

Property Assessed Clean Energy (PACE) Replication Guidance Package for Local Governments



March 30, 2012



PREFACE

Sonoma County has prepared this Guidance Package (“manual”) to assist other local governments in developing a Property Assessed Clean Energy (PACE) program.

The information contained within this manual is offered only for general informational purposes. It does not constitute either general or specific legal advice and should not be substituted for legal, financial or other professional advice. This manual is based on an energy independence program individualized for the County of Sonoma and may not be suitable for all public agencies. These materials are not promised or guaranteed to be current, complete, or up-to-date. Different factual situations and evolving case law may require substantial modifications to the enclosed documents. As such, the authors make no representations or warranties with respect to the accuracy or completeness of the contents of this manual.

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EXECUTIVE SUMMARY

This manual will assist local governments in their efforts to establish and operate Property Assessed Clean Energy (PACE) programs. It provides a general overview of PACE and the considerations for local governments contemplating a PACE program design and administration.

Note: The information contained within this manual is offered only for general informational purposes. It does not constitute either general or specific legal advice and should not be substituted for legal, financial or other professional advice. This manual is based on an energy independence program individualized for the County of Sonoma and may not be suitable for all public agencies. These materials are not promised or guaranteed to be current, complete, or up-to-date. Different factual situations and evolving case law may require substantial modifications to the enclosed documents. As such, the authors make no representations or warranties with respect to the accuracy or completeness of the contents of this manual.

Most property owners can reduce long-term energy and water costs and their dependence on traditional fossil fuels by making energy efficiency and water conservation improvements and installing renewable energy systems on their properties. While the benefits of making such improvements are evident, property owners often have concerns about the substantial upfront costs and the limited options available to finance these improvements. PACE programs allow local governments to provide property-secured financing to promote energy efficiency, water conservation and renewable energy improvements on properties within their communities.

Although PACE is relatively new, local governments throughout the country have used property-secured financing for decades to finance projects that benefit the public. Property-secured financing generally allows a local government to fund certain projects and impose an assessment¹ on property to secure repayment for its funding. California law authorizes local governments to establish a property-secured financing program to fund eligible energy efficiency, water conservation and renewable energy generation improvements (“PACE improvements”) on private property. A participating property owner agrees to repay the local

¹ This document uses the term “assessment” to refer collectively to property-secured financing, regardless of whether a local government imposes an assessment or a special tax on property to secure repayment for the improvements funded by the local government.

government’s funding through an assessment levied against the owner’s improved property, which the property owner pays in semi-annual installments with property taxes. The property owner agrees to have a lien for the assessment be recorded against the property. The lien and payment responsibility stays with the property and is transferable from one property owner to the next upon the sale of the property.² The local government may issue bonds to finance PACE improvements with assessment revenues pledged for payment of debt service on the bonds.

The building retrofit financing sector is exciting and dynamic and a variety of PACE program models are emerging across the country. Therefore, this manual is not all-inclusive. Instead, it serves as a general guide to PACE financing by drawing from the experience of the Sonoma County Energy Independence Program and other pioneering programs in California. Accompanying this manual as its Appendices is the Document Library, a resource center for sample program materials.

WHAT’S INSIDE

This PACE manual serves as a resource for local governments to assist them with the development, implementation, ongoing management and sustainability of PACE programs. It provides in-depth information about how existing PACE programs are operating, including a discussion of financing mechanisms, planning parameters, process implementation and other key aspects of PACE. This manual also provides an accompanying “Document Library” intended to give local governments a jump start in establishing a PACE program by providing sample documents to establish a PACE program, to set PACE program policies, to contract for related services and to establish ongoing PACE program operations. Each of the program planning and operational chapters (Chapters 2-5) contains “Lessons Learned” pertinent to that chapter’s discussion. Finally, answers to questions frequently asked of California PACE program managers are provided.

² Throughout this document, reference is made to the transfer provision of the PACE assessment with the transfer of the property. Please refer to the “[Federal Mortgage Regulators](#)” discussion in the Introduction of this manual for a detailed discussion of the current status of this intent.

HOW TO USE THIS MANUAL

This manual is designed for local government officials, decision-makers, staff, and public advocacy groups interested in establishing a PACE program in their region. Policymakers interested in understanding what PACE is, its advantages and disadvantages, and the future of PACE should focus on the Introduction. Advocates of establishing a PACE program may wish to focus on the Introduction and Chapter 6 (Case Studies) to understand the potential benefits of and possible models for a PACE program. Local elected officials deciding whether or not to implement a PACE program should refer to Chapter 2 (PACE Program Considerations). Staff assigned to implementing a PACE program should refer to Chapters 3-5 and the Document Library for an understanding of the process and tasks involved with setting up and operating a PACE program, including administrative, legal, and financial challenges.

CHAPTER ONE: INTRODUCTION

WHAT IS PACE?

Property Assessed Clean Energy (PACE) is a program that authorizes a local government to provide up-front funding to eligible property owners to finance the installation of energy efficiency and water conservation improvements and renewable energy systems on their property. The program is 100% voluntary.

HOW PACE FINANCING WORKS

Property owners repay the local government's funding by agreeing to an assessment levied against their property, which is payable on their property tax bill. The assessment is paid off over a term often determined by either 1) the life of the bond or other financial mechanism used to finance improvements, or 2) the functional life (effective useful life) of the improvement. The typical maximum repayment duration is 20 years. The obligation to repay the assessment is attached to the improved property, not the property owner, and transfers with the sale of the property to the new owner.³

In California, local governments have broad authority to determine the type of improvements that can be financed and the details of the financing arrangement. PACE improvements can include a wide variety of energy-saving upgrades, from solar systems to high efficiency HVAC systems to double-paned windows and doors.

HISTORY OF PACE LEGISLATION

PACE was first proposed and created by the City of Berkeley, California in 2007,⁴ which implemented a small pilot for residential solar financing. PACE programs have been identified as Energy Financing Districts, Sustainable Energy Financing, Clean Energy Assessment Districts (CEAD), Contractual Assessments Programs, or Community Facility Districts.

On July 21, 2008, California Governor Arnold Schwarzenegger signed California's first PACE legislation, [Assembly Bill 811](#) (AB 811). AB 811 authorized cities and

³ See "[Federal Mortgage Regulators](#)" below for a detailed discussion of the current status of this intent

⁴ See "[Guide to Energy Efficiency & Renewable Energy Financing Districts for Local Governments](#)," as listed in the Resources section of this manual.

counties to establish voluntary contractual assessment programs to fund an array of conservation and renewable energy projects proposed by property owners.⁵ The California Legislature declared that a public purpose would be served by such programs, giving local governments the authority to finance the installation of distributed generation renewable energy sources – such as solar – and energy efficiency and water conservation improvements that are permanently affixed to residential, commercial, industrial, or other real property.

On July 24, 2008, the first municipality in California, the City of Palm Desert, adopted a Resolution of Intention to establish a PACE program pursuant to AB 811 and on August 28, 2008, Palm Desert’s City Council established the City’s Energy Independence Program (the “Palm Desert EIP”).

On October 18, 2009, the U.S. Department of Energy (USDOE) announced the [“Policy Framework for PACE Financing Programs.”](#) This document recommends safeguards for mortgage lenders, homeowners and other parties and serves as guidance for the design of PACE programs around the country. On May 7, 2010, the USDOE released its [“Guidelines for Pilot PACE Financing Programs,”](#) providing practices and guidelines to help implement the Policy Framework for PACE Financing Programs announced on October 18, 2009.

Since the emergence of the Palm Desert EIP, several other programs have been launched in California. The first of these was the Sonoma County Energy Independence Program (SCEIP), discussed below, followed recently by commercial PACE programs in Placer County, Los Angeles County, and the City and County of San Francisco. Information for these commercial programs is included as Chapter 6 of this manual.

⁵ Recognizing the strong relationship between water use and energy use, the Legislature adopted AB 474, effective January 1, 2010, expanding the scope of AB 811 by expressly authorizing certain agencies, in addition to cities and counties, to finance water conservation improvements. Specifically, AB 474 adds municipal utility districts, community services districts, sanitary districts, sanitation districts and water districts as agencies authorized to finance water conservation improvements. In addition, the recent amendments add municipal utility districts, irrigation districts and public utility districts that own and operate an electric distribution system as agencies that may establish AB 811 programs to finance energy efficiency and renewable energy improvements.

PACE IN SONOMA COUNTY

Sonoma County and each of its incorporated cities and towns (collectively the “Cities”) have established a goal to reduce their greenhouse gas emissions (GHGs) 25 percent below 1990 levels by 2015. The County, the Cities, the Sonoma County Water Agency, the Sonoma County Transportation Authority and the Sonoma County Agricultural Preservation and Open Space District are members of the Regional Climate Protection Coordination Plan (“RCPCP”) with the goal of coordinating efforts to reduce countywide GHG emissions. In 2008, the opportunity to form a PACE program pursuant to AB 811 was viewed as a significant tool in helping Sonoma County and its cities reach their aggressive GHG emissions reduction targets.

The County of Sonoma Board of Supervisors adopted a Resolution of Intention to establish an AB 811 program on March 3, 2009. Following a public hearing, on March 25, 2009, Sonoma County’s Board of Supervisors approved its AB 811 program thereby launching the [Sonoma County Energy Independence Program](#) (SCEIP). SCEIP was the first countywide PACE program in the State of California and continues to provide both residential and non-residential PACE financing.

Joined by every incorporated city and town, SCEIP covers all areas in the geographic County of Sonoma. In the first three years of operation, SCEIP has financed over \$55 million in projects, representing over 1600 residential properties, 50 non-residential properties and 2600 individual improvements. Because a majority of the improvements have been performed by local contractors, most of the \$55 million in funding provided by the County has remained within the local community, generating over 70 job-years of local labor.⁶

SCEIP allows more than 90 eligible measures for energy efficiency, water conservation and renewable energy generation. Since program launch, SCEIP has financed over 7.5MW of photovoltaic solar generation, equating to a GHG reduction of 4, 700 tons annually. An effort to quantify the energy savings and GHG reduction for financed PACE improvements is currently underway.

In March of 2011, SCEIP became a partner of Energy Upgrade California, a state-wide initiative to reduce energy consumption in existing buildings.

⁶ Here, one job-year is defined as being equal to 1,960 hours (40 hours per week, 49 weeks per year). This can be one person employed for 1,960 hours, 2 people for 980 hours each, etc.

BENEFITS OF A PACE PROGRAM

Benefits to Residential Property Owners

- Potential for lower electric, gas and water utility bills
- More comfortable buildings
- Improved indoor air quality
- Improvements to property can be made with no or low up-front costs and can be financed over an extended period of time
- Assessment attaches to property and can transfer to new owner with property sale⁷
- PACE improvements may increase property value
- Lower carbon footprint
- List of contractors may be vetted to promote quality improvements

Benefits to Commercial Property Owners

In addition to all of the above:

- Property assessment may be off balance sheet, preserving capital for core business investments
- Long-term payback, up to 20 years, allows for greater return on investment
- For managed properties, reduced tenant turnover as a result of more comfortable and healthy indoor environment
- Improvement costs and benefits align under most lease structures (e.g. property tax pass-through to tenants)

Benefits to Municipalities

- A PACE program is a key element in achieving GHG reduction goals by providing a significant financing tool to encourage and support the shift to greater efficiency and renewable energy
- Ability to serve as a streamlined clearinghouse for information, providing tools and resources to property owners that will enable them to take action
- Investing in local job creation and reduced environmental impacts
- Environmental credits captured through funded projects may be available for future use

⁷ See "[Federal Mortgage Regulators](#)" below for a detailed discussion of the current status of this intent

- Priority lien position creates secure financing mechanism and general fund protection
- An opportunity to promote GHG reduction goals through collaboration and sharing resources among public, business, and non-profit organizations

Benefits to Contractors

- Increased number of local jobs created and retained as a direct result of funding existing building retrofits, particularly in the renewable energy and construction fields
- Program marketing and outreach (e.g. local government’s PACE program website) provides source of customer lead generation
- In many cases, contractor workforce training is a component of PACE programs in order to build workforce capacity

Benefits to Mortgage Lenders⁸

- Reducing utility bills increases property owner’s ability to make mortgage payments
- For commercial properties, improvements financed by PACE can decrease operating costs, increase net operating income, and therefore can increase the value of the property
- PACE projects enhance the lender’s collateral by improving the property
- In the event of default, only delinquent amount on assessment is due
- Purchasing the PACE bonds may be an investment opportunity for the existing mortgage lenders, who can now offer what is essentially a new “green” financial product to their customers

Benefits to the Community & the Environment

- Increasing energy efficiency and renewable generation lowers GHG emissions and reduces dependence on fossil fuels
- Increased demand for energy efficiency drives technological advancements in building performance and renewable energy research and development
- Increased demand for energy efficiency drives state and federal energy policies and funding, safeguarding and sustaining programs such as PACE

⁸ Please refer to the [Lender Acknowledgement](#) section of “Chapter Three – Best Practices” for further discussion on PACE and mortgage lenders.

