



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: AUGUST 23, 2016**

FROM: PUBLIC UTILITIES **WARDS: ALL**

SUBJECT: AUTHORIZATION OF ADDITIONAL PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM PROVIDERS IN THE CITY OF RIVERSIDE

ISSUE:

Authorization of additional Property Assessed Clean Energy (PACE) program providers in the City of Riverside.

RECOMMENDATIONS:

That City Council:

1. Adopt a resolution and authorize contractual assessment proceedings and levy voluntary special taxes on parcels within the City with the following PACE financing providers under their respective Joint Powers Authority (JPA):
 - a. Renewable Funding LLC / CaliforniaFirst, Alliance NRG, Pace Funding, Spruce Financing Inc. and CleanFund Commercial PACE Capital, provided through the Open PACE Program under the California Statewide Communities Development Authority (CSCDA)
 - b. Figtree PACE Program, provided under the California Enterprise Development Authority (CEDA)
 - c. Energy Efficiency Equity (E3), BlueFlame PACE Services and Structured Finance Associates, provided through the Open PACE Program under the California Municipal Finance Authority (CMFA)
2. Adopt resolutions for AB 811 and SB 555 PACE Programs authorizing the City to participate in the Ygrene Energy Fund PACE Program, provided under the California Home Finance Authority (CHFA) Joint Powers Authority, now named Golden State Finance Authority (GSFA), to conduct contractual assessment proceedings and levy voluntary special taxes on parcels within the City and approve associate membership in the CHFA joint powers authority at no cost to the City;
3. Direct staff to create an annual application process beginning July 1, 2017 for evaluation and consideration of new PACE program providers requesting to provide services in the City of Riverside; and

4. Authorize the City Manager, or his designee, to execute and modify any and all related documents and to take such actions as are necessary to implement the PACE Programs in the City.

COMMITTEE RECOMMENDATION:

On March 10, 2016, the Utility Services, Land Use, Energy Development Committee with Chair Mac Arthur and Vice Chair Soubrious received a report from the Mayor's Office regarding the potential expansion of other PACE program providers to operate in the City. The Committee agreed with the recommendation for an analysis of PACE programs from Public Utilities to be presented back to the Committee within 60 days.

On May 12, 2016, the Utility Services, Land Use, Energy Development Committee with Chair Mac Arthur and Vice Chair Soubrious received and filed a report (Attachment 1) from Riverside Public Utilities (RPU) regarding the consideration of allowing additional PACE Program providers to offer financing options in the city. The Committee recommended that staff return this item to the full City Council for consideration to allow additional PACE program providers to operate within the City of Riverside.

LEGISLATIVE HISTORY:

California Assembly Bill (AB) 811 (July 21, 2008), AB 474 (January 1, 2010) and Senate Bill (SB) 555 (October 5, 2011) were signed into law to allow PACE programs. Local legislative bodies may designate areas where residential and commercial property owners can enter into voluntary contractual assessments to finance 100% of the cost of eligible energy efficiency, renewable energy and water conservation improvements that are permanently affixed to real property.

The intent of the legislation was to make conservation enhancements more affordable by creating a property based financing tool that offers little or no upfront cost. The cost of improvements are placed on the property tax rolls and repaid through the property tax bill for the term of the loan, not to exceed the useful life of the improvements installed. There is no impact to personal credit scores because borrowers are not qualified based on their credit, but on the equity in the property. Participation in the financing program is 100% voluntary and it is the responsibility of the property owners to perform their due diligence by reading all contractual documentation before selecting any company to provide PACE financing.

BACKGROUND:

On April 26, 2011, City Council adopted a Resolution of Participation and an Implementation Agreement that allowed for Western Riverside Council of Governments (WRCOG) to develop and implement a PACE Program called the Home Energy Renovation Opportunity (HERO) in Riverside. Currently, HERO is the only PACE program authorized to operate in Riverside. Since 2011, the HERO Program has financed almost \$50 million in residential projects and \$575,000 for commercial projects within the City of Riverside. The HERO Program will continue to offer PACE financing within the City of Riverside in addition to any new providers entering the city.

PACE programs have been very controversial over the years primarily because of FHFA regulatory concerns over the issues related to residential PACE property tax assessments having a lien status superior to that of existing mortgages underwritten by Fannie Mae and Freddie Mac. A superior

“lien status” would mean that in the event of default, any outstanding PACE assessments (though not the entire amount financed) would be paid off before other liens such as first deeds of trust. In addition, associated property transactional problems created challenges for homebuyers, lenders, real estate agents and sellers.

As of July 2016, the FHA announced new direction that tries to achieve a balance between encouraging PACE lending while protecting the FHA from several risks. These include appraisals that will factor in the PACE assessment and the value of the improvements in the overall value of the property as well as the loss of collateral in a tax sale. In the event of a home sale with outstanding PACE financing, the PACE assessment may remain with the property—although in foreclosure sales, priority collection of delinquent payments for the PACE assessment may be waived or relinquished.

DISCUSSION:

The City has recently been approached by additional PACE providers requesting that they be allowed to offer PACE financing to residents and businesses in the City of Riverside. Additional PACE providers would provide potential PACE borrowers more financing options.

