CITY OF ALBANY
SUSTAINABILITY COMMITTEE AGENDA
STAFF REPORT

Agenda Date: May 21, 2014

SUBJECT: HERO PACE Program

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BACKGROUND

Property Assessed Clean Energy (PACE) financing programs are an innovative and effective tool for lowering the upfront cost of energy upgrades. PACE programs provide financing for solar installations, energy efficiency and water upgrades, and in some cases seismic retrofits. The loans are repaid over the assigned term (typically 15 or 20 years) via an annual assessment on the property tax bill. This allows property owners to begin saving on energy costs while they are paying for the upgrades, and in some cases property owners see net gains even with an increased property tax bill.

In July 2010, the Federal Housing Finance Agency (FHFA) objected to the senior lien status that PACE financing shares with other property taxes and assessments and stalled the development of residential PACE programs by directing Fannie Mae and Freddie Mac to avoid buying mortgages with PACE assessments. Commercial PACE was unaffected, and Albany commercial property owners have been able to take advantage of the statewide CaliforniaFIRST PACE program for several years because Albany is a member of the California Statewide Communities Development Authority.

On September 23, 2013, Governor Brown sent a letter to FHFA advising that California will establish a mechanism to address the concerns raised by FHFA by creating a reserve fund that requires PACE programs to make Fannie Mae and Freddie Mac whole.

CaliforniaFIRST is now attempting to revive the residential PACE program, and a handful of cities and counties have established local residential PACE program.

DISCUSSION

The HERO PACE Program is a public-private partnership that was launched in 2011 by the Western Riverside Council of Governments. The program was developed as a turnkey program to save other California jurisdictions time and resources in developing a standalone program. Jurisdictions only need to adopt a resolution and approve an amendment to the joint exercise of powers agreement to join. The Western Riverside Council of Governments functions as a joint powers authority. The program is fully funded and requires no financial contribution by the participating cities and counties.

The program is voluntary, and if a property owner chooses to participate, the improvements will be financed by the issuance of bonds by the joint powers authority, secured by a voluntary contractual assessment levied on such owner's property. The program is set up under AB 811 and property taxes are collected on the county level twice per year. There is no audit requirement. Interest rates are market driven and determined at the time of transaction. The minimum project size is $5,000 and projects can be financed for up to 25 years.

Over 150,000 products are eligible for HERO financing, and eligible projects include weatherization, energy and water efficiency, solar PV and thermal systems, and electric vehicle charging stations. The program has approved over $637 million in applications and has funded over $159 million in projects. There are 146 cities that have implemented the HERO PACE program, and they are starting to expand in the Bay Area. City of Berkeley staff expects their Council to approve a resolution to join in June.

HERO has received a number of awards, including the Southern California Association of Governments President's Award for Excellence, the Urban Land Institute Best of the Best, the United States Green Building Council California Top 10 Green Building Policies for Municipalities, and the Governor's Environmental and Economic Leadership Award.

Pro/Con Analysis of Options for PACE Programs

1. Do nothing
Pros: No additional staff effort would be needed, freeing up resources to work on other City initiatives.
Cons: Would limit the City's ability to achieve CAP goals.

2. The City could develop and administer its own PACE program
Pros: The City would have complete control over its ability to develop and administer a PACE program, and could incorporate additional acceptable projects like seismic upgrades.
Cons: This would require significant staff time and resources and would likely require the City to allocate significant funding from the General Fund for start-up costs. Staff does not believe this is a viable option given staffing and budget limitations.

3. Join the HERO PACE Program
Pros: The program is voluntary and provides an alternative financing option for energy and water upgrades. It has the potential to save property owners money while moving the City toward its CAP goal. The program could provide an increase in local sales, payroll and property tax revenue, as well as an increase in jobs. The City will have no financial or staff obligations. This program would be an incentive for upgrades, in addition to existing rebates for PG&E and the Energy Upgrade California Program. If the CaliforniaFIRST residential program launches in the future, the City could join it as well. If the City were to implement a Residential Energy Conservation Ordinance (RECO) in the future, this program could help property owners finance mandated upgrades.

Cons: Minimal staff time may be necessary to track the program and ensure program information is clear to residents.

SUSTAINABILITY IMPACT

PACE is an important tool that can assist communities to achieve their energy and climate action goals. PACE increases affordability, therefore increasing the number of projects completed. Increased renewable energy efficiency projects and renewable could have a significant impact on greenhouse gas emissions.

FINANCIAL IMPACT

There will be no financial obligation from the City. All California HERO Program administrative costs are covered through an initial administrative fee included in the property owner's voluntary contractual assessment and an annual administrative fee which is also collected on the property owner's tax bill.

Attachments
1. Resolution