Testimonial: Benefits of PACE

Rod Stevenson, Homeowner & Owner of Stevenson Supply and Tractor Sales

Rod completed three energy projects, the first two to his home. As a result of the first two projects, his home electricity bill was cut in half and his propane costs decreased 75%. The first home project included a cool roof, new hot water heater, high efficiency toilets, Energy Star heat pump, and new HVAC system. Rod served as general contractor for this first project, and he hired subcontractors. He worked with the Sonoma County Energy Independence Program (SCEIP) to choose which upgrades to make. Rod shares, “(we) did energy improvements to our home and business. At home, we looked at the whole house concept when making upgrades.”

The second home project was done by local energy efficiency contractor Craig Lawson. Craig did the groundwork, made a presentation and discussed options with Rod and his family, and also did the work. Upgrades included attic insulation, air sealing, weather stripping, duct sealing, crawlspace insulation, and new energy efficient lighting. Rod appreciated having an energy efficiency expert to work with on this project.

At his business in Santa Rosa, Rod installed a solar array. The array was so efficient that it paid for the year’s energy bill. Rod explains, “Even in a down economy we must make business decisions that make sense and cents. ...I (had) a large enough (solar energy) credit to pay November and December’s heating bill. (Going) “green”... is just the right thing to do for the environment”

Rod wants Energy Upgrade to continue to educate the public. “You need to get the word out... I don’t think 90% of the homeowners even consider or understand energy efficiency.”

LIMITATIONS OF PACE

While these benefits make a PACE program an attractive option for property owners and municipalities, there are a number of barriers that local governments should recognize that may limit investment in energy and water efficiency and renewable energy.

Program Availability

PACE is available only to property owners; renters cannot access this program directly. Residential renters tend to have disproportionately low or moderate incomes resulting in a higher percentage of income being spent on utility costs, meaning that those most in need of lower utility bills will not be able to access this program.

Split Incentives

Split incentives occur when the property owner *perceives* himself as not receiving many of the benefits of the improvements; for example, rental property owners may resist investing in building efficiency upgrades when the tenant pays the utility bill. However, with targeted outreach by local governments, rental property owners will understand the advantages of PACE and the value of investing in their property in order to capture higher rents (subject to any applicable rent control laws) and better retention of tenants.

Limitations on Eligible Improvements

The program cannot finance non-permanent items such as efficient light bulbs and refrigerators because they can be easily removed when the current owner leaves. Local governments must find other ways to encourage these valuable upgrades.

Local Government Staff Time⁹

Creating and administering a PACE program requires staff time on the part of local governments. Local governments with existing PACE programs have dedicated program staff that is supported by their local elected and other government officials. The good news is that with the recent emergence of several working PACE models, implementing a program from scratch will become less resource-intensive. Also, there are many opportunities to pool resources and form partnerships to create countywide or regional programs; Sonoma County is an example of this. Still, the concerted effort needed to pass statewide enabling legislation where it is lacking, obtain local approval, and design, administer and fund a PACE program should not be underestimated.

WHAT PACE IS NOT

There are many financial products available to property owners to fund energy and water efficiency improvements and renewable energy generation projects. Although differing in interest rate, financing term, and eligibility requirements, all of these alternative products can be categorized as “conventional loans.” As such, they are junior (subordinate) to a primary, or senior, first mortgage. Subordinate programs require a different analysis, as they will not establish a new asset class that is attractive to private investors. A subordinate lien may require substantial government credit support. A priority lien PACE program

⁹ A comprehensive discussion of this item is the focus of Chapter Two.

provides a financing tool that attracts capital on its own. The PACE model discussed in this manual is specific to superior priority PACE financing.

FUTURE OF PACE

FEDERAL MORTGAGE REGULATORS

The surge in interest in PACE programs in 2010 produced growing concern among mortgage regulators such as the Federal Housing Finance Agency (FHFA), which oversees Fannie Mae and Freddie Mac. In May 2010, Fannie Mae and Freddie Mac, government sponsored enterprises that purchase a very large segment of conforming single family home mortgages, issued letters of instructions to lending institutions. These instructions stated that the terms of the Fannie Mae/Freddie Mac Uniform Security Instruments prohibit loans that have senior lien status to a mortgage, thus implying that PACE assessments were loans and would be an unallowable encumbrance to a property with a Fannie Mae- or Freddie Mac-backed mortgage. Following this, on July 6, 2010 the FHFA issued a statement determining that “PACE loans...present significant risk to lenders and secondary market entities” and called for all state and local governments to pause their programs. On August 31, 2010, Fannie Mae and Freddie Mac issued additional instructions to lenders that they “will not purchase mortgage loans secured by properties with an outstanding PACE obligation.”

The result of these statements was two-fold: first, most local governments running residential PACE programs suspended operations. Sonoma County suspended its residential program until directed by its Board of Supervisors on July 13, 2010 to restart the program and file a lawsuit against the FHFA. Second, lending institutions began to require that property owners pay off their PACE assessment prior to selling or refinancing any property encumbered by a PACE assessment. Currently, SCEIP requires all residential applicants to sign a disclosure which states the position of all parties and provides links to the federal government agencies’ letters and statements. This disclosure constitutes the first page of the SCEIP application, and an application will not be accepted unless it is signed by all property owners on title. It is imperative that any local government operating a residential PACE program before this issue is satisfactorily resolved include a strong disclaimer that has been reviewed and approved by counsel, and take steps to be sure applicants are educated on this issue.

Lawsuits challenging FHFA’s statement were filed in California by the California Attorney General, Sonoma County, Palm Desert, and the Sierra Club. The County of Placer joined the Sonoma County suit as an intervenor. In other jurisdictions, the National Resource Defense Council, the Town of Babylon New York, and Leon County, Florida filed similar suits. The FHFA moved to dismiss all suits, challenging the authority of the Court to oversee actions of the FHFA. The California Court denied the FHFA’s motion to dismiss, and granted the County of Sonoma’s motion for a preliminary injunction to require the FHFA to begin rulemaking proceedings, and consider comments before issuing a final rule on PACE programs. The FHFA has appealed that order, but rulemaking proceedings have been initiated while the matter is on appeal. The FHFA issued its Advance Notice of Proposed Rulemaking, and the comment period was open until March 26, 2012. The FHFA must now consider the comments, and issue a proposed rule, again take and consider comments, and issue a final rule. In the meantime, the July 6, 2010 FHFA Statement remains in effect. The other federal courts granted the FHFA’s motion to dismiss, and those cases are on appeal.

FHFA guidance does not impact commercial PACE programs although it should be noted that also on July 6, 2010, the U.S. Office of Comptroller of the Currency, which regulates commercial banks, [issued guidance to institutions under its jurisdiction](#).

Many of the statements, letters and associated documents related and referred to in this section are provided in the “[Resources](#)” section of this manual.

PENDING FEDERAL LEGISLATION

The PACE Assessment Protection Act of 2011, H. R. 2599, was introduced into the U.S. House of Representatives on July 20, 2011 by Congresswoman Nan Hayworth (R-NY) and is co-sponsored by a bi-partisan contingent of 51. This bill, if passed, will prevent Federal residential and commercial mortgage regulators from adopting policies that conflict with or thwart established State and local PACE laws. Summary and full text versions of this legislation may be viewed on the [GovTrack](#) website. The bill is currently in the House Financial Services Committee.

ENVIRONMENTAL CREDITS

Environmental credits are tradable measures or units representing GHG emissions including carbon credits, carbon offsets, renewable energy credits or any other environmental attribute. They represent a potentially marketable commodity that incentivizes the mitigation of GHGs.

In Sonoma County, upon entering into a contractual assessment agreement, a property owner agrees that any environmental credits attributable to the PACE-financed improvements will be jointly held by the County of Sonoma, the Sonoma County Water Agency, and the Sonoma County Transportation Authority.

CHAPTER TWO: PACE PROGRAM CONSIDERATIONS

This chapter provides a discussion of the key considerations for local government administrators and elected officials prior to making the decision to create a PACE program. It is recommended that the local government form an Advisory Committee tasked with making recommendations to the elected officials. In summary, the key considerations are:

- Has my state adopted PACE-enabling legislation?
- Is my local government familiar with property-secured financing?
- What geographical areas and property sector(s) will be able to participate in our program?
- Is a PACE program feasible in terms of our financial capacity?
- Is a PACE program feasible in terms of anticipated participation?
- How will we finance the program, both start-up costs and project funding?
- Is there political will to implement and champion a PACE program?
- Do we have the people and tools to accomplish the necessary tasks of designing and launching a program?
- How will we finance the on-going operational program costs?

A Chapter Two Checklist for these activities is included at the end of this chapter in order to assist other entities in defining their timelines.

ADVISORY COMMITTEE

Early in the program design stage, the local government must identify the key staff, which may include elected officials, who will consider and make recommendations regarding the key considerations outlined above. This

advisory group may be disbanded after it makes its recommendations or retained for program governance, as described in Chapter Three.

PACE AUTHORIZING LEGISLATION

PACE programs operate like traditional property-secured financing, which usually fund public improvements through compulsory charges on property with the obligation for such payments secured by a superior priority lien. PACE programs preserve the superior priority lien, although they finance improvements to private property made through a consensual arrangement. As a result, before a government can establish a PACE program, the state probably needs to first adopt enabling legislation to permit governments to finance improvements on private property with the consent of the property owner and to secure that financing with a priority lien on the improved property, as in other assessment districts.

Enabling legislation for a PACE program raises a number of policy considerations and will look different from state to state. In spite of these differences, successful enabling legislation for a PACE program requires consideration of the following key factors.

- **Authority to finance improvements on private property** – Governments usually finance improvements that are publicly owned, such as sewers, streets, sidewalks and street lighting. Although PACE improvements provide a number of public benefits, the improvements are privately owned. Therefore, the laws already on a state’s books may not authorize governments to finance PACE improvements on private property. Enabling legislation for a PACE program must authorize government financing for PACE improvements on private property.
- **Voluntary financing** – Traditional government financing generally allows a government to levy a charge on property even when the property owner opposes the charge. Although traditional financing procedures might require a balloting or protest process to obtain property owner approval for a government to levy charges to fund an improvement, upon receiving the requisite support, even property owners that opposed the levy are subject to it. In other words, traditional financing might give property owners a voice in whether a government may levy charges on property, but the arrangement is not voluntary. Therefore, the laws already on a state’s books probably do not provide for

consensual financing arrangements between the government and a property owner. Enabling legislation for a PACE program must authorize the government and a property owner to enter into an agreement to finance improvements under the PACE program. Similar statutes already exist for other types of assessment financing that involves work on private property, such as seismic upgrades or geologic hazard abatement.

- **Superior priority lien authority** – Voluntary financing arrangements often secure a property owner’s payment obligation with a lien on the property in a junior position to the lien that financed the owner’s purchase of the property. In contrast, governments have the power to place a lien on property that is superior to all voluntary liens in order to secure the payment obligation for improvements that are public in nature. A superior priority lien on property is necessary to protect public resources and to enable the government to issue bonds secured by the property owners’ payments. Although PACE improvements on private property are not publicly owned improvements, they provide a number of public benefits and serve public purposes by promoting more efficient use of limited natural resources and addressing reducing carbon emissions that cause global climate change. Enabling legislation for a superior priority lien PACE program must authorize the government to place a superior priority lien on the improved property and must declare how the PACE financing serves a public purpose.

In addition, recorded notice of the PACE assessment lien provides subsequent purchasers of property with notice of the PACE financing and enable them to make an informed decision as to whether to purchase the property (and thereby voluntarily assume the obligation to pay the any PACE obligation on the property). Enabling legislation for a PACE program should require a notice of the PACE assessment and lien to be recorded on the property.

- **Bonding authority** – Governments generally need express authority to issue bonds or other evidences of indebtedness. Enabling legislation for a PACE program must authorize the government to issue bonds to finance its PACE program and to pledge a property owner’s payment obligation to repayment of the bonds.

- **Economies of scale** – Governments might be able to achieve greater efficiencies in administering a PACE program at a regional level as opposed to administering many PACE programs at the most local level of government. Moreover, a large financing pool might be able to obtain more favorable financing terms than a small financing pool could obtain. Therefore, enabling legislation for a PACE program should authorize regional programs by allowing local governments to work together to form a PACE program that serves multiple local government jurisdictions.
- **Local control** – Legislating detailed matters at the state level results in legislation that is unable to keep pace with technological or financial innovation and unable to adapt to local needs, preferences or politics. On the other hand, many policy considerations determine the amount of control that a state wishes to exert over PACE programs. In achieving a balance between these two factors, enabling legislation for a PACE program should seek to regulate the most general parameters for a PACE program and allow local governments to legislate the detailed PACE program matters. Matters that appear may be more appropriate for a local government to establish include: the specific types of improvements that the PACE program will finance; the specific terms of the agreement to finance the improvements between the government and a property owner; and the specific terms of any bonds or other debt issued by the local government to finance its PACE program.
- **Easy to understand** – Legislators might have more success gaining support for legislation that is easy to explain and easy to understand. Enabling legislation for a PACE program should provide a simple process for a government to establish the program and for a property owner to opt into the program. For example, reduced to its basic requirements, California’s AB 811 simply requires a noticed public hearing at which the legislative body of the government establishes the program and enables a contract between the property owner and the sponsoring government to finance the improvement on the owner’s property.
- **Builds on existing law** – Legislators might have more success gaining support for legislation that builds on a law that is already on the state’s books. An amendment to existing law might be easier to understand because lawmakers and the public are

already familiar with it and such an amendment might be subject to less criticism because the legislation does not appear to be a radical change. However, additional consideration should be given to whether the existing law already has an unfavorable public opinion that might work against efforts to adopt the enabling legislation.

