---	---	---	---	---	5,050	\$126,779,290.63	5,050	\$126,779,290.63
CaliforniaFIRST (LA County)	---	---	---	---	---	---	282	\$8,663,915.65	282	\$8,663,915.65
Ygrene Works	---	---	---	---	---	---	911	\$22,277,536.89	911	\$22,277,536.89
PACEfunding	---	---	---	---	---	---	---	---	0	\$0
<b>Total:</b>	<b>17,401</b>	<b>\$350,271,859.17</b>	<b>7,022</b>	<b>\$148,670,404.82</b>	<b>12,974</b>	<b>\$288,099,471.88</b>	<b>21,836</b>	<b>\$525,540,104.35</b>	<b>56,137</b>	<b>\$1,276,067,499.16</b>



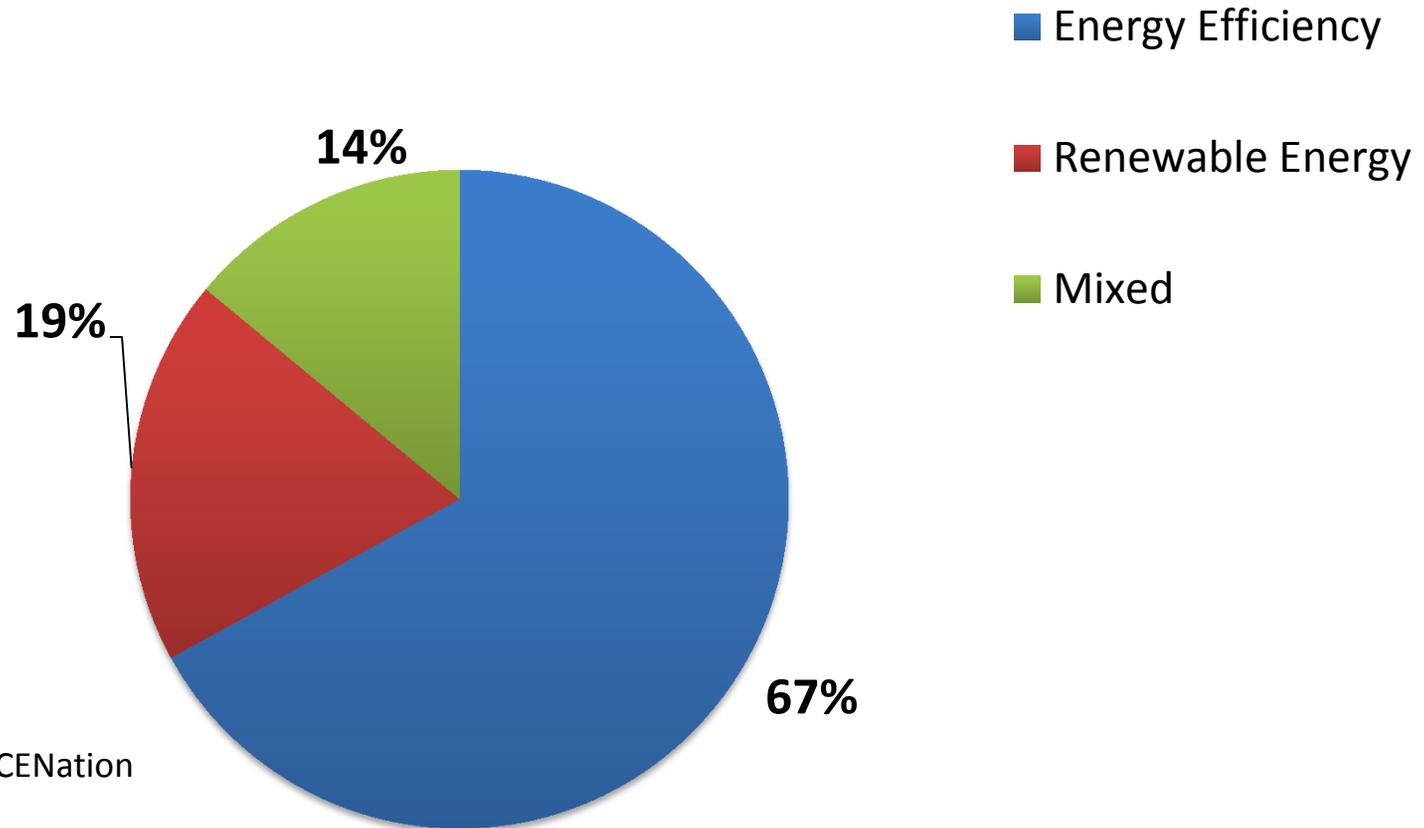
# CA Residential PACE Growth

## Total Principal Amount of Residential PACE Financings Enrolled



# CA Residential PACE Growth

Residential Measures



Source: PACENation



# Estimated Environmental Savings

- Estimated environmental savings from financings originated through June 30, 2015, as reported by enrolled PACE programs. Methodology for determining estimated savings may vary among programs.

