Commercial PACE Program Business Models

Third-party Administrator Model

Estimated time to implement: 2-6 months
# of Counties utilizing this model: Approximately 33(ex. Ventura, San Luis Obispo, San Diego)

In this model a public entity typically joins an existing Joint Powers Authority (JPA) to expand an already established financing district and make commercial PACE available to property owners in the JPA's newly expanded jurisdiction. The JPA contracts with a third-party administrator to design and develop the program and operate it for the JPA members. The third-party administrator is typically responsible for operations, project tracking, technical support, contractor recruitment, customer service, quality control and marketing. The third-party administrator may contract with a financing organization or bank that serves as the capital provider, but some programs also allow property owners to source their own capital. The third-party administrator pays counties for costs associated with placing the liens on the tax roll through a set fee agreement. The majority of public entities in California are utilizing this model.

If the Board were to select this option it would need to decide whether to allow one or multiple third party program administrators to operate a commercial PACE program within the County. HERO, Figtree, Ygrene and AllianceNRG are all examples of third-party administrators. To enable these third-party administrators to operate within the County, the County would have to join each of the JPAs with which the administrators are respectively affiliated. For example, HERO is affiliated with a JPA sponsored by the Western Riverside Council of Governments; Ygrene is affiliated with a JPA sponsored by Golden State Finance Authority. Allowing multiple providers to offer commercial PACE could encourage competition but may also require additional staff time to review program documents and JPA documents, negotiate fee agreements, and bring these items to the Board.

In addition to contracting with one or more individual third-party administrators, the County could opt to join the California Statewide Communities Development Authority's (CSCDA) Open PACE program. The CSCDA is a JPA that provides local governments with a variety of tools for financing community-based public benefit projects such as PACE. The CSCDA has prequalified several PACE program administrators to be included in its Open PACE program in an effort to provide a turnkey solution. There are three commercial PACE third-party administrators currently operating under this program including AllianceNRG, CaliforniaFIRST and CleanFund. Through one-time action, multiple PACE providers would be enabled to work within the County as opposed to taking multiple actions for each individual PACE administrator.

Possible Advantages to the County:

- Lower investment costs associated with joining a "turnkey" model that is already up and operating.
- County does not pay the third-party administrator to operate the program; instead the third-party administrator retains proceeds from administering the program and providing commercial PACE financing.
- The third-party administrator will pay the County's costs associated with placing liens on the tax roll as set by a fee agreement.

- Lower financial risk given that public entities opting into the JPA would not be responsible for financing, administration or providing capital.
- Program applications and agreements are typically between the property owner and the third-party administrator, which might reduce risks for public entities.
- Agreements between the third-party administrator and the JPA typically provide indemnification language protecting cities and counties, further lowering potential liability.

Possible Disadvantages to the County:

- County is not able to set or control program fees, borrowing costs, or interest rates.
- County might have limited ability to conduct consumer protection activities such as monitoring or controlling program practices and ensuring proper disclosures to consumers.
- Ongoing costs to monitor third party administrators.

Possible One Time Set Up Costs:
Costs could include staff time and expenses required to develop and conduct a request for proposal to identify a third party administrator(s), write Board reports and other documents, negotiate fee agreement, and set up processes for adding assessments to property tax bill.

Possible Annualized Ongoing Costs:
Ongoing costs could include staff time and expenses required to address unforeseen issues, conduct marketing and customer service activities, communication with commercial PACE program administrators, and review monthly status reports.

3rd Party Model		
Expenses	**Total One-Time Set Up Cost**	**Annualized Ongoing Cost**
Staff Time	$21,121.55	$13,566.00
Lending Capital	$0.00	$0.00
Total	**$21,121.55**	**$13,566.00**

Public Entity Administration Model
Estimated time to implement: 18-24 months
# of Counties utilizing this model: Approximately 4 (Ex., Placer, Sonoma, San Francisco, Los Angeles Commercial PACE program)

In this model a public entity would independently design and develop its own commercial PACE program. The public entity, rather than a third-party administrator, would be wholly responsible for program implementation and the public entity, rather than an outside financing organization would provide the needed capital. This option may involve creating or joining a JPA to form a financing district if the public entity wanted to make the commercial PACE program available to other jurisdictions (i.e, neighboring counties, cities). This is the model that Santa Barbara County used when it developed its PACE program in 2009-2010. However this model was only

found to be feasible when it included the residential market and requires a high capital investment. Placer, San Francisco, Los Angeles and Sonoma Counties use this model to administer commercial PACE programs internally. It is worth noting that it may be possible for the public entity to consider allowing property owners to source their own capital providers which could reduce the amount of capital investment required by the public entity.