The contents of a local government’s legislation to establish its local PACE program will be largely governed by the requirements prescribed in the state’s enabling legislation. Basic provisions should include: (1) findings that the PACE program is in the public interest and serves a public purpose, (2) approval of the proposed arrangements for financing the PACE program, (3) adoption of the PACE program’s guidelines, policies and procedures, (4) approval of the agreement between the local government and each participating property owner, (5) conditions under which modifications to such documents require local legislative approval or instead may be made by staff, and (6) the types of improvements that the PACE program may finance.

Finally, as will be discussed in more detail in the Best Practices section of Chapter Three, the federal government has introduced additional factors for state and local governments to consider in adopting enabling legislation for a PACE program. As matters with the federal government continue to develop, the specific federal requirements will change. However, the legislative provisions appear to fall into two general categories: 1) governmental measures to protect property owners, and 2) governmental measures to minimize the risk of default on the PACE program financing.

Examples of property owner protection provisions include disclosing the effective costs of PACE program financing and the attendant risks to the property owner, and providing a rescission period for the transaction as well as notice of the right to rescind.

Examples of provisions to minimize the risk of default include: ensuring that participating property owners meet certain minimum criteria, such as being current on all property taxes and other public assessments, an absence of excessive involuntary liens on the property, a minimum amount of property owner equity in the property, an absence of property-based debt delinquencies or defaults, no recent history of bankruptcy, and being current on all mortgage debt. Such provisions also include ensuring that the financed improvements meet certain minimum criteria, such as requiring evidence that the

improvements are estimated to provide cost savings, determining that the total amount of PACE financing is not excessive in comparison to the value of the property, and prohibiting a financing term that exceeds the useful life of the financed improvements.

In California, PACE programs utilize the legal structure authorized by AB 811, enacted in 2008, or SB 555, enacted in 2011. The driving force for California's PACE laws was a need for legislative authorization to place a superior priority lien on property for the financed improvements. Among the laws' most successful attributes are that (1) they expand upon existing financing methods, (2) their basic framework is easy to understand and (3) they provide very broad authority to local governments, which does not dictate the specifics about how local governments implement their programs in their communities. Each law provides certain procedural requirements for a local government to establish a PACE program.¹⁰

As of March 2012, some twenty-seven (27) states and the District of Columbia currently have existing legislation providing local authority for PACE programs, with several more states soon to follow. The Database of State Incentives for Renewables and Efficiency (DSIRE) provides comprehensive information on these state laws and any new ones that are adopted at <http://www.dsireusa.org>.

PROPERTY SECTOR

A local government must determine the sector of eligible properties it will allow to participate in its PACE program, both in terms of geographical area and market. Determining the geographic area includes understanding the total parcels developed and undeveloped in the jurisdiction and determining if there is interest from other jurisdictions to be included in the program (neighboring cities, the county). This will inform the financial and participation feasibility studies.

As discussed in Chapter One, "Future of PACE", considerations unique to residential PACE financing have led many emerging programs to focus initially on the non-residential sector. As well, this determination will inform other considerations, such as the chosen financing model and marketing strategies.

¹⁰ These requirements are further discussed in Chapter Three, "[Statutory Requirements](#)."

SCEIP currently allows any property on the secured tax roll to participate: residential, commercial, industrial and agricultural. Although not included in SCEIP, non-profit and government properties that are not on the tax roll could participate in PACE programs but special accommodations must be made.¹¹

PROGRAM FEASIBILITY

Prior to implementing a PACE program, it is advisable for a local government to determine if the program is feasible in terms of local government finances, risks and participation (market demand). One such study contracted by Sonoma County recommended that SCEIP be formed and provided guidance to the County for program parameters. This study is discussed below, and provided in the [Document Library](#).

FINANCIAL ANALYSIS

In 2009, when Sonoma County conducted its analysis, its parameters for financial feasibility were that: 1) the program would be self-sustaining with no net cost, or subsidy, to/from the County for running the program, which included no detrimental impact to the County's financial status, such as its bond rating and debt capacity; and 2) the County would not bear any responsibility for costs related to the program incurred by city participants, and city participants would not be asked to incur liability for any costs associated with the program.

To conduct this analysis, Sonoma County created a financial model, ran numerous program scenarios to generate program data, and then synthesized these data provided from the financial model and the market analysis to show the potential costs and revenues of the program. This included some sensitivity analysis to show what program variables have the greatest impact on the financial viability of the program.

The County analyzed several variables in over 30 different scenarios. These scenarios demonstrated the impact of the variables on program net cost, and demonstrated what the program would need to "look like" in order to be financially feasible. These variables included:

- Annual program size: The County ran scenarios at each of the following annual funding volumes: \$2.5 million, \$5 million, \$7.5 million, and \$10 million levels. With an average financed property

¹¹ Details on this topic are discussed in the [Questions and Answers](#) chapter.

assessment amount estimated at \$20,500, this produced annual participation levels of approximately 120, 240, 360, and 480 participants given each funding volume respectively.

- Annual interest rate: The County ran these annual financing volumes through scenarios with an interest rate charged to participants at 4% and at 5% above the County interest rate for borrowing the funds for PACE improvements. Based on an assumed 3% Treasury rate, with the SCEIP bonds at 0.5% above that rate, the effective interest rate charged to participants would have been 7.5% and 8.5%. As points of reference, Palm Desert’s program rate was 7% to the project applicants, and second mortgages in Sonoma County were running at approximately 8.5%.
- Program administrative fee: The County then ran each of the above scenarios with and without a 5% program administration fee. A program administration fee is an upfront application charge, paid by the program applicants as a means to ensure program expenses are partially covered before participant assessment payments come in via the property tax system. EcoMotion, the firm that conducted the original Sonoma County feasibility analysis and business plan, recommended a program administration fee of 5% of the participant’s financing amount.¹² With an average financing amount of approximately \$20,000, the program administration fee would have been approximately \$1,000. While such a fee would help ensure a steady stream of program revenue, any upfront costs could deter participation. If included in the program, the County could set this fee at any level desired either as a percentage of the application amount or a fixed, flat fee.¹³

RISK ANALYSIS

A PACE program feasibility study also should include an analysis of the risk to the local government. There are several major risks, highlighted below, that fall into two categories – those risks that have a direct impact on the program, and those risks that have a broader community impact.

¹² EcoMotion recommended the same fee for Palm Desert’s program. However, Palm Desert opted for an up-front title search fee, fixed at \$40. The EcoMotion report is provided in the Document Library.

¹³ Ultimately, the County decided to charge certain fees and costs to the applicant upfront. These are defined in the SCEIP Policies manual, available in the Document Library.

Program Risks

Participation rates (annual financing volume) are essential to the viability of a PACE program. Because program revenue is related to financing volume, participation needs to be high enough to fully fund program administration costs. With higher levels of participation, the revenue gained from the interest rate spread (total financing amounts multiplied by the interest rate spread) becomes more substantial and eventually reaches a level sufficient to make the program cost neutral assuming that the program earns that interest rate for a few years. Based on SCEIP's financial model (see above), it appeared that a year-after-year \$5 million annual funding volume or above would reach feasibility in approximately Year Two, whereas an annual funding volume of \$5 million or below could take three years or more to reach feasibility.¹⁴

Considering the importance of participation, there are inherent risks to program feasibility. For example, as Sonoma was the first county to move forward with a PACE program, there was no directly comparable benchmark to help forecast participation levels needed based on our financial model. This may hold true for pioneering entities in other states. Related, for the SCEIP financing model, the interest rate offered to participants is directly tied to the County Treasury interest rate (earnings): if the Treasury interest rate increases, so too will the participant interest rate. Participants could find a higher interest rate unacceptable, and decide not to access this program, causing participation rates to decline.¹⁵

Another aspect related to interest rates is how accepting the market would be to PACE bonds. Coming out with a brand new financing mechanism in this troubled economic climate was a difficult decision; markets were nervous about buying municipal bonds, and because Sonoma County's PACE bonds would be among the first issued in the nation, the bond market's reaction or appetite for this

¹⁴ SCEIP had funded \$5 million by the fifth month from launch date. One year into the program, SCEIP had funded \$24 million in improvements. The original model did not take into account the upfront resource cost of existing staff – only ongoing program costs once the program was up and running.

¹⁵ The financial model used in the feasibility analysis assumed a Treasury interest rate of 3%, which reflects recent earnings rates. However, the 20-year average for Treasury interest rates is approximately 4-5%. This would move participant interest rates from 7.5-8.5% to 8.5-10.5%, assuming a 4-5% "spread" for a feasible program. In Sonoma County's Program, the participant interest rate is set at the time the assessment contract is signed and cannot be raised. Thus the County bears the risk that interest rates, and the Treasury interest rate, will rise above the interest rate paid by the property owner.

financing was unknown.¹⁶ Typically, when markets are not accepting of bonds, it equates to higher interest rates until the bonds become commonly accepted by the bond market. This, in turn, would dramatically and negatively impact the County's business model in the long term. If bond interest rates were not favorable, SCEIP might decide to wait to access the bond market. Since the Treasury interest rate is lower, the program could generate additional revenues to fund future administrative and bond issuance costs.¹⁷

By policy, the Sonoma County Treasury can invest in bonds for up to 5 years. In the case of SCEIP, the Treasury had to seek special approval from the Board of Supervisors to allow investment in the SCEIP bonds. This proposal was acceptable to the Board because the interest rate on the bonds adjusts every two years which allows the Treasury to earn a fair market return on its investment in the event that rates begin to rise. The risk here is if rates rise enough that the 7% assessment rate is no longer viable and/or the rate paid to the Treasury adjusts upward such that there is no longer any program revenue left in the interest rate spread between the bond and assessment rates. Both of these cases would likely constrain the overall SCEIP program size to the recommended Treasury investment cap of \$45 million since in the former, it would limit the County's interest in continuing with more financing and in the latter case the program would not be cost-neutral as described above.

Community Impact Risk

In addition to direct programmatic risk, there are risks related to community and participant impact. For example, if there is a high rate of tax delinquency, a local government may need to initiate foreclosure proceedings on properties to meet its bond payment obligation.¹⁸

Additionally, local governments should be cautious about setting expectations in the community for what will be available and when. If there is a significant delay from the announcement of program implementation until actual implementation occurs, there could be a depression in the local building and

¹⁶ A more recent 2011 analysis concluded that issuance of SCEIP bonds to the open market remains unfeasible for Sonoma County; this study is available in the [Document Library](#).

¹⁷ This remains the case in Sonoma County

¹⁸ California law provides a mechanism for the County Tax Collector to pay 100% of the amount of taxes and assessments due a local jurisdiction, whether or not there are delinquencies. Sonoma County has chosen to enroll SCEIP in this alternative tax allocation program. Because Sonoma County can include these repayments in this program, the risk of non-payment to the County is low.

contractor market as homeowners put their individual plans for solar projects “on hold” while waiting for the PACE program.

To mitigate these program risks, PACE program policies, planning, and marketing need careful attention and require vigilant administrative oversight, with regular status updates to the County or City Manager and local elected officials. This may include timing strategies for moving forward. For example, to mitigate the “cooling off” effect (waning public interest due to lag time between program announcement and program launch), it may be advisable that there be no delay greater than 60 days from the “Resolution of Intention” to program implementation.

MARKET ANALYSIS

In addition to or as part of the financial and risk analyses, it is highly advisable for a local government to conduct a market analysis prior to the decision to launch a PACE program. Participation is critical to the feasibility of a PACE program; a comprehensive analysis will determine the market sectors that may be most likely to use this financing tool and provide answers to other questions the local government must answer, such as the potential funding volume it will need for financing projects and the approximate length of time to reach financial feasibility.

There are several methods for determining the public’s appetite for a PACE program. Sonoma County together with the Sonoma County Water Agency conducted three studies: one was part of the overall program feasibility study discussed above and two others targeted each of the residential and commercial sectors via a telephone survey. The results of these efforts indicated that the residential and commercial markets were both ripe for a PACE program. These studies are provided in the [Document Library](#).

FINANCING MECHANISM

Following consideration of overall program feasibility, the next consideration should be the public entity’s ability to fund a PACE program, which is perhaps the biggest hurdle for many local governments.

