



# SETTING THE PACE

## PACE in the Coachella Valley

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## **I. Introduction**

Picture a typical, triple-digit summer day in the Coachella Valley. An elderly Ms. Jones is in the kitchen preparing breakfast, with the stove only compounding the heat that is radiating through her old home. When lowering the thermostat fails to get the air conditioner to kick on, she knows something is wrong. Later that day, the repair man says it will cost nearly \$12,000 to replace the air conditioner. It has to be fixed immediately, but she doesn't have that kind of money.

This is an example of the types of scenarios that have led to the popularity of Property Assessed Clean Energy (PACE) programs in California. PACE started in Berkeley in 2008, through legislation (Assembly Bill 811) which amended the Streets & Highway Codes, allowing assessment districts to be formed for the purpose of financing energy and water efficiency improvements to a property, to be repaid over time through property taxes. From the beginning, the Coachella Valley has embraced PACE programs, with the City of Palm Desert joining Sonoma County as implementing pioneers of PACE financing programs in 2008. In recent years, various PACE providers have dominated the market, including Western Riverside Council of Governments' Home Energy Renovation Opportunity (HERO) program, Ygrene Energy Fund and CaliforniaFIRST. With the popularity of PACE, new providers are entering the market. The rapid growth of the industry has led to efforts by local governments and PACE providers to ensure consistent industry standards. The focus of this effort has been on strong and consistent policies for consumer protection, underwriting criteria, proper training for PACE providers and contractors, and ways to vet new PACE providers to be sure they have appropriate experience.

According to PaceNation – a New York-based association of PACE providers and industry stakeholders -- California is one of 32 states with PACE legislation. Of those, 16 states have active PACE programs and California has 9 residential PACE providers in operation as of 2016.

This paper will summarize the current state of the industry in the Coachella Valley and beyond. It will highlight some positive results from PACE, identify some of the concerns with PACE programs and providers, and offer some solutions moving forward when considering new PACE programs and providers.

## **II. State of the Industry**

- On April 24, 2015, President Obama announced new policies to help households across the Country take advantage of PACE programs to install renewable energy and energy efficiency projects.
- On July 19, 2016, President Obama announced new guidance to make it possible for properties with PACE assessments to be purchased and refinanced with an FHA mortgage. The guidance for the first time recognizes PACE as any other property tax assessment, not as a conventional loan product. The essence of the FHA's guidance is that the PACE assessment does not take first lien position ahead of the mortgage and the assessment transfers from one property owner to the next, including through a foreclosure sale. The guidance also requires appraisers to analyze and report on the impact of PACE-related improvements to the value of the property<sup>1</sup>.

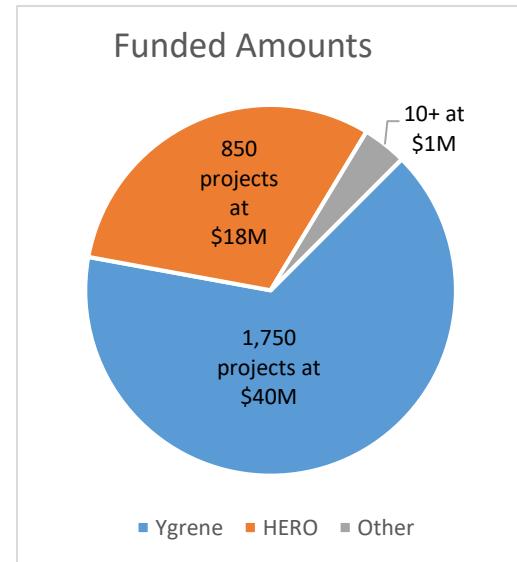
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<sup>1</sup> <https://www.whitehouse.gov/the-press-office/2016/07/19/fact-sheet-obama-administration-announces-clean-energy-savings-all>

