

REPORT TO THE CITY COUNCIL



DATE: February 7, 2017

TITLE: Open Property Assessed Clean Energy ("PACE") Program

Prepared by: Lee McCormick, Financial Advisor, CMFA

Reviewed by: Joseph M. Tanner, Administrative Services Director

RECOMMENDATION

Adopt a Resolution of the City Council:

- 1) Approving, authorizing, and directing execution of a Joint Exercise of Powers Agreement relating to the California Municipal Finance Authority;**
- 2) Consenting to the inclusion of properties within the territory of the City in the California Municipal Finance Authority Open Pace Programs;**
- 3) Authorizing the California Municipal Finance Authority to accept applications from property owners, conduct contractual assessment proceedings and levy contractual assessments within the territory of the City; and**
- 4) Authorizing related actions.**

BACKGROUND

The California Municipal Finance Authority (CMFA) is a Joint Powers Authority formed to assist local governments, non-profit organizations and businesses by promoting economic, cultural and community development, with the financing of economic development and charitable activities throughout California. To date, over 250 municipalities have become members of the CMFA.

As part of its economic and community development, the CMFA along with its current Program Administrators, Energy Efficient Equity, Inc.; BlueFlame PACE Services LLC; OnPACE Energy Solutions, LLC; and Structured Finance Associates, LLC; are offering PACE financing for residential and commercial property owners in its member territories. The CMFA is expected to issue limited obligation bonds, notes or other forms of indebtedness to fund the projects.

PACE is an innovative way to finance energy efficiency, water efficiency, and renewable energy upgrades for residential and commercial buildings. Property owners who participate in the program repay the loans through a voluntary contractual assessment collected together with their property taxes. One of the most notable characteristics of PACE programs is that the loan is attached to the property rather than belonging to an individual. Therefore, when the owner sells the property, the loan may be paid off during the sale or stay with the property and be paid off by the new owner, who also benefits from the upgrades that were completed.

PACE financing enables individuals and businesses to defer the upfront costs of energy efficiency, water efficiency and renewable energy improvements. PACE loans are paid over a long period of time while energy costs are simultaneously lower, which typically provides the property owner with net savings. PACE overcomes challenges that have hindered adoption of energy efficiency and renewable energy measures for many property owners.

ANALYSIS OF THE JOINT EXERCISE OF POWERS AGREEMENT

In order for the CMFA to have the authority to provide PACE financing in the City, it is necessary for the City to become a member of the CMFA. Attached to this report is a copy of the Joint Exercise of Powers Agreement to be executed by a designated signatory of the City.

The Joint Exercise of Powers Agreement provides that the CMFA is a public entity, separate and apart from each member executing such agreement. The debts, liabilities and obligations of the CMFA do not constitute debts, liabilities or obligations of the members executing such agreement. There are no costs associated with membership in the CMFA.

ANALYSIS OF THE PACE PROGRAM

Staff has determined that participation in this program is a cost effective means of offering property owners the opportunity to make energy and water efficiency retrofits to their property and create new local jobs. Property owners will repay the financing as a charge on their property tax bill over a period of years.

The benefits to the property owner include:

- Competition: CMFA Open PACE currently provides three options to property owners: Energy Efficient Equity, Inc.; BlueFlame PACE Services LLC; OnPACE Energy Solutions, LLC; and Structured Finance Associates, LLC. Property owners can shop for the best price and service through the availability of the PACE administrators.
- Eligibility: In today's economic environment, alternatives for property owners to finance renewable energy, energy efficiency, and water conservation improvements may not be available. Therefore, many property owners do not have options available to them to lower their utility bills.
- Savings: Renewable energy, energy efficiency, and water conservation improvements help lower utility bills.
- Payment obligation is tied to the property: The debt should not need to be repaid when the property is sold or transferred. The new owner assumes the obligation to repay the remaining balance with the property taxes.
- 100% Voluntary: Property owners choose to participate in the program at their own discretion.
- Repayment obligation matched to the useful life of the financed improvements: The length of the financing is based on the expected useful life of the improvements. Depending on the lender and the improvements, the term can range from five (5) years to thirty-nine (39) years.
- Prepayment options: Property owners can pay off the assessments at any time without penalty.
- Improved quality of life: Residents benefit from improvements, such as more effective cooling provided by new air conditioning units and less outside noise when new double-paned windows are installed.

The benefits to the City include:

- Prequalified PACE Administrators: The CMFA's Board has pre-qualified the PACE administrators based on their business practices, qualifications, experience and capital commitment to the PACE market.
- Single Resolution: The City can pass a single resolution and provide access to residential and commercial property owners to highly qualified PACE administrators. There is no need to pass multiple resolutions to approve the administrators.
- No City Obligation: The City is not obligated to repay the bonds issued by CMFA or to pay the assessments levied on the participating properties. The City will not incur any cost or involvement, and there are no administrative responsibilities, marketing obligations, or financial exposures to the City.

- No City staff support required: The CMFA and its Program Administrators handle all assessment administration, bond issuance and bond administration functions.
- Increase in local jobs: Property improvements provide local job opportunities.
- Increased City Revenue: Property improvements result in an increase in sales and property tax revenue to the City.

The proposed Resolution authorizes the CMFA to accept applications from owners of property within our territory for municipal financing of authorized improvements through the CMFA Program. It also authorizes The CMFA to conduct assessment proceedings and levy assessments against the property of participating owners within the incorporated territory of the City.

FISCAL IMPACT

There is no negative fiscal impact to the City's general fund incurred by consenting to the inclusion of properties within the City limits in the PACE Programs.

The Board of Directors of the California Foundation for Stronger Communities, a California non-profit public benefit corporation (the "Foundation"), acts as the Board of Directors for the CMFA. Through its conduit issuance activities, the CMFA shares a portion of the issuance fees it receives with its member communities and donates a portion of these issuance fees to the Foundation for the support of local charities. With respect to the City, it is expected that a portion of the issuance fee will be granted by the CMFA to the general fund of the City. Such grant may be used for any lawful purpose of the City. A similar amount will be donated by the CMFA to a non-profit organization in the City.

EXHIBIT(S)

- 1) Proposed Resolution to approve the CMFA Joint Exercise of Powers Agreement and to join the CMFA PACE Program
- 2) CMFA Joint Exercise of Powers Agreement