CHOOSING A FINANCE MODEL

There are several options available to a local government to finance its PACE program. The funding options can be categorized as:

- **Self-financed**- A public entity provides all money required to finance the program from its unallocated reserves or general fund, replenishing, with interest, this “seed money” over time through participant repayment;
- **Owner-Arranged Bond** - A local property owner arranges project financing with a private project lender, who accepts the PACE securitization and payback framework. This structure results in a project-specific financing option that meets the needs and diversity of the commercial building marketplace, and allows for competition and flexibility;
- **Open Market Bond** – A local government issues a “Pooled Bond” or a “Stand-Alone Bond” to be purchase by a third-party investor:
 - **Pooled Bond** - A bond that funds a pool of PACE improvements with PACE assessment revenues from the improved properties aggregated to pay debt service on the bond;
 - **Stand-Alone Bond** - A bond to fund PACE Improvements on an individual property with PACE assessment revenues from the improved property paying debt service on the bond, generally associated with large projects; and
- **Grant Funds**- Restrictions may exist on the use of these funds.

Given the distinct areas of operation that comprise a complete program (discussed below) it is becoming typical for a local government to mix its funding sources.

START-UP CAPITAL

A local government will need to finance the costs associated with pre-launch activities and program operations until the program is self-supporting. Although the amount of start-up capital that will be required is based on the size and scope of the intended program, a conservative estimate for typical costs in the first program year is \$225,000 for initial program setup/pre-launch activities and \$800,000 for annual operating expenses. A sample budget is provided in the “Resources” section of this manual, and further discussion of operational costs and revenues may be found in Chapter Three.

In Sonoma County to cover program start-up costs, the Board of Supervisors authorized SCEIP to borrow funds and use labor from other county departments. These advances are currently being paid back by SCEIP from the 4% spread it receives when participants repay their PACE assessments.¹⁹

WAREHOUSE FUNDING

Warehouse capital is that which will be used to fund the PACE improvements. It is here that the greatest array of funding options occurs, and the option chosen by any particular local government should match the capacity of the local government as defined by the feasibility analysis. A local government authorized to access a certain level of large unallocated reserves, such as Sonoma County, may benefit from self-financing as one of its investment portfolio strategies.

Alternatively, the ability to attract major private investors to PACE programs is just now being tested in the market. Private investment through open market bonding, pooled bonding and stand-alone bonding, benefit a self-funded program, such as SCEIP, because they augment the amount of capital available for future projects. There are currently several efforts in California (e.g. L.A. County, and City and County of San Francisco) and elsewhere in the nation to provide third-party financing for commercial PACE projects. This approach appears to provide a low risk to investors and a competitive interest rate for program participants. Third-party financing of commercial PACE projects will assist with future marketing of program bonds to the secondary investor market, a key element of the future viability of PACE programs.

There also exist federal and state grant funds such as Energy Efficiency and Conservation Block Grants (EECBG), a portion of which can be used for start-up capital. [Chapter Six: PACE Model Programs](#) examines more closely several PACE programs that are using a variety of warehouse funding mechanisms.

Chapter Three's [Bond Issuance](#) section provides a discussion of SCEIP's warehouse funding model.

¹⁹ The Sonoma County Treasury Pool, which purchases the SCEIP bonds, receives 3% of the total 7% interest on its investment. SCEIP retains the 4% spread to fund its program operations.

PROGRAM SUSTAINABILITY

It is important for a local government to assume its PACE program will be well-received and to consider the long-term sustainability of its program, as this may inform its mechanism of choice for warehouse funding. For example, unless a municipality is intentionally launching a pilot simply to gauge interest, grant funds are most likely not the warehouse funding mechanism of choice in terms of sustainability.

SCEIP has, as of March 2012, bonded over \$55 million. Even accounting for repayments of assessments, Sonoma County is quickly approaching its authorized cap for investing Treasury Pool funds. A recent feasibility study of issuing a pooled bond in order to refresh the Treasury Pool cap indicated that pooled bonding is feasible for SCEIP. However, a successful bond issue has yet to be market tested by Sonoma County and at the time of this writing SCEIP has chosen not to proceed with a bond refinancing in the secondary market. Several of the alternate financing mechanisms discussed above are currently under consideration.

GAINING POLITICAL SUPPORT

Strong political will is imperative to carrying the idea of a PACE program to fruition. PACE champions may include local advocacy groups and local business leaders, but *must* include one or more elected officials and key government staff. In order to create an assessment program, elected officials must authorize its formation and key staff must mobilize the internal support of the county or city departments. Once the program is created, elected officials and key staff must ensure its success by continuing to champion the program to other potential partnering local governments within the region, to the business and contractor community, and to any opposing parties.

In Sonoma County, the PACE pioneers were the Auditor-Controller-Treasurer-Tax Collector (County Chief Financial Officer) and the entire Board of Supervisors (BOS). Today the BOS and its partner city mayors and key staff continue to champion SCEIP at the regional, state, national and even international level. As a result of this continued strong local support, SCEIP is strongly supported at the state level and is one of the largest and most successful residential and commercial programs in the nation.

TASKS, TEAM AND TOOLS

Consideration must be given to the capacity of the organization to create and operate a long-term program in terms of workload and essential staffing and overhead requirements.

TASKS

Prior to launching a program, a local government should be prepared to write program policy and procedure documents, train staff, create marketing materials, conduct contractor training, develop its website, create requests for proposals and service agreements for outsourced labor, write and adopt authorizing program documents, and secure financing.

After program launch, operational tasks will include processing applications, reporting, processing tax assessments, marketing and outreach, and securing additional financing to support operations or program expansion.

These planning and operational tasks are discussed in detail in Chapters 3 through 5.

TEAM

The local government should evaluate whether capacity exists in-house to manage this program or whether it will need to engage financial and/or administrative partners. Partnerships can range from a turnkey administrative and financial partner that handles all the processing and bond purchasing to the targeted use of outside expertise. Sonoma County has some of its PACE team on staff and has contracted with others using service agreements, samples of which may be found in the [Document Library](#).

At a minimum, the following team members will be needed for planning and implementation:

- **Bond Counsel and Legal Counsel** representing the jurisdiction: Should be engaged early in the process in order to evaluate any issues that may need to be overcome in order to form an assessment program, and to draft and review all legal documents that will be used.
- **Senior Manager** from the City or County Manager's office
- **Chief Financial Officer** or a financial consultant

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- **Program Manager** from the department that will be administering the program, or consultant
 - **Customer Support Staff** from environmental or economic development programs operated by government, utility, or local nonprofit, or consultant
 - **Staff from the County Recorder and/or Tax Collectors offices**
 - **Staff with technical expertise** for working with/training contractors, assessing eligibility of improvements and conducting inspections as needed, or consultant

TOOLS

A local government will require adequate tools for delivering a successful PACE program. Some of the basics include:

- **Centrally-located business office** (if the program will accommodate walk-in customers), with one or two computer kiosks and a room for contract signings and/or private meetings
- **Work space** for program staff
- **Typical office equipment and software** to process applications
- **Storage space** for marketing materials and files
- **Technology support** in the form of database, document management systems and web applications

ADMINISTRATION AND PROGRAM COSTS

As previously discussed in the Start-Up Capital section above, there are certain additional operational costs that are hardwired into a program of any size. It is important to note that these costs are ongoing; although needs for outside consulting services may decline over time, staffing, equipment and marketing costs will most likely increase from year to year. Identifying these costs and the source of their funding is essential prior to making the decision to implement a program. A [sample budget](#) is provided in the “Resources” section of this manual, and further discussion of operational costs and revenues may be found in Chapter Three.

CHAPTER TWO CHECKLIST

	Staff Assigned	Staff Assigned	Target date
Investigation Phase 1.0 - Advisory Committee			
The goal of this task is to identify who will oversee the processes to thoroughly investigate, analyze and determine the feasibility of implementing a PACE program in the jurisdiction. Activities in the Phase include and are not limited to identification of the PACE program sponsor(s), the community leader / government official who will champion the program. Committees will be activated; studies and analysis will be completed to determine if a PACE program should be developed and its implementation timeline.			
1.0 Activities			
1.1 Identify the sponsor and the key decision makers who will support and sponsor the development of the PACE program. Identify and address “political will” level of support needed for success.			
1.2 Select and convene an advisory committee. May create specialized sub-committees that report back to the Advisory committee, such as:			
• Vendor/contractor council			
• Stakeholder/advisory group			
• Technical review committee / engineering support (eligible improvements)			
• Policy review panel (if other than above)			
• Legal counsel			
• Financing plan management team (treasury, tax collection, accounting, and bonding)			
1.3 Define governance and technical review processes			
Investigation Phase 2.0 - Determination of Legislative Authority			
The goal of this task is to determine if the legislation currently exists to form a PACE program.			

2.0 Activities	Staff Assigned	Staff Assigned	Target date
2.1 Engage counsel familiar with state statutes governing the creation and administration property-secured financing.			
2.2 Determine legal process and requirements to establish a PACE program.			
Investigation Phase 3.0 - Feasibility Analyses			
The goal of this task is to deliver the process and documentation to thoroughly investigate, analyze and determine the feasibility of implementing a PACE program in the jurisdiction. Committees will be activated; studies and analysis will be completed to insure the success of the program launch.			
3.0 Activities			
3.1 Execution of a market survey and analysis of results			
a. Conduct early market research to gain a better understanding of the potential participants and their needs, to help to identify market segments, to define marketing messages for the different audiences, to develop effective incentive and financing programs, and to address potential barriers to property owner action. Leverage information available through other organizations such as economic development boards as much as possible.			
b. Meet with entities/organizations that might oppose establishment of a PACE program to identify ways to address concerns			
3.2 Complete a feasibility study identifying geographic market of the county including the total parcels developed/undeveloped by city and unincorporated to determine potential assessment volume, and analysis of financing models			
3.3 Complete a detailed analysis and develop a short and long term finance strategy plan. Investigate and leverage all available options.			
3.4 Evaluate and define underwriting criteria			
3.5 Determination of service levels required for: operations, financial administration, counsel, marketing, bonding			

3.0 Deliverables	Staff Assigned	Staff Assigned	Target date
· Marketing survey analysis			
· Feasibility study report			
· Approval of financing plan for incorporation into program report and administrative guidelines			
· Draft eligibility criteria and guidelines, compliance with U.S. DOE guidelines			
· Draft contractor qualifications and quality assurance program			
· Draft underwriting criteria and guidelines			
· Draft agreement of long term service levels required for: operations, financial administration, legal counsel, marketing, bonding			

CHAPTER TWO LESSONS LEARNED: PROGRAM CONSIDERATIONS

Except where noted, this section provides information specific to SCEIP. Lessons learned by other PACE programs are provided in their individual profiles located in Chapter 6.

Challenge	Lessons Learned
<p>Short Term Funding Plan: The original funding mechanism for SCEIP remains the current mechanism: Sonoma County, through its Joint Powers Authority, issues bonds once a month which are purchased by the Treasury Pool, and the JPA loans the funds to the County to fund the SCEIP improvements completed during the previous month. SCEIP funds projects every month, which requires the services of special counsel to draw up bond documents each month and also creates a complex chain of transactions, authorizations and associated labor. (However, regardless of the complexity and labor requirements, the advantage to this mechanism is that bonds are not issued until projects are complete and ready to fund, minimizing interest payments on unused money.)</p>	<p>As a new, pioneering program in 2009, there were few other financing models to draw from. Given the emerging models for financing, the County today would look for a more graceful and less labor intensive method of tracking the projects prior to bonding so that at time of bonding we could push a button and produce the documents needed to support the bond process. Currently there is no overarching electronic file management system that provides a start to finish way of processing all the related financing steps. The process could also be simplified by having an available cash fund, so that projects could be funded with bonds issued less frequently.</p>
<p>Long Term Funding Plan: Start up financing aside, how SCEIP plans to sustain its program will affect ongoing operations and long term program success.</p>	<p>In the Investigation Phase of a PACE program, a local government will want to consider and plan for how it will sustain its program, so that it will be set up to take advantage of alternate financing sources. Do not wait for proven success! Lack of planning may result in the government not being prepared to meet the requirements of other funding sources, such as not having an established loan loss reserve fund at a level required for the bond market.</p>
<p>Common Community Goals: Although this has not been a challenge for SCEIP, it is mentioned</p>	<p>Community goals are a foundation of SCEIP's local success. The County and all 9 cities and</p>

<p>here because a lack of, or differences in opinion regarding, energy policy goals among community sectors could pose a challenge for some regional PACE programs.</p>	<p>towns are committed to reducing greenhouse gas emissions (GHGs) and stimulating the local economy. In 2005, all municipalities in Sonoma County agreed to reduce greenhouse gas emissions by 25% below 1990 levels by 2015. Adoption of a common GHG and/or energy policy unifies and directs decision making and priorities.</p>
<p>Political Will: Although this has not been a challenge for SCEIP, it is mentioned here as insufficient political support and championing could pose a challenge for some regional PACE programs.</p>	<p>The existence of local common climate goals provides the support for local “political will.” In Sonoma County, local elected officials support retrofit programs, energy upgrade activities, water conservation, demand reduction, renewable energy generation, and sustainability efforts. Local political will allowed for the use of the County Treasury as the warehouse of funding for SCEIP PACE financing. Local political will and support is an incredible gift not experienced everywhere. Education of Sonoma County local elected officials on the health, cost, and environmental benefits of PACE was essential to fostering the ongoing support the program enjoys today.</p>

CHAPTER THREE: PACE PROGRAM DEVELOPMENT

Prior to launching a PACE program, a local government should expect to undertake the program development activities described below. Best Practices for program design are discussed at the close of this chapter. A checklist for these activities has been included following this chapter's narrative in order to assist other entities in defining their timelines.