- In March 2014, the California State Treasurer created a Loan Loss Reserve fund to further secure and protect the viability of PACE assessments. This fund is intended to mitigate potential risk to mortgage lenders by making them whole for losses incurred due to the existence of a first-priority PACE lien on a property during a foreclosure or forced sale.
- According to sources at Renovate America, HERO PACE provider, there are only 23 reported foreclosures out of 69,000 HERO-assessed properties (0.00034%); this figure does not include all reported mortgage defaults due to bankruptcy or other causes, only those that resulted in foreclosure. California's mortgage default rates were at 4% in 2015, as stated in CoreLogic's National Foreclosure Report<sup>2</sup>.
- There are over 97,000 California homes that have been upgraded with energy or water efficient measures or with renewable power generation using PACE programs, amounting to more than \$2.065 million invested into the economy.
- The total amount of PACE funding provided to property owners in California is equivalent to the creation of 17,500 jobs, based on the calculation used by the American Council for an Energy-Efficient Economy (ACEEE)<sup>3</sup>.
- PACE assessments can be processed more quickly and easily than a typical home equity line of credit or conventional loan, in some cases within 24 hours, which is perfect for those urgent situations like the one described in the introduction.

### **III. State of PACE in the Coachella Valley**

- As of August 2016, three companies have received approval from the CVAG Executive Committee:
  - ✓ The Ygrene Energy Fund, which has been in operation in the Coachella Valley since November 2013, has funded over 1,750 projects amounting to almost \$40 million in green energy improvements. In January 2015, Ygrene launched their statewide PACE program, in partnership with Golden State Finance Authority (GSFA). Ygrene also operates a PACE program in Florida. As manager of the Community Facilities District for CV Upgrade, CVAG currently has a high level of oversight with Ygrene which includes:
    - 1) Full review of scope of work for all projects and



<sup>2</sup> CoreLogic. January 2015. National Foreclosure Report. <http://www.corelogic.com/research/foreclosure-report/national-foreclosure-report-january-2015.pdf> CoreLogic is a global company headquartered in Irvine, California, specializing in information intelligence to identify and manage growth opportunities, improve business performance and manage risk for real estate, mortgage finance, insurance, the capital markets, and the public sector.

<sup>3</sup> American Council for an Energy-Efficient Economy (ACEEE). "How Does Energy Efficiency Create Jobs?" <http://aceee.org/files/pdf/fact-sheet/ee-job-creation.pdf> Fact Sheet. Accessed on August 11, 2016.

signing of all property owner contracts; 2) Any major changes to the program must be approved by the Executive Committee; and 3) Frequent meetings and updates regarding the status of the program.

- ✓ The Home Energy Renovation Opportunity (HERO) program launched in most Coachella Valley jurisdictions in spring/summer 2015, after an agreement with CVAG was approved. HERO is also a statewide PACE program managed by Renovate America, in partnership with WRCOG. They have financed more than 850 projects in the Coachella Valley, amounting to \$18 million. CVAG has limited oversight with this provider which includes: 1) Review of project scope of work for a 25% sampling of all property owner contracts (formerly 100%); 2) Frequent meetings and contact with HERO representative regarding program status.
- ✓ CaliforniaFIRST was approved by CVAG's Executive Committee in February 2016 and has already begun a few commercial projects. Though they are just ramping up in the Coachella Valley, they are also a statewide program operating under the umbrella of the California Statewide Communities Development Authority (CSCDA) Open PACE program. CaliforniaFirst focuses on commercial projects. CVAG has limited oversight with this provider which includes: 1) Review of project scope of work for all property owners, though there have been no projects submitted at this time because the provider was only recently approved; 2) Occasional contact with program representative for updates to program.
- Together these programs have funded more than 2,600 projects in the desert, which equates to nearly \$60 million in green energy improvements. This level of funding is the equivalent of creating 500 jobs for the community. The completed PACE projects result in greenhouse gas emissions reductions equivalent to removing 20,000 cars from Coachella Valley roads. These greenhouse gas emissions reductions help jurisdictions reach their climate action goals.

#### IV. PACE Programs: Questions and Concerns

Since PACE funding is a new industry, questions and concerns about how the program works, requirements for property owners, and some issues and challenges are anticipated. During the last several months, PACE items on CVAG committee agendas have prompted some questions and concerns from committee members. At the June Executive Committee meeting, the members asked staff some specific questions regarding the PACE program:

1. Consistent industry standards and underwriting criteria are a concern throughout the PACE industry, especially with so many new PACE providers entering the market. Though it may be impossible to create one “universal” policy for all to adopt, it must be as consistent as possible with minimum requirements set and accepted by all PACE providers.
  - A number of the major PACE providers in California have worked together to develop a Consumer Protection Policy that was adopted by the California Statewide Communities Development Authority (CSCDA). This policy was adopted by the CVAG Executive Committee at their January 14, 2016 meeting.
  - CVAG staff ensures that current and proposed Coachella Valley PACE vendors have adopted the CSCDA policy or a policy that is consistent.

