

Commercial Property Assessed Clean Energy (PACE) Financing

May 10, 2016
Board Presentation

Community Services Department
Division of Energy and Sustainability Initiatives



COUNTY OF SANTA BARBARA

Board Item

Purpose:

Provide the Board with additional details and updates regarding Commercial PACE

Recommended Action:

Receive and file this briefing on Commercial PACE



Background

Definition of PACE

- PACE allows property owners to finance the upfront cost of building improvements such as energy efficiency, water efficiency and renewable energy projects
- Costs are repaid over time through assessments on local property tax bills

Authority for PACE

- The Improvement Act of 1911 (Improvement Act) as amended by AB 811 (2008) and
- The Mello-Roos Act as amended under SB 555 (2011)



History

- In 2010, County completed steps to internally administer a PACE program for both residential and commercial property owners
- After Federal Housing Financing Agency's (FHFA) issued concerns in July 2010, the Board adopted a resolution directing staff not to accept residential PACE applications until concerns were addressed
- As a result, commercial PACE was also halted
- In 2011, as an alternative to residential PACE, the Board approved a redesigned residential financing option with two local credit unions under the emPower program
- Board continues to support efforts to address FHFA's concerns



PACE vs Existing Financing Options

- Existing commercial financing options such as conventional bank loans and utility on-bill financing are available but may have limitations:
 - Shorter terms
 - Restrictions on the amount customers can borrow
 - For on-bill financing requirements regarding the length of time a utility account must be active to qualify
- PACE advocates promote benefits such as:
 - Longer, fixed terms (up to 25 years)
 - Potential to transfer the lien to the next property owner
 - PACE lien may or may not be considered off balance sheet
 - Zero upfront investment
 - Interest on loan may be tax deductible

Commercial PACE Activity

- Approximately 447 municipalities in CA have adopted residential and commercial PACE programs
- Majority of PACE activity is residential but interest in commercial market has increased
- It is estimated that 734 commercial PACE projects have been completed nationwide, totaling \$230 million. It is estimated that 555 of these projects are located in CA
- In unincorporated SB County, there are approximately 9,000 commercial properties that could potentially take advantage of a commercial PACE program

Issues for Consideration

- Property owners may consider the following issues before moving forward with a PACE assessment:
 - Obtaining lender consent may be time intensive and uncertain
 - Property owner may be required to pay off a PACE assessment prior to selling property
 - Jurisdictions may foreclose on properties that are delinquent on payment of their PACE assessment

Issues for Consideration

- The Auditor-Controller does not advocate the placement of these assessments on the County tax bill for the following reasons:
 - The Federal Housing Finance Agency urges putting these programs on pause
 - The program uses County resources to perform private services acting as a loan servicer
 - Extremely high risk for property owners in the case of foreclosures and other property transactions, which may not be entirely understood by all parties
 - Unrecorded liabilities
 - The program uses questionable lending practices seen during the recent housing finance collapse
 - It complicates the County property tax bill process with no upside benefit
 - Lack of consumer protection
- Concerns are outlined in more detail in Attachment D

Business Model Options

- There are several commercial PACE business model options:
 - Third-Party Administrator
 - Public Entity Administrator
 - Hybrid Public Entity and Third-Party Administrator
- The possible advantages, disadvantages and costs associated with a commercial PACE program vary depending on the program model implemented

Next Steps

- If the County decides to pursue commercial PACE, next steps include:
 - Board directs staff from all relevant departments to return to the Board with analysis of potential business models
 - Staff returns to Board with analysis including cost and staffing estimates and detailed implementation steps for potential models
 - Should the County decide to proceed, select model and determine source of funding for commercial PACE set up