

NASEO State Financing Committee Call Notes
Thursday, September 6, 2012, 3pm-4pm ET

Attendees:

Abundant Power
ASHRAE
The Cadmus Group
Capital Xpansion, LLC
Deady Law
Duncan, Weinberg, Genzer & Pembroke, P.C.
Johnson Controls
Missouri SEO
Oklahoma SEO
SAIC Environment and Energy
Washington SEO

Welcome and Announcements:

Sandy Fazeli, NASEO Program Manager, opened the call in the absence of the committee chair, Jeff Pitkin. Sandy announced the day and time of the next Financing Committee call: Thursday, Oct. 4, from 3pm to 4pm ET. The call-in information for the Oct. 4th call is: 213-289-0155 (code: 6833636).

Upcoming NASEO Annual Meeting

Sandy noted that next week, NASEO will be hosting its Annual Meeting in Minneapolis, Minnesota, from September 9 through September 12. On Monday, September 10, NASEO has planned a session on “Public-Private Partnerships for Financing Energy Efficiency, Renewable Energy, and Innovation” which will highlight some key financing mechanisms that states have been using to forge partnerships with the private sector and leverage private capital.

NASEO Report on State Energy Financing Under Development

Sandy added that NASEO is undertaking a new initiative to write a state energy financing analysis and recommendations reports. The study aims to provide an analysis of energy financing and economic development programs in the states. It will highlight best practices, drivers of success, and potential challenges to the implementation and success of various financing mechanisms. The financing models that the study will cover include on-bill repayment and financing, bond financing and other secondary market initiatives, credit enhancement, revolving loan funds, and property assessed clean energy, among other topics. For more information on this research, please contact Sandy at sfazeli@naseo.org.

Presentation: “Property Assessed Clean Energy (PACE) and Commercial PACE Activities in Florida”

Sandy introduced the day’s presenters. Travis Yelverton is the former Deputy Director within Florida’s State Energy Office. In that role he was responsible for implementing and managing a \$36 million energy investment program. He has also served on NASEO’s Board of Directors. In his current role as the founder and CEO of Capital Xpansion, an energy finance consulting company, he has been following the progress of property assessed clean energy (or PACE) in the commercial buildings sector in Florida. Sandy also noted that Erin Deady, an attorney who has been working in California on residential PACE litigation, would be providing an update on residential PACE after Travis’s presentation.

Travis provided an overview of PACE, which is a program framework to finance energy efficiency and renewable energy upgrades in buildings. It typically provides 100% of project capital and is repaid through a non ad-valorem property tax assessment for up to 20 years.

While state and other levels of government play a role in PACE, it is ultimately a local program. The local government is responsible for establishing the PACE assessment or charge; building owners evaluate and select projects to reduce energy costs; the local government provides financing and adds assessment to the tax role; and the property owner pays the assessment over the period of time specified.

PACE offers a number of benefits. It provides access to much needed capital for quality projects, and its long repayment term is more correlated with the benefits and useful life of the equipment or services provided in the project. It is also flexible at the local level, so that the program is crafted to align with the community's building stock and resources, and it has been posited that it promotes local job creation. Finally, it involves very little (if any) government investment and does not expose general funds to project risk.

Travis explained the revenue and cash flow in a PACE scheme. A number of actors are involved in this process: the local government, energy efficiency lenders, property owners, tenants, and energy contractors.

There are three commercial PACE programs active in Florida: Florida Green Energy Works (FGEW), the Florida PACE Funding Agency, and Ygrene Florida. None of these programs have yet completed a project; all are on the cusp of starting to do projects. Nevertheless, their various financing approaches have made for an interesting "testing lab" for uncovering best practices and lessons learned about PACE.

In addition to differences among the target geography and populations of each program, a notable divergence is in the way they are funded. FGEW adheres to the Open Market Model, where property owners are responsible for independently negotiating their rates and finding a lender to fund their projects. The Florida PACE Funding Agency and Ygrene, on the other hand, follow the Warehouse Bond Model, where an investor (either a government using general funds and/or investment portfolios or a third party program sponsor using private capital) makes a large line of credit or other credit facility available to cities and counties to use in funding the PACE program. A third model is the Pooled Bond model, where PACE loans are funded either from an initial or series of bond issuances and applications for PACE are approved by the municipality during an aggregation period that then attempts to achieve critical mass before releasing funds.

Travis highlighted some barriers to PACE to the uptake of PACE at the local level. These have included lack of funding, insufficient return on investment given local market conditions and building stocks, uncertain savings, lack of technical expertise, lack of awareness, and split incentives.

For a PACE program to get off the ground, Travis highlighted a few best practices. He noted that there should be aggressive efforts to engage with lenders so that they consent to add PACE liens on existing mortgages. There should also be a contractor certification and/or qualification program, to streamline the process of obtaining professionals with the sufficient level of skill needed for energy efficiency and renewable energy projects. Finally, there should be awareness-raising amongst appraisers so that they understand the value that PACE can add to a property.

Erin Deady, ESQ. next provided an update on the residential PACE front. The Federal Housing Financing Agency (FHFA) has directed Fannie Mae and Freddie Mac to avoid servicing loans with priority PACE assessments attached to them. Erin represents Leon County in a case against Fannie Mae and is urging the agency to change its position, which would disrupt the Leon Energy Assistance Program (LEAP).

Because states with PACE-enabling legislation are pursuant to federal authority, federal action on this mechanisms would have significant impacts on programs that either already exist or are under development in many municipalities and states.

Q&A/Discussion

There was a discussion around exchanging draft comment letters between various members of the Financing committee so that NASEO members and affiliates can provide input and reactions directly to FHFA.