- As part of the regional PACE program, CVAG will ensure that all new PACE providers adopt a policy consistent with these minimum requirements, thus maintaining the integrity of PACE as a whole.

2. Summary Matrix of PACE Providers. The Executive Committee requested a matrix comparing PACE programs and identifying any issues that may be a concern to borrowers in the long run. A comprehensive comparison matrix prepared by the City of Riverside dated May 2016 and is included in the staff report.
3. Financing Minimum/Maximum Amounts. Concerns about potential for property owners to run into problems if they try to sell their house or if there is an economic downturn.
  - ✓ Max of 15% of property value is consistent across all current PACE providers. PACE providers limit all mortgage debt from 90% to 100% of property value. Staff is comfortable that underwriting criteria are reasonable and consistent among current PACE vendors operating in the Coachella Valley.
  - ✓ PACE providers have developed an option for property owners to opt out of first lien position on mortgage for the PACE assessment. This option is currently available or will soon be available with all PACE vendors operating in the Coachella Valley.
4. Interest Rates. Concerns were expressed about the interest rates.
  - ✓ According to Attachment A, the comparison matrix, interest rates are fairly consistent among PACE vendors, ranging from 6.5% to 8.49% depending on term; terms vary from 5 to 30 years.
  - ✓ The interest rate is disclosed to the property owner at the time they agree to PACE funding.
  - ✓ Interest rates are related to the cost of funds used by PACE vendors. Increased competition may result in reduced interest rates but not enough data is available to determine whether this will occur.

The Executive Committee also requested that staff identify issues and potential problems with Coachella Valley PACE programs, vendors, and contractors. Staff contacted a representative of each member jurisdiction participating in the PACE program for feedback on their experience with the program to date; they were asked to provide information on any problems that were reported to them by property owners. Staff also contacted individual property owners who have participated in the Ygrene program. A summary of their input is provided in Section V.

Members of the CVAG Executive Committee expressed concern about protecting the consumer from scams and dishonest contractors. They expressed particular concern about consumer protection for elderly folks and non-English speaking property owners. The issues and concerns identified are summarized below:

- Based on statistics provided by both HERO and Ygrene, as well as testimony from property owners, the majority of issues come from disputes between a contractor and a property owner, and not from PACE program providers.
- There are rare instances where a contractor or property owner may attempt to abuse the PACE program by exploiting loopholes. For instance, a contractor could try to include a measure that is not considered an eligible improvement in the quote to the property owner and disguise it by combining it with an energy efficient or renewable energy measure.

- With an increasing number of PACE providers in the market now, consumers may get overwhelmed by the choices. Customers also admitted it is easy to be confused by the details on how the program actually works. Most providers rely on local contractors to do advertising for them. If the contractors aren't trained properly, they may miscommunicate the details of the program, including questions about tax implications of PACE loans.
- Property owners have indicated that some contractors have promoted the PACE program as a "government program" that doesn't have to be paid back. Some contractors will even inflate their prices, knowing that there are no upfront costs to the property owner, or knowing that the long financing terms will keep the payments low, despite the inflated pricing.

#### **V. PACE Customer Feedback**

- CVAG staff carefully reviews an average of 25 PACE contracts each week with a heavy focus on consumer protection, which includes product eligibility and maximum finance amounts for those products.
- CVAG staff randomly selected four property owners across the Coachella Valley who used PACE financing for improvements to their home since 2015, to interview them about their experience using the program.
  - ✓ All of the property owners were grateful for the program's usefulness.
  - ✓ Two of the four property owners would not have been able to do any improvements without PACE funding.
  - ✓ One of them had an urgent situation similar to the one described in the introduction and explained a bank loan would have taken too long.
  - ✓ All four property owners did their due diligence and obtained more than one quote before choosing a contractor.
  - ✓ Three of the property owners thought the interest rates were high, but due to the length of the term, it worked for them financially.
  - ✓ The only complaints were aimed at the contractor or his employees.
    - One complaint was because the contractor didn't turn the solar system on for months after the installation was completed.
    - One complaint was because the contractor's salesperson was too pushy and made the property owner uncomfortable.
    - One complaint was directed at a contractor's salesperson who quoted an air conditioning unit much larger than what the property owner actually needed.

