



## Legislation Text

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Adopt resolution authorizing the City to join the Energy Efficiency Equity (E3) Program; authorizing the California Municipal Finance Authority to accept applications from residential property owners, conduct contractual assessment proceedings and levy contractual assessments within the City's jurisdiction, and authorizing related actions;

Property Assessed Clean Energy (PACE) is a way to finance energy efficiency, renewable energy, and water conservation upgrades to buildings. PACE can pay for new heating and cooling systems, lighting improvements, solar panels, water pumps, insulation, among other things.

The PACE financing mechanism addresses some of the barriers that may prevent property owners from implementing a greater number of energy efficiency, water efficiency, and renewable energy projects. First, it eliminates the need for property owners to pay out-of-pocket, up-front costs for improvements. Second, it establishes a lien obligation that is attached to the property and not the individual borrower. Property owner participation in PACE programs is completely voluntary. Participating property owners repay the cost of the improvements through an assessment levied against their property, payable in semi-annual installments on property tax bills, with a lien filed against the property as security. In turn, government jurisdictions such as cities, counties, or joint powers authorities issue municipal bonds backed by the assessments. This financing method places the repayment of the loan in first position ahead of repayment of a mortgage, as it is part of the property tax bills. Interest rates and APR tend to be significantly higher than for more traditional forms of home improvement loans. Sample interest rates for Residential PACE providers are provided in Attachment A. For example, one of the companies charges up to 12.3% APR for a five year loan when fees are financed as part of a 8.2 % interest rate. Staff continue to have equity concerns regarding this financing method, as populations with lower levels of financial literacy often do not understand their choices of financial lending option or the higher fees and APR associated with Residential PACE financing.

PACE programs exist for both residential properties and commercial properties. There are some key differences between Commercial PACE and Residential PACE programs, which have resulted in different rates of adoption and implementation across the United States. The key difference between these two is that Commercial PACE is for properties that generate income from lease payments or revenues from businesses occupying those properties. Residential PACE is for homeowners to finance energy efficiency, renewable energy, and other eligible improvements on their homes.

### **Current AB 811 PACE Involvement**

Assembly Bill 811 (AB 811) was approved by the State Legislature and signed by the Governor on July 21, 2008. AB 811 and its amendments authorize local governments to provide financing to qualified property owners for the installation of energy and water efficiency improvements, as well as rooftop solar and other renewable energy installations.

On June 22, 2010, the City Council adopted a Resolution authorizing participation in the Los Angeles County Clean Energy Program, which has since been renamed as L.A. County PACE. The City of Long Beach (City) is participating in both L.A. County's Residential and Commercial PACE programs. Long Beach homeowners may work with one of two L.A. County-approved residential PACE programs: PACEFunding and HERO. Until 2015, L.A. County PACE was the only PACE program authorized to operate in Long Beach.

On April 7, 2015, the City Council adopted a Resolution authorizing participation in three Commercial PACE programs: Figtree PACE, CaliforniaFIRST, and California HERO. For these Commercial PACE programs, PACE-installed improvements are financed by the issuance of bonds by the California Statewide Communities Development Authority (CSCDA), California Enterprise Development Authority (CEDA), or Western Riverside Council of Governments (WRCOG).

On April 5, 2016, the City Council adopted a Resolution consenting to inclusion of commercial, industrial, and agricultural properties within the City's jurisdiction in the California Home Finance Authority, which has since been renamed as Golden State Finance Authority (GFSA), PACE Program.

On September 18, 2018, the City Council adopted a Resolution authorizing participation in three additional Commercial PACE programs: CounterpointeSRE, CleanFund Commercial PACE Capital, and Petros PACE Finance. These additional commercial PACE programs are operated by the CSCDA and were authorized to provide more choice for consumers and inject competition into the marketplace.

On January 22, 2019, the City Council requested the City Manager and City Attorney to prepare a report on the state of residential Property Assessed Clean Energy (PACE) programs in California, including impacts of recent state legislation and existing programs in Long Beach.

## **Residential PACE Providers**

As previously communicated to the City Council via memorandum on March 21, 2019 (Attachment B), historically, staff have not recommended Residential PACE providers as there had been concerns with sufficient underwriting and financial qualification standards for residential projects compared with commercial projects. Unlike traditional lenders, most PACE programs did not use traditional indicators, such as debt-to-income ratios or FICO credit scores, to evaluate a property owner's ability to repay; instead, they evaluated the

value of the property in relation to the size of the lien. PACE becomes the senior lien on the property, meaning failure to pay allows bondholders to seek foreclosure. Most PACE programs relied on contractors to generate demand for financing and some contractors could possibly encourage property owners to seek financing for improvements that they cannot afford, potentially resulting in foreclosure. These risks were especially magnified for homeowners with low financial literacy.