To date, there are ten PACE program providers in addition to HERO operating within four JPA’s located throughout the state. All 10 providers have requested that they be allowed to provide PACE financing services within the City of Riverside. The JPA’s and their contracted provider(s) are as follows:

California Statewide Communities Development Authority (CSCDA):

CSCDA is a statewide JPA formed by the California State Association of Counties (CSAC) and the League of California Cities (LCC). The City of Riverside is an associate member of CSCDA and therefore, this PACE program is available to the city should City Council authorize participation. CSCDA operates an Open PACE model with five different program providers under the AB 811 and AB 474 legislation. The program administrators operating under the CSCDA Open PACE Program include:

1. Renewable Funding LLC / CaliforniaFIRST
Renewable Funding LCC / CaliforniaFIRST PACE program is administered by Renew Financial and is available to residential and commercial properties.
2. Alliance NRG
The Alliance NRG Program provides up to 100% financing for energy efficiency and renewable energy products for both residential and commercial property owners.
3. PACE Funding
PACE Funding provides energy efficiency, water conservation and renewable energy financing for residential customers.
4. Spruce Finance, Inc.
Spruce Finance, Inc. works with a national network of contractor and channel partners to provide consumer financing for residential solar systems, water conservation and energy efficiency upgrades.

5. CleanFund Commercial PACE Capital

CleanFund is a direct lender focused exclusively on the commercial property sector.

Should the City decide to adopt a resolution (Attachment 2) to proceed with the CSCDA Open PACE model, all five CSCDA PACE program providers will automatically be made available to Riverside residents and businesses. Additionally, should CSCDA add any additional providers under Open PACE in the future, these new providers will automatically be added to the program at the discretion of CSCDA and not the City.

California Enterprise Development Authority (CEDA):

CEDA is a JPA established by the California Association for Local Economic Development (CALED) and operates PACE programs using the AB811 and AB 474 model. The City of Riverside is an associate member of the CEDA and therefore, this PACE program is available to the city should City Council authorize participation by resolution (Attachment 3).

6. Figtree PACE

Figtree PACE is administered by Figtree Energy Financing and is only available to commercial, industrial, and multifamily properties.

California Home Finance Authority (CHFA):

CHFA, now named the Golden State Finance Authority (GSFA), is also a statewide JPA formed in 1993 and operates PACE programs using both SB 555 (Mello-Roos CFD) and AB811 (Assessment District). The City of Riverside is currently not a member of GSFA and therefore City Council must authorize participation in the JPA as an associate member in addition to approving the resolution (Attachments 4 and 5).

7. Ygrene Energy Fund

CHFA contracts with Ygrene Energy Fund, LLC to serve as the program administrator and offers financing for single family residential, multifamily and commercial building owners to generate renewable energy or reduce their energy and water use.

California Municipal Finance Authority (CMFA):

CMFA is a JPA created to strengthen local communities by assisting with the financing of economic development and charitable activities throughout the state of California. The City of Riverside is an associate member of CMFA. CMFA operates an Open PACE model with three different program administrators under AB 811 and AB 474. The program administrators operating under the CMFA Open PACE Program are:

8. Energy Efficiency Equity (“E3”)

E3 finances residential and commercial energy efficiency upgrades.

9. BlueFlame PACE Services

BlueFlame PACE Services is a commercial financing company serving the energy finance needs of small and middle market (C&I) customers and project developers across all clean energy sectors.

10. Structured Finance Associates

Structured Finance Associates was founded in 2010 to provide commercial financing for energy efficiency.

Should the City decide to proceed with the CMFA Open PACE model, by adopting a resolution (Attachment 6), all three CMFA PACE program providers will automatically be made available to Riverside residents and businesses. Additionally, should CMFA add any additional providers under Open PACE in the future, these new providers will automatically be added to the program at the discretion of CMFA and not the City.

Annual Application Process

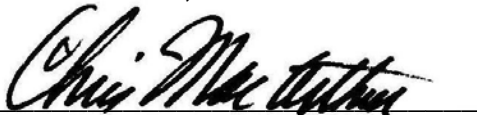
Due to the influx of additional PACE providers coming into the market outside of the Open PACE models of CSCDA and CMFA, city staff recommends the creation of an annual application period starting July 1, 2017 for new providers wanting to enter the City of Riverside. Once a year, city staff will review any additional providers interested in providing services to the city and report to City Council for approval. This will help streamline administrative staff time for processing, reviewing and submitting appropriate documentation for City Council approval of new program provider(s) in the City.

FISCAL IMPACT:

There is no fiscal impact to the City of Riverside as a result of adding additional PACE program providers. Participation in this program by City residents and businesses is 100% voluntary and only those property owners who wish to participate in the program will be assessed on their property tax bills in order to re-pay debt associated with the PACE financing.

Prepared by: Girish Balachandran, General Manager, Riverside Public Utilities
Certified as to
Availability of funds: Scott G. Miller, Interim Finance Director/Treasurer
Approved by: John Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Concurs with;



Chris Mac Arthur, Chair
Utility Services, Land Use, Energy Development Committee

Attachments:

1. May 12, 2016 Utility Services, Land Use, Energy Development Committee Report
2. Resolution (CSCDA)
3. Resolution (CEDA)
4. Resolution (CHFA)
5. Resolution (CHFA CFD 2014-1)
6. Resolution (CMFA)
7. Presentation