Program Name	Estimated Annual Environmental Savings from Enrolled Financings
mPOWER Placer	11,255,157 kWh 2,431 MTCO2
mPOWER Folsom	164,696 kWh 36 MTCO2
Berkeley FIRST	61,060 kWh
Sonoma County Energy Independence Program	15,967,778 kWh 108,156 therms
CaliforniaFIRST	1,279,000 kWh 92,584 therms 330,000 gallons of water 1,711 MTCO2
WRCOG HERO Program	121,158,266 kWh 23,869,473 gallons of water
SANBAG HERO Program	61,574,603 kWh 12,851,005 gallons of water
California HERO Program	86,054,209 kWh 39,938,264 gallons of water



# Current PACE Policy Issues

- Increasing the data points collected from enrolled PACE programs
- Strengthening the Program's underwriting criteria
- Audit of enrolled PACE programs to ensure compliance with Program eligibility requirements
- Establishing best practices



# Guidance from HUD and FHA Regarding PACE

- HUD Multifamily Housing in California
  - January 29, 2015, HUD issued guidance as to when HUD will consent to a first-priority PACE lien on a multifamily property receiving HUD assistance.
- FHA Single Family Housing
  - August 24, 2015, FHA announced it will issue guidance that will allow borrowers to use Single Family FHA financing for properties with existing PACE financing.
  - Guidance will include the following conditions:
    - PACE liens that preserve payment priority for first lien mortgages through subordination;
    - PACE financing must be a fixed-rate, fully amortizing loan;
    - Maximum combined loan-to-value ratio;
    - PACE lien must be formally recorded and identifiable to a mortgage lender through a title search; and
    - PACE programs must comply with applicable federal and state consumer laws and should include disclosures to and training for homeowners participating in the program.



# Working Group on Energy Efficiency Financing Programs

- Legislative Directive: Supplemental Report of the 2015-16 Budget Package, Item 0971-001-0528 :

“CAEATFA, in consultation with the CPUC, shall also create a working group that will include key stakeholders to develop criteria for a comparative assessment of energy efficiency financing programs available in California, including Property Assessed Clean Energy financing and legacy utility on bill financing for short-term lending. CAEATFA shall publish summaries of the issues discussed with and recommendations made by the working group. Relevant Senate and Assembly policy committee staff shall be invited to observe meetings of the working group.”



# Overview of Workshop Series

Public process to encourage stakeholder participation and input in developing the criteria

CAEATFA hosted a series of educational workshops featuring presentations from stakeholders on various metrics for evaluating energy efficiency financing programs.

The process culminated with a public meeting of the working group to discuss a proposal of potential criteria for a comparative assessment of energy efficiency programs.

- Establish a common vocabulary.
- Learn how administrators evaluate their programs—discuss program goals, structures, and methodologies for evaluating EE financing programs.
- Discuss the pros and cons of criteria.
- Proposal will be drafted based on previous workshop discussion and written comments received.
- Working group will lead discussion on the proposal, making recommendations on the criteria.

CAEATFA will summarize and publish materials, discussions, and any recommendations from the workshops and working group.



# Comparative Criteria Discussed

**Energy Savings  
Attributable to Program  
Financing**

**Cost-Effectiveness:  
Total Net Benefits and  
Benefit-Cost Ratio**

**Market Transformation**

**Energy Savings, Cost-  
Effectiveness, and  
Market Penetration by  
Market Segment and  
Project Type**

**Customer Satisfaction  
and Consumer  
Protection**

**Diagnostic Information**



# Some Primary Challenges Discussed

- *Various Policy Goals*: Different programs will have various policy goals, posing a challenge to conducting a comparative evaluation. For example, some programs may place greater emphasis on return on investment or market expansion. Others may be more interested in more efficient use of ratepayer funds, or ensuring a greater amount of energy savings, either through more or deeper projects, or job growth.
- *Various Program Administrators, Structures, and Maturity Stages*: California energy efficiency financing programs are run by a variety of program administrators with different procedures and constraints. Some programs may or may not be collecting the necessary data, or may not make data publicly available. Additionally, financing programs are in various stages of development, and some have no program data to inform any type of evaluation.
- *“A New Methodological Frontier”*: Methodologies for evaluating energy efficiency financing programs are still being developed and refined, and may vary across programs. However, the choice of methodologies is a critical element of program evaluation and will need to be consistent across programs reviewed if the following proposed criteria are to be utilized in a meaningful way.





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