TIMELINE

Once a local government has weighed the considerations described in Chapter Two and made the decision to go forward with creating a PACE program, the process for developing the program to the point of launch should take 6 to 12 months, depending on policy-maker approval schedules and the amount of resources a local government is able to direct towards this effort.

The essential steps to launching a PACE program may be taken concurrently, and are:



STATUTORY REQUIREMENTS

The first step for any local government in creating a PACE program is to ascertain the statutory requirements that will govern its program creation, policies and operations. The entity can then budget for staff and attorney resource needs, better estimate a timeline for program launch, and begin drafting legal documents such as Board resolutions and bonding documents.

An indispensable resource for this set of tasks will be an attorney familiar with property-secured financing laws and issuing bonds. In forming its program, Sonoma County staff worked with county counsel and bond counsel, the latter who was contracted through a service agreement. This agreement is provided in the Document Library.

Statutory requirements for assessment program formation specific to California state law are detailed below. Links to enabling legislation of other states, that will dictate the requirements for jurisdictions in that state, may be found at PACENow.org.

AB 811 FINANCING MODEL

[AB 811](#) amended Chapter 29 of Part 3 of Division 7 of the California Streets and Highways Code (Sections 5898.10 through 5899.3) to authorize specified local governments to establish PACE programs. The AB 811 financing model authorizes local governments to enter into a contractual assessment agreement to finance PACE improvements on a participating owner's property. Under the agreement, the property owner agrees to repay the local government's funding through an assessment levied against the owner's improved property, which the property owner pays in semi-annual installments with property taxes, and agrees to have a lien for the assessment be recorded against the property.

Local governments may form individual PACE programs. Alternatively, some local governments may form a regional PACE program with the consent of the jurisdictions within the proposed boundaries of the PACE program. For example, a county may form a county-wide PACE program that includes each city's incorporated area, with the city's consent. A regional program likely provides economies of scale that reduce administration and financing costs.

Below is a summary of the steps taken by Sonoma County to form its county-wide PACE program under the AB 811 financing model. Reference should be made to Sections 5898.10 through 5899.3 for a more complete description of the legal requirements.

- A. Consideration of a resolution of intention to form the program, with provisions that, among other things, (1) declare the intention to establish the contractual assessment program, (2) describe the boundaries, (3) identify the kinds of improvements which may be financed, (4) briefly describe the proposed financing structure, (5) establish the date, time and place for a public hearing and (6) direct preparation of a program report that includes a draft contract, statements of relevant local agency policies, a financing plan, and information related to the cost of the program.
- B. Publish notice of the public hearing once a week for two successive weeks, with the first publication occurring at least 20 days before the public hearing date. Note that amendments to AB 811, which followed the adoption of SCEIP, now require written notice to each water or electric provider within the boundaries of the proposed PACE program at least 60 days before the public hearing date.
- C. Preparation and distribution to each town or city within the County, a resolution consenting to the inclusion of parcels within the incorporated territory of the town or city in the program. The Resolution authorizes the County to levy assessments, to impose the assessment liens and to finance the authorized improvements on such parcels.
- D. Preparation of a County Board of Supervisors agenda item establishing an enterprise fund for the program (not a statutory requirement).
- E. Preparation of a County Board of Supervisors agenda item of the budget for the PACE program and present as either a budget revision or a new budget depending budget cycle (not a statutory requirement).
- F. Preparation of a program report detailing program goals, benefits, requirements, parameters, financial strategy, consumer protection, water and energy efficiency measures, map of program area and including all provisions required by Section 5898.22 of the California Health and Safety Code.
- G. Hold public hearing and consider resolution establishing the PACE program, confirming program report and authorizing the County to

enter into contractual assessments to finance the installation of authorized improvements.

- H. Authorize the issuance of bonds to finance the PACE program.²⁰
- I. Initiate process for validating the PACE program.²¹

MELLO-ROOS (SB 555) FINANCING MODEL

In California, another state law entitled the Mello-Roos Community Facilities Act of 1982 enables PACE financing through the creation of special tax financing districts. The mechanism is: a property owner elects to annex his property into a Special Tax District created by any local agency and to pay special taxes. The local agency sells a bond payable from this special tax to a qualified investor, and the local agency uses the proceeds from the bond sale to finance improvements to the property. Until recently, this option was available only to charter cities, but under recent amendments to the Mello-Roos Act ([SB 555](#)), this approach is now available to any local agency in California.

Under Mello-Roos-based financing law, the process for authorizing the levy of special taxes and issuance of bonds requires three phases.

1. In the first phase, following a public hearing, the legislative body of the local agency creates a special tax district with boundaries that may be coterminous with the boundaries of the local agency and authorizes the levy of special taxes on properties that vote in favor of being taxed.
2. In the second phase, property owners vote in favor of the levy of special taxes on their property and the issuance of bonds by executing a single document called a “unanimous approval”.
3. In the third phase (which may be undertaken along with the first phase) the legislative body authorizes the issuance of bonds payable from special taxes.

AB 811 VS MELLO-ROOS

Prior to establishing a California PACE program, we recommend consulting with legal counsel to review whether you should utilize the AB 811 or Mello-Roos financing model.

²⁰ Described in the [Bond Issuance](#) section of this chapter.

²¹ Described in the [Bond Validation](#) section of this chapter.

PROGRAM GOVERNANCE

Simultaneous to, or immediately following engaging counsel and embarking on the legal program formation process, the local government must identify key staff and advisors and define how the program will be governed. The different areas of program governance and the roles of governing members are described below. The structure of program governance may range from formal to informal depending on the time and expertise of staff and members of the community.

MACRO-LEVEL PROGRAM GUIDANCE AND POLICY DECISIONS

In Sonoma County, this advisory group is called the Ad Hoc Committee. It is made up of two representatives from the Sonoma County Board of Supervisors, the Program Administrator and County Counsel, some of whom were part of the original pre-program Advisory Committee (as described in Chapter Two).

The primary function of this committee is to provide overall policy guidance to the Steering Committee (refer to discussion below). When a significant program change is recommended by the Program Administrator via the Steering Committee, the Program Administrator and County Counsel member will meet with an the Ad Hoc Committee for discussion and approval of recommendation(s). Any proposed substantive changes to the program are then brought to the Board of Supervisors for approval.

In Sonoma County, the Ad Hoc committee meets on an as-needed basis.

MICRO-LEVEL PROGRAM GUIDANCE AND POLICY DECISIONS

In Sonoma County, this advisory group is called the Steering Committee. It is made up of the Program Administrator and staff representing legal, finance, real estate, operations, energy, and property tax collection expertise and perspective. Many of the Steering Committee members, 10 total, were part of the original pre-program Advisory Committee (as described in Chapter Two). The size of the Steering Committee also reflects primary and backup representatives for each of the areas of expertise mentioned above. Backup roles allow for access to experts in balance with staff workload and schedules.

The primary function of the Steering Committee is to take responsibility for the achievement of outcomes of the PACE program. The Steering Committee monitors and reviews the program status, as well as provides oversight and

suggestions on programmatic changes. Members are not directly responsible for managing program activities but provide support and guidance for those who do.

The Steering Committee provides a stabilizing influence so organizational concepts and directions are established and maintained with a visionary view. The Steering Committee provides insight on long-term strategies in support of legislative mandates. Members of the Steering Committee ensure business objectives are being adequately addressed and the program remains under fiscal control. In practice, these responsibilities are carried out by performing the following functions:

- Monitoring and reviewing the program at regular Steering Committee meetings;
- Providing assistance to the program when required;
- Controlling program scope as emergent issues force changes to be considered, ensuring that scope aligns with key stakeholder groups;
- Resolving program conflicts and disputes, reconciling differences of opinion and approach;
- Formal acceptance of program deliverables.

For the first two and a half years of the SCEIP, the Steering Committee met weekly. It currently meets monthly. A copy of the [Steering Committee Charter](#) is provided in the Document Library.

STAKEHOLDER ADVISORY COMMITTEES

For specific program needs, it can be useful to a local government to create various community-based advisory groups. The roles that these stakeholder groups might play are diverse, such as:

- Study issues and make policy and procedure recommendations
- Provide feedback on the affect of new policies or major program changes on program participation
- Review and recommend technical and financial standards
- Understand and reconcile program opposition
- Champion the program

Stakeholder committees may be standing or commissioned for a defined length of time and for a specific purpose depending on the needs and time constraints of the local government. They are typically overseen and meetings may be facilitated by the PACE program manager, program staff or a community partner.

In Sonoma County, Contractor Councils have been used frequently to provide program management with ideas and feedback related to program policy, technical criteria, workforce training and outreach activities.

PROGRAM PARTNERS

Identifying program partners is as equally important as identifying the staff and elected officials who will provide program governance. Like stakeholder committees, partners may play a significant role in assisting the local government with defining program policies, providing marketing, outreach and education functions and assisting with grant and incentive financing. Early identification of program partners and establishing levels of commitment for each is necessary to strategically planning for the long-term sustainability of the program.

Sonoma County initially identified several key partners to its SCEIP, outside of participating cities. Their general roles included:

- **Local Government Agencies:** The Sonoma County Water Agency authorized the purchase of bonds for project financing, assisted in development of marketing materials, and provided staff time to develop program, workforce development, program guidance and strategic planning, education and outreach
- **Business and Workforce:** Incentives/rebates, workforce training, provision of data for reporting program metrics, program championing
- **Non-Profit Organizations:** education and outreach, participant surveys, program championing
- **State and Federal Legislators and Agencies:** authorizing legislation, ongoing legislative support, program best practices guidelines, potential grant funding
- **Educational Institutions:** workforce training, outreach and education, technical expertise

Program partners, their roles and commitments can be expected to change over time. As described in Chapter Five, [Regional Program Partnerships](#), SCEIP program partners and partner roles have evolved as the program has become established. Specifically, as the program has experienced success, the desire of other agencies and organizations to partner with SCEIP has heightened, as has the level of support and resource commitment partners are willing to provide to the program.

ESTABLISHING PROGRAM POLICIES AND PROCEDURES

PROGRAM REPORT AND ADMINISTRATIVE GUIDELINES

The Program Report document is an AB 811-required document that describes the program policies, operations and financing process. In addition, the Program Report includes a map showing the geographical boundaries of the program; a draft contract specifying the terms and conditions that would be agreed by a property owner within the contractual assessments on behalf of the County; a maximum aggregate dollar amount of contractual assessments; a method for prioritizing applications in the event that application requests exceed the amount of funding available; parameters for extending the Program into incorporated areas; and a plan for raising enough capital to fund the program. A copy of the [SCEIP Program Report and Administrative Guidelines](#) can be found in the Document Library.

PACE programs implemented under the authority of other legislation may have a similar requirement for a Program Report but if not, it is well worth the time spent to create a comprehensive Program Guidebook. In addition to providing the guidelines and policies of the PACE program for customers, contractors and policy-makers, this document has the additional benefit of providing assurance and underwriting criteria to potential third-party investors.

PROGRAM POLICIES AND PROCEDURES MANUAL

SCEIP developed a Program Policies (“SCEIP Policies”) manual as a companion document to the Program Report and Administrative Guidelines that is, unlike the Program Report, primarily an internal document. It is intended for use as a resource by staff, explaining at great length and in great detail application processing procedures, internal operational procedures that are normally transparent to participants, records retention and emergency policies. It also explains at greater length and in greater detail program policies that are summarized by the Program Report. This manual, updated frequently, is an important resource for program representatives to consult for current policies and as a source of training for new employees to ensure homogeneity of operations. The [SCEIP Policies](#) manual, which does not include internal operational processes, is provided in the Document Library.

ELIGIBLE IMPROVEMENTS LIST

The eligible improvements list identifies the PACE improvements authorized by a local government’s PACE program. AB 811 authorizes the County Board of Supervisors to formally adopt an approved list of allowable renewable energy and water and energy efficiency projects that meet the following criteria:

- All improvements must be permanently affixed to the property.
- Improvements must be retrofits to existing infrastructure. Repairs and/or new construction do not qualify for PACE financing, except to the extent that the construction is required as part of the installation of a specific approved improvement (for example, electrical trenching required to install a solar pv ground mount system).