Possible Advantages to the County:

- County can control the fees and program costs associated with the commercial PACE program.
- County can collect program fees to offset some costs and possibly recoup investment if program participation rates are high enough.
- County may have more control over program disclosures and consumer protections.

Possible Disadvantages to the County:

- Significant costs related to start up and annual operating expenses including the need to hire one new staff position.
- Inability to ensure that commercial program participation rates will be high enough to fully fund program administration costs and recoup startup costs.

Possible One Time Set up Costs:
Costs could include staff time and expenses required to conduct a feasibility study, seek judicial validation if necessary, identify the best financing option(s), contract with bond counsel, set up program processes, develop an application process and create program documents, write Board reports and other documents, and set up a process for adding assessments to property tax bill. Costs also include providing the capital needed to finance the building improvements for individual projects.

Possible Annualized Ongoing Costs:
Ongoing costs could include staff time and expenses required to conduct marketing and customer service activities, recruit contractors, administer title checks, review applications, conduct quality assurance, review monthly status reports, and compile performance data.

Public Entity Model		
Expenses	**Total One-Time Set Up Cost**	**Annualized Ongoing Cost**
Staff Time	$287,280.17	$157,280.17
Lending Capital*	$10,000,000.00	
Total	**$10,287,280.17**	**$157,280.17**

*Lending capital may not be required if utilizing owner arranged financing option

Hybrid Public Entity and Third-party Administrator Model
Estimated time to implement: 12-18 months
# of Counties utilizing this model: Approximately 2 (Ex., Riverside County, Los Angeles County Residential PACE program)

In this model, a public entity designs and develops the program and contracts with a third party for elements of program administration such as project tracking, technical support, marketing, contractor recruitment and customer support. A public entity may choose to provide the financing capital or allow property owners to source their own capital provider. Alternatively, the public entity may choose to require the third-party administrator to provide the financing capital and facilitate the financing with the property owner.

The main differences between this model and the third-party administrator model are that in the hybrid model, the public entity designs the program, sets fees, and defines disclosures and underwriting criteria. It does not appear that a public entity typically has as much input on these issues in the third-party administrator model. In addition, this model allows a public entity the flexibility to choose which program administration activities it would like to outsource to the third-party administrator.

Los Angeles County adopted this model in 2014 for its residential PACE program as a way to achieve the benefits of PACE, while avoiding certain disadvantages associated with a third-party model. This joint model allows Los Angeles County to standardize program processes across its 88 cities and retain some of the benefits associated with the public entity model while providing the opportunity to lower consumer risk by managing disclosures and underwriting criteria and shift some of the County's risks to a third-party administrator if the third-party administrator is responsible for providing and facilitating financing. Riverside County also utilizes a public-private partnership model in which the Western Riverside Council of Governments, a JPA that represents the county and 17 cities, developed the PACE program and subsequently partnered with the HERO program to provide program services.

Possible Advantages to the County:

- County does not pay the third-party administrator. The third-party administrator retains proceeds from administering the program and providing commercial PACE financing, a portion of which may be provided to the County to offset its own program operations costs as negotiated through an agreement with the third-party administrator.
- Borrower fees and interest rates might be lower.
- County has more control of mitigating potential risks to consumers by managing disclosures and underwriting criteria.

Possible Disadvantages to the County:

- Significant costs related to start up and annual operating expenses including the need to hire one new staff position.
- Inability to ensure that program participation rates will be high enough to fully fund program administration costs, recoup startup costs and become self-supporting.

Possible One Time Set up Costs:
Costs could include staff time and expenses required to design and develop the program, develop and conduct a request for proposal to identify an administrator(s), negotiate fee agreements, write Board reports and other documents, work with administrator to develop program processes, and set up processes for adding assessments to property tax bills.

Possible Annualized Ongoing Costs:
Ongoing costs could include staff time and expenses required to record liens and remove any defaulted liens, conduct marketing and customer service activities, communicate with PACE program administrators, review monthly status reports, and compile performance data.

Hybrid Public Entity & Third Party Model		
Expenses	**Total One-Time Set Up Cost**	**Annualized Ongoing Cost**
Staff Time	$187,280.17	$71,720.11
Lending Capital**	$0.00	$0.00
Total	**$187,280.17**	**$71,720.11**

***Would likely allow owner-arranged financing or require third-party to provide financing