There have been approximately 1,795 commercial projects, and 220,000 home upgrades financed by PACE in California, including at least 1,742 home upgrades in Long Beach. Of the 220,000 home upgrades financed by PACE in California, staff found no evidence that a PACE provider has ever initiated foreclosure proceedings likely due to the significant repercussions associated with foreclosure due to a smaller loan for energy-efficiency purposes. Also, the rate of default for homes with PACE financing remains lower than the rest of the market in California.

Currently, the only two Residential PACE programs allowed to operate in Long Beach are PACEFunding and HERO, as sponsored by L.A. County PACE. If residential property owners choose to participate in these programs, the installed improvements are financed by the issuance of bonds by L.A. County. The bonds are secured by a voluntary contractual assessment levied on the owner's commercial property, with no recourse to participating jurisdictions. Residential property owners who wish to participate in PACE agree to repay the amount borrowed through the voluntary contractual assessment collected together with their property taxes.

Excluding the PACEFunding and HERO programs, there are three additional Residential PACE programs operating in California. They are:

- CaliforniaFirst, as sponsored by CSCDA;
- Energy Efficient Equity, or E3, as sponsored by CMFA; and,
- Ygrene, as sponsored by GSFA.

These additional Residential PACE programs are sponsored by statewide Joint Powers Authorities (JPAs), including the CSCDA, CMFA, and GSFA. The City is already a member of each of these JPAs. For these Residential PACE programs, the improvements installed on an owner's residential property would be financed by the issuance of bonds from each program's sponsoring JPA.

Authorization of these programs will not conflict with the L.A. County PACE or the seven previously City Council-adopted Commercial PACE programs operating in Long Beach. For these programs, the City has no administrative duties or financial commitments. The City can withdraw from these programs at any time by passing a Resolution rescinding the authorization.

## **Ygrene and Senate Bill 555 (SB 555)**

The Ygrene program, as sponsored by GSFA, is the only one of six Residential PACE programs in California that can operate under the legislative authority of two separate California PACE laws. In addition to AB 811, which all other programs solely operate under, the Ygrene program can also operate under Senate Bill 555 (SB 555).

SB 555 amended the Mello-Roos Community Facilities Act, set forth in sections 53311 through 53368.3 of the California Government Code, particularly in accordance with sections 53313.5(1) and 53328.1(a) (Mello-Roos Act), to allow for the creation of Community Facilities Districts (CFDs) for the purpose of financing or refinancing the acquisition, installation, and improvement of energy efficiency, water conservation, renewable energy, and electric vehicle charging infrastructure improvements permanently affixed to private or publicly-owned real property.

The Ygrene program operates with these two financing options so that when market conditions, consumer demand, and/or legislative changes affect one PACE option more than another, they have the flexibility to offer the option that best supports the GSFA vision of service without any interruption to participating counties and cities and their property owners.

The City Council previously adopted a Resolution authorizing commercial, industrial, and agricultural property participation in the Ygrene PACE program under SB 555. On April 5, 2016, the City Council adopted a Resolution consenting to the inclusion of commercial, industrial, and agricultural properties within the City's jurisdiction in the California Home Finance Authority, since renamed GSFA, Community Facilities District No. 2014-1 (Clean Energy) to finance renewable energy improvements, energy efficiency and water conservation improvements, and electric vehicle charging infrastructure.

To authorize residential property participation in Ygrene under SB 555, in addition to the AB 811 financing option, a Resolution adopted by the City Council is required. As with the AB 811 Residential PACE financing option, authorization of the SB 555 Residential PACE financing option will not conflict with the L.A. County PACE or the seven previously City Council-adopted Commercial PACE programs operating in Long Beach. For this program, the City has no administrative duties or financial commitments. The City can withdraw from this program at any time by passing a Resolution rescinding the authorization.

## **SUSTAINABILITY**

Long Beach's Sustainable City Action Plan, which was approved by the City Council on February 2, 2010, includes goals to facilitate the development of at least eight megawatts of solar energy within the community by 2020, reduce community electricity use by 15 percent, and achieve a 20 percent demand reduction in per capita water use by 2020. Adopting a Resolution to opt into an additional Residential PACE program enables the City to offer a vehicle for meeting or approaching these goals.

This matter was reviewed by Deputy City Attorney Taylor M. Anderson on April 17, 2019 and by Budget Analysis Officer Julissa José-Murray on April 16, 2019.

City Council action is requested on May 21, 2019, to allow Long Beach residential property owners to take advantage of the four programs as soon as possible.

The recommended PACE programs do not require the use of City funds. This recommendation is not expected to require additional staff hours beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

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