Under SB 555 (Mello-Roos), some fundamental criteria are:

- All improvements must be permanently affixed to the property.
- Improvements may be made as part of a new construction project, provided the property is commercial or, for residential properties, the initial construction is undertaken by the intended owner or occupant.
- Repairs do not qualify for PACE financing, except to the extent that the construction is required as part of the installation of a specific approved improvement.

In addition to this list, a local government may establish further eligibility criteria, such as requiring “Energy Star” rated improvements, minimum and maximum dollar limits for individual projects, total allowable project costs if a property owner applies for multiple projects, and eligible project costs. All of these established criteria should be made available to the public and transparent during the application process.

The SCEIP eligible improvements criteria and [Eligible Improvements List](#), as adopted by the County Board of Supervisors, is provided in the Document Library.

DESIGNING THE PROGRAM

In the corporate world, this step would be called “Creating a Business Plan.” This step involves creating a sub-set of plans that will allow the PACE program to accomplish the goals and objectives described in its Strategic Plan or charter. Further, this collective set of plans will dictate the budgetary needs thereof.

As an example of the discussion in this section, [the business plan](#) for the Sonoma County Energy and Sustainability Division (of which SCEIP is a part) is provided in the “Resources” section of this manual.

SERVICE DELIVERY PLANNING

Service Delivery is the way in which the local government will deliver its program services to its customers. There are a variety of delivery options depending on the resources of the agency and preference of its customers, including the contractor community.

Mechanisms for delivery may include one or more of these:

- **Central storefront** or service center: This is a physical location where staff can meet with customers face-to-face, answer questions and assist them with the application process. It may also serve as space for advisory group meetings, workforce trainings, and staff work and meeting areas.
- **Website**: A website may serve a range of uses, from providing basic information about a program to fully automating the application process. It may also serve as a platform for program inquiries, contractor or user forums, and marketing and outreach.
- **Satellite service center**: For PACE programs that are comprised of a large regional consortium, additional service centers may be desirable in addition to a central business office in order to reduce participant travel time, particularly if the application is not web-enabled.
- **Program partner space**: A partnering agency may be able to contribute space for certain program services in its building, particularly ad hoc training workshops and meetings.
- **Customer call center**: Responding to program inquiries is a service that is easily accommodated by a couple of phones and staff, who can also use a database program to log calls for future reporting needs or analysis.
- **Social media**: Face Book and Twitter are a couple of the social media channels a program may leverage to deliver its message and attract support and participation.

STAFF PLANNING

The purpose of the staffing plan is to make certain the program has sufficient staff with the right skills and experience to ensure a successful program.

Roles and Responsibilities

A Staffing Plan will provide a detailed breakdown of the roles required to execute the program. It includes the job classifications, the program responsibility of each classification, the skills required, and the number of staff required to fulfill that role.

Some of the essential positions a local government might staff include:

- **Program Manager:** Overall management of program, liaison with senior management and elected officials, media and conference spokesperson, budget administration, strategic and business planning.
- **Assistant Program Manager:** Manages office operations and staff, manages commercial accounts, marketing, outreach and technology.
- **Administrative Support staff:** Application approval, grant writing, reporting, document research, writing and review, file manager training, records retention.
- **Communication Coordinator:** Coordinates logistics of outreach, education, training, meetings and marketing activities including website maintenance.
- **Field Technician:** Provides technological expertise on energy and water efficiency and renewable technologies; manages Tool Lending Library; program liaison with contractor groups and trade organizations; conducts field inspections.
- **File Manager:** Provides a variety of customer support services.
- **Receptionist:** Fields and directs public inquiries, provides administrative support to office staff.

In addition to these positions, the local government should factor into its staff plan any labor required from other departments, such as Accounting, the Tax Collector and Recorder, that will be essential to program operations.

For launch, SCEIP had a half-time Program Manager and two and a half File Managers in place. This level of staffing has grown substantially over the last three years as the program has matured and expanded its services (please refer to Chapter 5 for this discussion). The SCEIP staffing plan is incorporated into its [Strategic Plan](#), provided in the “Resources” section of this manual.

Outsource Agreements

Often, a local government does not have the resources to retain full time staff that possesses highly specialized experience, such as an attorney specializing in municipal bonding law. In this case a term-limited or task-limited contract with a third party is a recommended solution.

In Sonoma County, many of the financial, marketing, technology development and legal services needed by SCEIP have been contracted. In addition to formal contracts for professional services *to* the County, delivery of services to the public *on behalf of* the County are occasionally let to outside vendors, such as home energy auditors and youth education. The [SCEIP outsourced agreements](#) are provided in the Document Library.

SPACE PLANNING

The Space Plan is largely dependent on needs that follow from the determination of Service Delivery and associated staff planning, as discussed above. Some of the elements of a space plan that a local government may want to consider are:

- **Reception:** dedicated staff for attending to and directing phone calls, email inquiries and walk-in visitors to the Storefront.
- **Seated desk space in a lobby setting,** for working with applicants/contractors on application intake, file review and request for disbursement processing
- **Waiting area** for Storefront visitors
- **Display racks** for brochure and program materials
- **Back office work space** for non-customer facing file processing duties
- **Manager office space**
- **Small, private conference room** for contract signings and meetings
- **Secure storage room** for equipment storage
- **Room or space for printers,** office supplies storage, and program marketing collateral storage
- **Staff break room**
- **Restrooms** accessible to customers
- **Adequate parking**

It is recommended that as an agency plans its space needs, it allows room for future growth.

In Sonoma County, SCEIP has a central storefront, with current storefront operations closely resembling the customer service section in a bank. The quantity of space designated for SCEIP directly correlates to program application volume, staffing needed to support program activity and information technology resources supporting the program operation. The SCEIP Space Plan is

incorporated into its [Strategic Plan](#), provided in the “Resources” section of this manual.

TECHNOLOGY PLANNING

As with space planning, planning for technology needs is largely dependent on determination of Service Delivery mechanisms and associated staff planning. It is recommended that as an agency plans its technology needs, it plans and budgets strategically, accounting for future program expansion and evolving technology (e.g. replacement schedule for work stations). Some of the elements of a Technology Plan that a local government may want to consider are:

- **Network:** Speed is a key element of network planning, particularly if applications are automated (web-enabled)
- **Workstations:** Customer kiosk computer, staff workstations
- **Laptops:** For use at staff meetings, contractor trainings, conferences and fair exhibit booths
- **Projector:** For use at staff and contractor trainings and conferences
- **Software:** Latest versions of operating systems and software adequate to support data management, call center database, productions of reports and marketing collateral
- **Website:** Technological, design and maintenance specifications for delivery of program website and online application tools if applicable, integration with program data management, document control and reporting
- **Office equipment** (printers, fax machines etc)
- **Telephone system:** Should accommodate multiple lines, inter-departmental call transfer and message forwarding, off-site voice mail access, hold message or music, office closure mode and central voice mailbox and employee directory
- **Building performance analysis tools:** For in-house use or lending to contractors; may include models for demonstration and workforce training purposes
- **Technical support services:** Program staff expertise, internal local government department and specialized needs that may be outsourced
- **Training:** Continuing education for staff to accommodate changing technology and its use by the program
- **Document management:** Protocols for document filing, including naming conventions and revision tracking

- **Data management:** Platform for data entry, compilation and management. A database platform, as opposed to spreadsheets, is highly recommended

This particular area of planning resulted in several “Lessons Learned” for the Sonoma County program (see discussion below). The original SCEIP Technology Plan is incorporated into its [Strategic Plan](#), provided in the “Resources” section of this manual.

MARKETING, EDUCATION AND OUTREACH PLANNING

In its Investigation Phase (Chapter 2), a local government will most likely have completed a thorough market analysis in order to determine the market sectors most likely to initially participate in a PACE program and their geographic concentration. This market analysis will drive the marketing, education and outreach plan, sometimes referred to as a communications plan. At a minimum, a communication plan should identify:

- **Community Information:** demographic and economic information
- **Results of Market Analysis** including identification of target markets
- **Primary messages** that will be delivered
- **Messaging strategies:** how the primary messages will be delivered
- **Goals and measurable objectives of strategies:** desired results, levels of participation, types of businesses if applicable, scope and scale of projects
- **Key personnel:** who will plan and coordinate the communication efforts, provide the labor, analyze the effectiveness
- **Partnerships:** identification of partners whose ordinary operations might be leveraged to enhance communication strategies
- **Timeline** for launch of various strategies
- **Opportunities and challenges:** acknowledging these will better prepare the local government for quickly adjusting its communication strategies

It is recommended that a local government take in to account the quickly changing nature of communication. External forces, changing technology, requirements of grant funds, feedback from contractors and even changing contact information can render boxes of brochures obsolete overnight. Additionally, a message delivery mechanism may become stale and ineffective over time, and the local government will need the monetary resources to make desired changes.

The original [SCEIP Marketing Plan](#) is provided in the “Resources” section of this manual. A communication budget is incorporated into the SCEIP Strategic Plan as Appendix B, also provided in “Resources.”

PROGRAM FUNDING

BUDGETING

Prior to securing funding, the local government must determine where the revenues will come from to cover the three general program needs: start-up capital, warehouse funding and ongoing operational expenses. Assuming that the source of project financing (warehouse funding) has been determined in the Investigation phase, and assuming that the local government has designed its program as described above, it now must engage in a budget process to determine the resources needed to finance the design. As with any budgeting exercise, this will most likely be an iterative activity as program design elements become modified or reprioritized.

It should be noted that regardless of who is doing the program administration, these costs exist and must be accounted for in the budget. A [sample budget](#) for start up and ongoing expenses is provided in the “Resources” section of this manual.

FUNDING ADMINISTRATIVE COSTS

There are several potential sources of funding for start-up and ongoing administrative expenses. Such administrative costs include legal consultation, accounting, staffing and overhead for processing applications and assessment lien recordation, marketing, reporting, managing early payoffs of assessments and occasional travel. Given revenues are attached to the tax collection process, an annual billing cycle, planning for the start-up costs between the establishment of a base of project assessments and the first tax billing period is critical. The pros and cons of each are described below:

- **Grant funding**
Pros: Does not affect entity’s general fund or operational budget; several grants exist to support energy efficiency programs

Cons: May be one-time revenue; match requirement may exist; criteria may constrain how funds are used; may require unbudgeted staff time to administer or satisfy reporting requirements

- **Interest rate spread**

Pros: Does not affect entity's reserve fund or operational budget; over time supports a self-sustaining program

Cons: Requires enough program participants to provide sufficient revenue; could decline with increasing interest rates; doesn't provide a source of revenue to cover start up costs

- **Intra-government loans**

Pros: Keeps the financing mechanism in-house

Cons: Increases risk to the local government; reduces capacity for other programs

- **Inter-agency loans**

Pros: Creates a partnership that may be leveraged for additional funds; mutual interest for program success creates program champion

Cons: Financing partner may impose conditions for program unwanted by local government

- **Application Fee**

Pros: Does not require government reserves

Cons: May deter participation if too high; a certain level of participation is necessary to provide adequate revenues

- **Administration Fee**

Pros: Pays for the cost of administering each application post-disbursement; only applies to the application it is funding so does not rely on total program participation; can be charged annually and incorporated into PACE assessment

Cons: May deter participation if too high

Sonoma County has used all of these options except the application fee to finance its operations. To finance its start-up needs, SCEIP borrowed over \$800,000 in resources from other county departments. SCEIP is currently paying back these advances from the 4% spread it receives when participants repay their PACE assessments. With over 1500 participants now in the program as of March 2012, financed by approximately \$45 million in bonds, this spread is also used to finance ongoing administrative and operational costs. Grant funds were attained in March, 2011 to finance the staffing and overhead associated with expanding the program (detailed in Chapter 5). Finally, the Administrative Fee is an annual charge rolled into the annual PACE assessment that pays for 1) a third

party to administer the assessments, and 2) the Auditor-Controller's direct charge fee for collecting and distributing the charge on the Tax Roll.

BOND ISSUANCE

A local agency might issue revenue bonds to fund all or part of its PACE program. In such case, the local agency pledges assessment or special tax revenues collected from the participating property owners to pay debt service on the bonds. The bonds may be purchased by a third-party investor (i.e., open market bond) or may be purchased as an investment of the local government that established the program (i.e., self-financed). SCEIP uses the "self-financed" model, described below.

In Sonoma County, the Sonoma County Financing Authority (the "Authority") is a joint powers agency formed to assist the County with its financings. The County and the Authority cooperate to provide the County the funds needed to make disbursements to property owners for the cost of improvements on the owners' properties. Following this brief description of the funding process are the related authorizing documents.

Each month, the County disburses funds to property owners for completed improvements and for partially completed improvements that meet certain criteria. The County makes disbursements to property owners from one of two different sources of money, either from the proceeds of bonds issued on the day that the County makes its disbursement or, at the County's discretion, from a revolving fund that provides cash on hand to make a disbursement on any day. On the first business day of each month, the Authority issues a bond in a principal amount equal to the aggregate amount of the disbursements that the County will make to property owners on that day and that has already made from the revolving fund during the prior month. The Authority issues a bond with a 10-year term to provide funding for improvements that property owners agree to repay over 10 years and a bond with a 20-year term to provide funding for improvements that property owners agree to repay over 20 years. The bond proceeds are either used to make disbursements directly to property owners on the day of bond issuance or to repay the revolving fund for any disbursements made during the month prior to the bond issuance.

