City of Long Beach
Working Together to Serve

Memorandum

4

Date: November 27, 2012

To: Patrick H. West, City Manager

From: Amy J. Bodek, Director of Development Services

For: Chair and Members of the Environmental Committee

Subject: Report on Energy Efficient Programs Available to City of Long Beach Property Owners through the Los Angeles County Energy Program (LACEP)

On October 2, 2012, the City Council referred discussion of efforts by the City of Long Beach and Los Angeles County to implement AB 811 to the Environmental Committee, including consideration of whether private financing might be utilized to increase energy efficiency projects for Long Beach residents (Attachment A).

The State adopted AB 811 in July 2008, providing local governments a new mechanism for financing energy efficiency improvements affixed to properties. In 2010, the County of Los Angeles sought to take advantage of AB 811 and U.S. Department of Energy (DOE) funding to encourage residents to upgrade their homes to make them more energy efficient and to create a framework for cities in the county to utilize AB 811 without incurring costs or committing staff resources to implement solo programs. On June 22, 2010, the Long Beach City Council authorized participation in the Los Angeles County Energy Program (LACEP).

The purpose of AB 811, and in turn LACEP, is to mitigate two key barriers that often prevent property owners, especially residential property owners, from implementing a greater number of projects to improve the efficient use of energy and water resources. AB 811 eliminates the need for property owners to pay out-of-pocket, up-front costs for improvements and establishes a loan obligation that is attached to property instead of the individual borrower. In other words, a property owner receives a loan to make energy efficient improvements, and because it is secured by an assessment on the improved property, the loan becomes an obligation of the property and not the property owner. If the property is sold, the assessment remains with the property and is the responsibility of the new property owner.

As Los Angeles County moved forward with implementing LACEP for residential property owners, it, and other similar programs across the country, met considerable opposition and impediments from the Federal Home Financing Agency (FHFA). FHFA's primary concern is that the loans establish a first lien (unlike routine tax assessments) and, as a result, can pose unusual and difficult management challenges for lenders, servicers and mortgage securities investors. FHFA directed Fannie Mae, Freddie Mac and the Federal Home Loan Banks to take the availability of LACEP loans into account when sizing and securing home loans. In addition, FHFA directed that loan covenants require consent for any Property Assessed Clean Energy (PACE) loan. The result for property owners would be to make obtaining loans more difficult and to reduce the size of the loan due to more stringent loan-to-value ratios. In the face of this opposition, Los Angeles County froze its residential program and shifted to a non-residential program.

In March 2012, Los Angeles County issued a Request for Information (RFI) to obtain input from qualified firms that could implement a County of Los Angeles PACE residential and/or non-residential program to either replace or co-exist with its current non-residential program. While respondents to the RFI expressed interest in both residential and non-residential programs, the majority of respondents suggested postponing the launch of a residential PACE program until resolution can be reached with FHFA. Furthermore, the majority of respondents, including Renovate America, Ygrene Energy Fund, Citigroup Global Markets Inc., and The PFM Group, either requires or strongly recommends judicial validation before proceeding with launching a new program.

Given FHFA's position on residential PACE programs and industry experts' preference for a judicial validation, the success of a residential PACE program in the current climate is presented with a number of obstacles and remains uncertain. Staff will continue to monitor the situation as well as County activities in order to assess future opportunities.

IT IS RECOMMENDED THAT THE COMMITTEE:

Receive and file this staff report.

AJB:LAF
Q:\Council Letters\Draft Letters\2012\Residential PACE Program Enviro Comm 112712 v3.doc
Attachment

Attachment A

R-14

James Johnson
City of Long Beach
Councilmember, Seventh District

Date: October 2, 2012

To: Honorable Mayor and Members of the City Council

From: Councilmember James Johnson, Seventh District
Councilmember Steven Neal, Ninth District

Subject: Supporting Energy Efficiency Programs for Our Residents

RECOMMENDATION:

Refer discussion of efforts by the City of Long Beach and Los Angeles County to implement AB 811 to the Environmental Committee, including consideration of whether private financing might be utilized to increase energy efficiency projects for Long Beach residents.

DISCUSSION

Under enacted State Assembly Bill 811 and related legislation, Los Angeles County residents are now able to finance energy efficiency projects through loans paid back through their property tax bill. For example, a homeowner who qualifies for the program may pay $10,000 for an energy retrofit of his or her home, including projects such as insulation, double-paned windows, or tankless water heaters, and then pay back this $10,000 over the next twenty years in semi-annual payments added to the property tax bill.

This method of financing has several advantages. First, residents are more likely to install such projects when they are financed, as they do not need to make a large upfront investment, and annual energy savings often outweigh the annual financed costs. Second, both the benefits and the costs of the improvements are borne by the homeowner, so if the house is sold the new homeowner bears both, incentivizing homeowners to do these improvements even if they plan on moving in a few years.

We recommend that the implementation of AB 811 by the City and County be discussed by the Environmental Committee, including any potential options for greater participation by residents by utilizing private financing.

FISCAL IMPACT

Energy efficiency projects are privately funded by residents, and so there is no significant fiscal impact to the City. However, residents participating in this program may realize significant financial savings from lower electricity bills over the long run. Additionally, reduced use of power would lead to environmental benefits stemming from the lessened use of fossil fuels to generate that power.