

MEMORANDUM

Public Works Department



DATE: January 14, 2021
TO: Mayor and Council
THROUGH: Steve McHarris, City Manager *Steve McHarris*
FROM: Tony Ndah, Public Works Director
SUBJECT: Update on Property Assessed Clean Energy Programs in Milpitas

Background:

On November 21, 2017 the City Council adopted resolutions and authorized the City Manager to execute agreements and other documents necessary to implement Property Assessed Clean Energy (PACE) Financing Programs in Milpitas. Through these actions, the City Council authorized the following four PACE Program Administrators to operate in Milpitas:

1. California Home Energy Renovation Opportunity Program (HERO), now known as Renovate America
2. OPEN PACE which includes PACE Funding
3. Ygrene
4. FigTree, now known as Dividend

Property Assessed Clean Energy (PACE) financing programs are a lending mechanism that property owners can use to finance certain home improvement investments such as energy or water efficiency, renewable energy, or seismic retrofits. In California, PACE programs are enabled through two different laws, AB 811 and SB 555, with additional laws clarifying and expanding program parameters. PACE Program Administrators must be licensed by the California Department of Financial Protection and Innovation.

PACE programs provide financing without a down payment or up-front capital costs. PACE financing is available to residential, commercial, and industrial properties, covers the project's full cost, and can be repaid over long periods of up to 20 years as an additional assessment on the property that is paid with the property tax bill.

The PACE Program Administrator arranges capital, administers programs, partners with local contractors, and places special tax assessments in coordination with county tax collectors. PACE financing programs are primarily marketed through contractors that are affiliated with specific PACE providers. Property owners hire a participating contractor, implement qualified home upgrades, and pay back the PACE loan through property tax bills. Once a City acts to sponsor a PACE program, the City has no direct role in PACE program implementation or in the assessment transactions.

PACE loans are distinct from other financing options (e.g., home equity loans) because the PACE loans are:

- approved based on equity of the property, not personal credit history;
- recorded as a special assessment or lien on the property's tax bill;
- stay with the property and are generally transferrable upon its sale; and
- "senior" to other debts and must be repaid before mortgage debt

Analysis:

Staff has reached out to the authorized PACE Program Administrators for information on program participation and uptake in early 2020 and again in early 2021. Response from the providers has been sporadic.

<u>PACE Provider</u>	<u>Participation Status (2018-2019)</u>	<u>Participation Status (2020)</u>
HERO – Renovate America	5 applications submitted 3 applications approved 0 completed projects	No Report Received
PACE Funding, part of OPEN Pace	1 application approved 1 completed project	2 completed projects
Ygrene	No Report Received	No Report Received
FigTree/Dividend Solar	No response	No Response

On March 5, 2019, the City Council adopted Resolution No. 8852, which approved the affordable While PACE financing appears to be a useful financing mechanism, homeowner participation has been lower than anticipated not just in Milpitas but in neighboring Bay Area communities as well. Staff contacted several other cities who are also seeing little to no participation in PACE. The low participation rate could be attributed to several issues.

- a. PACE financing rates have tended to be higher than other types of financing generally available. One PACE Program Administrator shared that their current financing rates range from 6.99% to 7.99% for 5-year to 30-year loans. As a comparison, an internet search of interest rates for home equity line of credits showed interest rates in the range of 3.25% to 9.25%.
- b. PACE assessments take priority over other loans including mortgages. The Federal Housing and Finance Administration issued a statement in July 2010 advising that PACE programs “pose unusual and difficult risk management challenges for lenders, servicers, mortgage security investors” which resulted in Fannie Mae and Freddie Mac specifying that they would not purchase mortgages with senior priority PACE liens. California and the federal government have developed programs to minimize this risk but Fannie Mae and Freddie Mac have not formally changed their position.
- c. PACE assessment is transferrable to the new property owner, which can complicate real estate transactions and are a concern for the real estate industry.

Energy and water efficiency upgrades of existing buildings and homes is an important strategy to reducing greenhouse emissions, improving comfort of older homes, and helping homeowners save money on utilities. While PACE financing has been a viable mechanism for a niche market of homeowners, participation among homeowners has been low not just in Milpitas but other jurisdictions as well primarily due to the fact that the actual financing rates from the PACE providers are higher than what residents can get through bank financing.

Attachment:

[Excerpt from Nov 21, 2017 City Council Agenda Item 13H Authorizing PACE Programs in Milpitas](#)