The County Treasury Pooled Investment Fund, the Sonoma County Water Agency, or under specific circumstances, a third party invests in the Authority's bonds. The Authority loans the bond proceeds to the County, with a separate

loan agreement for the 10-year bond and for the 20-year bond. Each loan agreement requires the County to repay the Authority’s loan with assessment revenues that the County receives from each property owner to whom the County made a disbursement in connection with the Authority’s loan. In turn, the Authority pledges the loan payments from the County to make debt service payments on the related bond.

Each year, the County may use assessment revenues, which exceed the amount needed to repay the loan, to fund a reserve account and a program expense account. The monies in the reserve account will provide additional security for the repayment of the loan and the monies in the expense fund may be used to reimburse the County for its costs in administering SCEIP.

Sample [SCEIP bond documents](#), including Board of Supervisor resolutions authorizing the transactions and sample validation procedure documents (see “Bond Validation” section below), are available in the Document Library.

OWNER ARRANGED FINANCING

A number of governments have launched a new type of PACE program called owner arranged financing. Under this model, property owners can independently secure financing for a defined project with an investor of their choice, which may be their existing mortgage lender and/or a 3rd party. The investor purchases a bond from the government, the proceeds from which are then used to provide permanent financing for their project(s). The terms of the financing are negotiated independently of the government and are predicated on 1) the priority lien that the PACE mechanism affords, 2) the nature of the improvements and the associated costs and savings, and 3) the underlying credit of the owner/building. This model is designed to more closely match traditional commercial property project finance, create a competitive marketplace for financing, allow for specialized financing that addresses unique market segments, and avoid the timing delays associated with the pooled bond approach in which a government must wait to aggregate a sufficient number of disparate projects before issuing a bond. This approach may also be better suited for larger projects (e.g. greater than \$500K) and/or buildings with better credit. To date, the Cities of San Francisco, Los Angeles, and Melbourne (AUS) have launched PACE programs based on the open market model.

SCEIP Bond Financing allows for third-party financing of commercial projects. In such case, the Authority specifically approves the third party investor, which is

any investor other than the County Treasury Pooled Investment Fund or the Water Agency, to purchase the SCEIP bond. For example, in 2011 Clean Fund, a San Rafael, California based company, provided SCEIP's first third-party financing by funding a \$1,600,000 commercial project.

The County expects SCEIP's third-party financing to benefit PACE financing in several important ways. It assists with future marketing of PACE bonds to the secondary investor market, a key element of the future viability of PACE programs. It serves as a model for owner-arranged financing, a structure that in the case of SCEIP frees up the capacity of the County Treasury Pooled Investment Fund and the Water Agency to finance future projects. And finally, it provides an excellent reference for successfully developing PACE programs in the commercial property market.

DEBT SERVICE RESERVE FUND

To account for potential delays in the collection of assessments (and thus bond payments), some governments have incorporated a debt service reserve fund (DSRF) into their program. (A DSRF is a traditional element in property-secured bonds.) A DSRF can be capitalized using either proceeds from the bond offering (i.e. the bond is "grossed up") or from another source such as the state or federal government. These funds typically reside in an escrow account and are sized to cover bond payment shortfalls (e.g. 10% of the principal amount of the bond) for as long as it might take for the government, building owner and other stakeholders to cure a delinquent assessment payment through established tax collection procedures. It is important to note that these funds are not expected to cover capital losses and governments will still likely pursue a building owner for delinquent amounts which the DSRF was used to cover. Ultimately, the use of a DSRF is meant to provide additional security for the investor and will likely lower the building owner's interest rate and/or avoid the need for any governmental level guarantees.

BOND VALIDATION

PACE financing is a relatively new financing structure that poses new legal issues. In cases where a local agency needs to eliminate legal questions about the validity of a proposed financing program, California law permits the local agency to bring an action in court to validate the program. The local agency must file a complaint in the local court for validation proceedings. Following the local agency's filing, the court issues an order to publish a summons. The published

summons provides all interested persons with notice of the validation action. The validation process includes a 30-day period for an interested person to file an answer challenging the validation action. Even if no answer is filed, the court holds a hearing and determines whether the local agency is entitled to a judgment validating its proposed financing program. If the court validates the proposed financing program and the time to appeal passes, the local agency's counsel may rely on the court's judgment to provide an unqualified opinion regarding the validity of the financing program. The validation process could take as little as four months for an uncontested action or could take years for a contested action.

For Sonoma County, the validating judgment will be helpful in the event that SCEIP bonds are marketed to the public.

PROGRAM FORMATION

With the program designed, staff in place and funding secured, the local government is now ready to form its assessment program. Following the procedures outlined in the "Statutory Requirements" section above, the local government should allow enough time to complete all required steps prior to the advertised launch date. It is recommended that the adoption of the Resolution of Intention, the AB 811 Board action that begins the statutory process, occur no earlier than 60 days prior to program implementation to avoid a cool-down of an excited market.

Sonoma County's PACE [assessment program formation documents](#) (formed under AB 811) are provided in the Document Library.

BEST PRACTICES FOR PROGRAM DEVELOPMENT

The ultimate goal of this pre-launch stage is to ensure that when the program is operational, PACE program Best Practices are met. Best Practices are those operational policies that produce the program benefits described in Chapter One. In short, they will ensure:

- **Homeowner Protection**
- **Mortgage Lender Protection**

-
- **Project Investor Protection**
 - **Local Government Protection**
 - **Sustainability of Program and PACE**

Fundamentally, Best Practices are intended to result in a successful PACE program. Some of these, with referenced resources for others, are discussed below.

STRATEGIC PLANNING

The strategic plan that is referred to throughout this manual is a highly recommended best practice prior to designing and developing a PACE program. The strategic plan defines the goals and measurable objectives of the program and should integrate the local government's greenhouse gas reduction targets or economic development and workforce development goals. To ensure strategic thinking, it is important to engage local stakeholders and potential partners to assist in determining program goals, key program design elements, and criteria for eligible improvements. From this plan will follow the design details and task lists for developing the program itself. Alternatively, a local government may create a program charter that will serve the same purpose.

The Sonoma County Energy Independence Program and Sonoma County Energy and Sustainability Division [Strategic and Business Plans](#) are provided in the "Resources" section of this manual.

TIME AND BUDGET

This Best Practice is the result of a Lesson Learned from the Sonoma County experience. Sonoma County was fortunate to have the funding resources available to finance a program when it was determined that a PACE program was feasible for the County. In its eagerness to feed a large need in the community for energy efficiency and renewable energy alternative financing, the County embarked on an aggressive program launch schedule. The end result has been an extremely successful program, but the workload on staff prior to and in the months after launch was tremendous. Certain planning exercises were compromised and program adjustments were made weekly, if not daily which caused some confusion for line staff and contractors.

It is a recommended Best Practice for a local government to take the time to plan comprehensively and budget realistically.

STRONG CONTRACTOR STANDARDS

Adopting strong contractor standards has multiple benefits. Contractor standards will promote quality PACE improvements that can achieve the County's GHG goals and improve the value of property. Finally, enforced criteria for program participation incentivize best practices for quality work and professional customer service within the contractor community. SCEIP's Contractor standards include:

- **Valid license** in good standing as required by law for specific improvements
- **Business license** as required by city jurisdiction
- **Liability Insurance**
- **Workers' Compensation insurance**
- **Requirements for workers**
- **Compliance of projects with program requirements**
- **Notice to Proceed authorization** from program
- **Documented quality assurance inspection** of work by licensed inspectors prior to funding improvement (e.g. permit for work signed off by licensed building inspector)

The [SCEIP Contractor Standards](#) is provided in the Document Library.

STRINGENT UNDERWRITING CRITERIA

Certain measures can be required by a PACE program that limit risk to investors and lending institutions, and property owners. These include, but are not limited to:

- **Sizing the financing to the property value**
- **Setting a maximum loan to value ratio** or minimum equity requirement
- **Proof of clear title**
- **Matching the length of financing term** to useful life of improvement
- **Checking default history and property tax status**
- **Documented energy efficiency gains** of improvement, in order to be eligible for financing

SCEIP's underwriting criteria are incorporated into its [Program Policies](#) manual, provided in the Document Library.

LENDER ACKNOWLEDGEMENT

Opinions vary on whether requiring lender acknowledgement, or consent, is a Best Practice for a PACE program. In a residential program, it is virtually impossible to obtain a lender's consent to PACE financing. First, the Federal Housing Finance Agency (FHFA) has instructed Fannie Mae and Freddie Mac not to purchase any loans where a PACE assessment is in place. The result has been that no residential lender will accept a mortgage with a PACE lien in place, and no lender will consent to a PACE lien. Second, for residential loans, banks are frequently only the servicing agent for the mortgage: the mortgage itself has been sold to either Fannie Mae or Freddie Mac, or another investor. Thus it is impossible to determine who has the authority to consent. The better position is that no consent or acknowledgement is required, because the PACE lien results from a local government assessment. Lenders have never required consent for local government assessments, and indeed, it would contravene public policy to have mortgage lenders block public improvements that had been authorized by governmental entities. There may be benefit to providing notice to mortgage lenders, as many lenders pay property taxes from escrow accounts maintained by the lender on behalf of the property owner. Notice would allow the lender to adjust the monthly payment to cover the increase needed to pay the assessment.

Commercial loans, however, differ significantly. Unlike residential loans, most commercial loans are both serviced and held by the bank making the loan. Thus the property owner has a relationship with the bank that is mutually beneficial and enduring. Generally, the banks' interest have been to assure that the switch from utility payment to assessment payment is at least cost neutral for the property owner.

An advised, associated Best Practice for any non-residential PACE program is to allocate adequate staff time to reaching out to the lender community prior to program launch in order to educate this business sector and respond to any concerns or misperceptions that may exist. Several benefits of PACE financing exist for mortgage lenders, as listed in the Introduction; SCEIP has experienced a positive reception to outreach efforts.

The practice of requiring lender acknowledgement prior to financing a non-residential project seems to have been incorporated into most if not all programs. A March, 2011 policy brief by the Clinton Climate Initiative found that "in all active and planned programs, the existing mortgage holder must provide written consent or formal acknowledgement for the property to participate in

the program. Mortgage lenders from local, regional and national banks have provided their approval for these projects.”²² Sonoma County has always required Lender Acknowledgement prior to accepting an application for non-residential property. This [Lender Acknowledgement form](#) is provided in the Document Library.

EXISTING GUIDELINES FOR PROGRAM DESIGN

Policy guidelines for PACE programs have been written by an assortment of agencies and organizations, and more are being developed as an increasing number of states adopt PACE-enabling legislation and programs in demographically different areas of the county emerge. Some of the [Best Practices](#) documents that have been published are provided in the “Resources” section of this manual.

²² Lawrence Berkeley National Laboratory, “[Property Assessed Clean Energy \(PACE\) Financing: Update on Commercial Programs Policy Brief](#)”, March 23, 2011 may be found in the Resources section of this manual.