#### **VI. Primary PACE Issues Surrounding Contractors**

The following summary identifies the most notable issues identified through our evaluation of PACE programs in the Coachella Valley. Solutions to specific problems are identified, including measures that are already in place or in the process of being implemented.

- Consumer complaints and issues concerning contractors. Complaints with a contractor are the number one issue in our research. This issue is not specific to PACE programs. As indicated by the Better Business Bureau's 2015 complaint statistics report, contractor complaints are among the top 10 of all complaints received. All PACE providers operating in the Coachella Valley have a complaint department or dedicated person to handle any issues. This helps various entities, including CVAG, to properly direct complaints that are brought to our attention and get them addressed quickly.
  - ✓ As part of the vetting process, CVAG will ensure new PACE vendors have a complaint department or dedicated person to handle any issues that may arise in their program and continue to work with them on any issues that come to our attention, or to the attention of any of our member jurisdictions.
  - ✓ CVAG staff receives occasional phone calls or in person visits by property owners at our office. As part of CVAG's oversight, staff works with the appropriate PACE vendor to get the concerns of the property owner resolved, including follow up with the property owner to ensure their satisfaction.
- Property owner and/or contractor abuse of the program. Each PACE provider must have a system of checks and balances to minimize unnecessary risks to the program. Though it is difficult to catch every loophole being abused, and new ones can be discovered, it is important to the integrity of the program that all PACE providers freely share this type of information amongst themselves, to better prepare them for when they do occur, and to address them quickly. CVAG staff will work with each PACE provider to establish a system, or fine tune their existing system, to ensure abuse of the program in any form is discovered and dealt with swiftly, and the information is shared amongst the other providers.
  - ✓ The Local Government Commission has recently initiated a PACE working group to provide coordination among local governments on PACE issues. CVAG staff has participated in the initial call with this group.
  - ✓ This could be accomplished by routine coordination among PACE vendors, perhaps by creating an email group consisting of relevant industry partners. PACENation is an organization that includes PACE vendors as members.
- Many of the PACE providers rely on contractors to advertise on their behalf. It is understood that though this can greatly reduce advertising costs for PACE providers, it allows a greater margin for inaccurate information about the program. Contractors who distribute inaccurate advertising material or information or take advantage of the elderly or non-English speaking property owners, will be put on notice, monitored, and restricted from using any of the PACE programs if they persist.
  - ✓ In order to minimize any inaccuracies, contractors using information about PACE or a PACE provider, must first get approval from the relevant PACE vendor, according to the CVAG Policies and Procedures which we have adopted. Use of participating agency logos requires permission of the relevant agency.
  - ✓ CVAG staff will ensure that all PACE vendors have a protocol for dealing with a contractor who violates CVAG's Consumer Protection Policies. . If CVAG determines that a contractor is in

violation, the contractor will be placed on a watch list and, if violations continue, CVAG will notify all other PACE providers and the contractor will be restricted from participating in any of the PACE programs.

## **VII. Conclusion**

PACE financing has allowed people like Ms. Jones to make energy efficient upgrades to their homes without the burden of paying for unexpected costs upfront. But, as previously noted, the rapid growth of PACE as a financing tool has created both opportunities and challenges.

With so many new PACE providers entering into the California market, it is clear that there is a need for continued – and, in some cases, increased – oversight. CVAG, as the regional governing body, is best positioned to take charge of this oversight and should remain the lead on implementing new PACE programs in the Coachella Valley. Knowing the challenges that new providers will have entering the Coachella Valley marketplace, CVAG should consider an increased oversight role as additional companies seek the Executive Committee’s approval.

Our goal is to ensure that PACE programs maintain exemplary business practices and are fair and equitable throughout the region. CVAG can offer a phased approach with the new providers, reducing the amount of oversight over time, as the new provider proves that they are capable of maintaining high standards and practices, with minimal errors. This phased approach can also be used for our existing PACE providers. Over time, if a provider proves that they can operate efficiently, without errors or issues, CVAG will reduce its oversight.

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