CHAPTER THREE CHECKLIST

	Operations	MEO	Finance	Legal
Preparation Phase 1.0 - Legal Process				
The goal of this task is to deliver the process and documentation to execute the legal and governance steps required before launching of a PACE Program in a given jurisdiction. Activities include and are not limited to Board of Supervisor/City Council resolutions, notice of public hearing, Program Report and Administrative Guidelines, and the validation process. NOTE: The activities below reflect the California AB 811 model for Counties; this list may be modified as needed to accommodate the statutory requirements of other PACE-enabling state legislation or to accommodate cities/towns acting independently of Counties.				
1.0 Activities				
1.1 Selection of bond counsel who should approve all legal documents				
1.2 Preparation of the Resolution of Intention for the Board of Supervisors declaring the County's intention to move forward with the PACE program				
1.3 Preparation of the written notice to be mailed to each water or electric provider within the boundaries of the County a Notice of Proposed Contractual Assessment Program				
1.4 Preparation and publishing of a notice of public hearing to announce County's intention to form a contractual assessment program as per Chapter 29 of Part 3 of Division 7 of the Streets and Highways Code and to set a public hearing date as stated in the Resolution of Intention.				
1.5 Preparation and distribution to towns/cities (where applicable) within the County, resolutions consenting to the inclusion of parcels within the incorporated territory of the town or city in the Program. This resolution authorizes the town/city to levy assessments, to impose the assessment liens and to finance the Authorized Improvements on such parcels.				
1.6 (if applicable) If town/city is working independently of County to levy program assessments, preparation and execution of agreement with County to include the assessment on tax roll				
1.7 Preparation of board item establishing an enterprise fund for the program				
1.8 Preparation of board item of the budget for the program and present as either a budget revision or a new budget depending budget cycle				

	Operations	MEO	Finance	Legal
1.9 Preparation of the Program Report and Administrative Guidelines detailing program goals, benefits, requirements, parameters, financial strategy, consumer protection, water and energy efficiency measures, map of program area, etc.				
1.10 Preparation of resolution confirming program report, establishing program, authorizing the County to enter into contractual assessments to finance the installation of Authorized Improvements in the County, and hold a noticed public hearing as required by the Resolution of Intention				
1.11 Preparation of documents approving bond issuance				
1.12 Preparation for and execution of the validation process				
1.0 Deliverables:				
· Report of bond counsel selection process and result				
· Draft mailed notice of public hearing				
· Draft Resolutions per the implementation plan				
· Draft published notice of public hearing				
· Required resolutions				
· Proof of proceedings				
· Draft Board Items per the implementation plan				
· Draft Budget				
· Draft Long Term Service Agreement				
· Draft Program Report and Administrative Guidelines compliant with AB 811 and Energy Upgrade California financing guidelines. The Guidelines will include:				
o Eligible improvements, including permit requirements and energy savings expected; compliance with DOE Guidelines for PACE Programs				
o Verification of proper permits, installation and energy savings				
o Contractor qualification requirements and quality assurance program for energy savings				
o Financing plan				
o Draft assessment contract				
· Draft Validation Action				

Preparation Phase 2.0 - Program Governance	Operations	MEO	Finance	Legal
<p>The goal of this task is to identify the committees and committee members who will be responsible for delivering the processes and documentation that will govern a PACE program in the jurisdiction, and who will continue to champion the program. These members may include the original Advisory Committee from the Investigation Phase.</p>				
<p>2.0 Activities</p>				
<p>2.1 Select and convene advisory committees. Engage key community leaders (public and private) to create a:</p>				
<ul style="list-style-type: none"> · Vendor/Contractor Council 				
<ul style="list-style-type: none"> · Stakeholder/advisory group 				
<ul style="list-style-type: none"> · Program Steering Committee (operations, policy, marketing) 				
<ul style="list-style-type: none"> · Program Ad Hoc Committee from Board of Supervisors; identify key elected officials as program advisors 				
<ul style="list-style-type: none"> · Technical Review Committee / Engineering Support (eligible improvements) 				
<ul style="list-style-type: none"> · Policy Review Panel (if other than above) 				
<ul style="list-style-type: none"> · Legal Counsel 				
<ul style="list-style-type: none"> · Financing Plan Management team (treasury, tax collection, accounting, and bonding) 				
<p>2.2 Define governance and technical review processes</p>				
<p>Preparation Phase 3.0 - Development Phase</p>				
<p>The goal of this task is to deliver the process and documentation for detailed development of the program in preparation for launch. Activities in this subtask include and are not limited to creation of a: strategic and business plan, marketing plan, program operations plan, program performance measures, and risk mitigation and contingency plan.</p>				

	Operations	MEO	Finance	Legal
3.0 Activities				
3.1 Completion of a strategic planning process, culminating in a draft Strategic Plan, with program governance team assisted by stakeholder input				
3.2 Completion of a business planning process as an enhancement to the strategic plan with program governance team: staffing plan (internal, outsource, etc.), training plan, space plan, resource plan, technology plan, etc.				
3.3 Creation of a Marketing, Education and Outreach Plan. Include the incorporation of participation of stakeholders, i.e. sponsors, ad hoc, committees, etc.				
3.4 Development of presentation and event collateral materials				
3.5 Design of printed and electronic marketing collateral				
a. Development of individualized professional marketing materials in coordination with each of the participating jurisdictions. May include TV advertisements, radio advertisements, web-based marketing materials, printed brochures, and various flyers for insertion into property tax bills, utility bills or other mailers.				
3.6 Development of a Program Operations Plan:				
a. Define, document and test application documentation and process				
b. Define, document and test data management tools and systems				
c. Define, document and test change order process				
d. Define, document and test contract closing process				
e. Define, document and test disbursement process				
f. Define, document and test assessment placement and payoff administration				
g. Execute time and motion studies of complete process with staff				
3.7 Development of Performance Measures as related to the goals of the Strategic Plan.				
3.8 Definition of quality control and program compliance metrics				
3.9 Development of a Risk Mitigation and Contingency Plan which evaluates factors relevant to the local program with consideration for:				
a. Program Participation				
b. Retrofit Quality				
c. Financing Options				
d. Emerging federal guidelines				

	Operations	MEO	Finance	Legal
3.10 Evaluate and define eligibility criteria, compliance with DOE guidelines				
3.11 Determination of contractor qualifications and quality assurance program				
3.12 Draft Implementation Plan				
3.0 Deliverables:				
· Strategic Plan				
· Business Plan including space, technology, staffing and training plans				
· Marketing Plan				
· Marketing Collateral designs				
· Web presence design				
· Final service delivery model design: fixed location storefront, travelling storefront, kiosks, etc.				
· Program process flowcharts, standard operating procedures, and internal service delivery documentation				
· Results of time and motion studies for process execution and process improvement plan				
· Program performance measure plan				
· Risk Mitigation and Contingency Plan				
· List of Eligible Improvements				
· Contractor Standards agreement and Quality Assurance plan				
· PACE Program Implementation plan				

CHAPTER THREE LESSONS LEARNED: PROGRAM DEVELOPMENT

This section provides information specific to the Sonoma County program. Lessons learned by other PACE programs are provided in their individual profiles located in Chapter 6.

Situation	Lessons Learned
<p>The Importance of a Strategic Plan: SCEIP did not have a strategic plan in place at program launch (this was developed a year after launch). Goals for the program had been verbally discussed and established but there was no documentation of goals or measurable objectives other than ultimate program success, which was poorly defined.</p>	<p>The Strategic Plan provides overarching guidance for policy decisions. A strategic planning process concurrent with PACE program development will define achievable objectives, staffing, space and technology needs, marketing activities, and budget. It will also set parameters for how the program, once successful, will expand.</p>
<p>Stay Flexible! Although the Strategic Plan is an overarching guiding document, the many policy and procedural decisions that will be made to deliver the program operationally will change. For several months after SCEIP launched, operational changes occurred almost daily. In addition, inflexibility can be costly. For example, when SCEIP launched, it printed too many of certain brochures resulting in wasted money, already limited, as the program evolved and even contact information changed.</p>	<p>Stay flexible, but review core goals and objectives frequently. Advise staff prior to hiring that work will be conducted in a changing environment, and create a protocol for documenting changes in order to ascertain, if needed later, the reason for the change.</p>
<p>The Importance of Education: The general public does not understand how the energy and water systems of buildings interact together to function as a system, or how that system impacts an occupant’s health, comfort and costs.</p>	<p>Education will increase the uptake of a PACE program, particularly if the message and application process are simple. Visual aids, such as a House of Pressure, can be helpful to providing tangible illustrations of energy efficiency and the whole building system.</p>
<p>Communication Plan: SCEIP’s initial marketing was overly dependent on contractor community due to insufficient resources for marketing activities, resulting in some market</p>	<p>Based on results of market analysis, budget adequately for marketing activities to garner participation of targeted property sectors.</p>

<p>sectors participating and others nearly unaware of program.</p>	
<p>Document Storage: Without a protocol for naming conventions, user permissions, document storage structure and file retention, document control may soon become unwieldy, containing multiple copies of documents in multiple locations and making it difficult to locate, or be sure of, the latest version.</p>	<p>Prior to program launch, decisions should be made and a policy written addressing digital storage protocol and appointing a server manager.</p>
<p>Administrative Costs: Operating expenses in SCEIP’s first year exceeded pre-launch planning.</p>	<p>A Strategic Plan is helpful for creating a realistic budget. Budget for success! Be prepared to increase staff as needed.</p>

CHAPTER FOUR: PROGRAM LAUNCH- THE FIRST SIX MONTHS

This chapter discusses the activities involved with launching and operating a basic PACE program, using SCEIP as the example.

OPERATING PROCESSES

Existing and emerging programs will all have their own idiosyncratic procedures, unique operating structures and varying financing strategies. In addition, external forces, such as 1) changing direction from federal regulatory agencies, 2) a changing marketplace that increasingly embraces energy efficiency and encourages the development of new technologies, and 3) shifting paradigms for the world of energy efficiency due to emerging concepts such as whole building performance, have resulted in the dynamic and evolving nature of PACE program guidelines and best practices. It is therefore difficult to write more than a very general overview of operating processes.

This section provides a general discussion of the three major operational process stages for any PACE program, with specifics that pertain to the SCEIP operations. The [SCEIP Document of Procedures Report](#) is provided in the Document Library.

APPLICATION THROUGH CONTRACT SIGNING

This operational stage may also be considered the “Customer Service” stage. Although all operating stages involve interaction with program participants, most of the customer and contractor interactions will occur during the application process. In order to accommodate a high level of customer service throughout this process, Sonoma County operates a physical “storefront” location to meet with applicants or their representatives in addition to providing an online application tool on its website.

SCEIP’s operational steps for program staff during this stage are described below. [All forms and checklists](#) referred to in this section are provided in the Document Library.

1. **Application Intake:** Upon receipt of an application, a staff member will review the application and attachments for completeness. In Sonoma County, an Intake Checklist is used to determine whether all

requirements for a complete application have been fulfilled. These requirements include provision of:

- A signed FHFA disclosure form (for residential applicants)
- A signed, complete application
- Bids for work, with material technical specifications, supporting requested amount and improvement eligibility
- Mortgage statement aged no more than 45 days
- Trust or corporation formation documents, the latter accompanied by a letter from the Board or Partnership assigning signature authority (if property is held in trust or by a corporation)
- Notarized Lender Acknowledgment (required for commercial properties)
- Energy Analysis results (required for commercial properties)
- Authorization for utility data access
- Appraisal, if necessary to determine property value
- Customer authorization for a third party to correspond with program staff on behalf of the applicant (such as a contractor, if applicable)

All owners of record on the property on which the improvement will be made must sign the application and FHFA disclosure form. The staff member receiving the application will verify the property value and tax status in order to determine that the program's underwriting criteria are met. After the Intake process, complete applications are distributed to file managers on a rotational basis. Incomplete applications are returned to the applicant with a request for missing information.

2. **Application Processing:** Staff will review the application for completeness and prepare a Truth in Lending Act (TILA) disclosure form for the applicant(s).²³ Upon receipt of the TILA signed by all owners of record, and upon receipt of a check or money order for title search costs from the applicant, the file manager will order a title search for the property. The assigned file manager will also populate the various program databases with application data. In Sonoma County, database and spreadsheet tools are used to generate a variety of reports (see Program

²³ Although it is not clear TILA forms are required for contractual assessments, the better practice is to provide the property owner complete disclosure of fees and costs associated with the PACE assessment. The TILA form provides a well-established mechanism to do this.

Reporting section below). Upon receipt of a clean title report, the file manager submits the application for approval with a Recommendation for Approval cover sheet.

3. **Application Approval:** The application and supporting documents are reviewed by the Program Manager or authorized designee. If the amount requested exceeds a threshold set by program policy, a higher level of review and approval is required by the program Steering Committee or county Board of Supervisors. If the application is approved, the Recommendation for Approval sheet is signed and the file is returned to the assigned file manager. The file manager notifies the applicant of approval status.
4. **Contract Signing:** Upon receiving application approval, the file manager creates the contract documents, which include the assessment contract, the implementation agreement and the right to cancel form. After the contract documents have been prepared, the applicant is notified to schedule a contract signing. In Sonoma County, SCEIP provides a complimentary notary service for applicants who wish to sign at the storefront location. If not, the contracts are mailed to the applicant for an off-site signing.

LIEN RECORDATION THROUGH BONDING

Many of the activities during this stage of the operating process are internal to the local government and begin to involve the Office of the Tax Collector and the Office of the Recorder. SCEIP's process is described here.

5. **Lien Recordation and Notice to Proceed:** When the contract documents have been signed and notarized and received back by SCEIP (in the case of an off-site signing) with a check or money order for the recording fee, the assessment contract is sent to the county Recorder and the lien for the full approved amount is placed on the property. After the three day right to cancel (RTC) period has expired, the file manager sends a Notice to Proceed letter to the applicant and work may begin. If the applicant returns a signed RTC form to SCEIP during the three day RTC period, the lien is removed at no cost to the applicant, and all application costs and fees are returned to the applicant.
The Lien Recordation activities conducted by the Recorder's office include:

-
- A supplemental title search to ensure that there have been no changes to the property status since the original title report was created.
 - A Notice of Assessment and any other documents required under state law to be recorded are created and recorded.
 - Spreadsheet(s) are populated for use in tracking and reporting program data.

If the applicant desires to make changes to the requested amount (increase) or term of repayment after the contract has been signed and the lien recorded, a Contract Amendment must be executed following review by program staff of supporting documentation. A new lien amending the changes is recorded for an additional fee.

6. **Request for Disbursement:** In Sonoma County, there are two types of disbursement requests, an interim disbursement and a final, or single, disbursement. If an approved financing amount meets or exceeds a threshold established by program policy (currently \$40,000), the interim disbursement option is available.
 - **Single disbursement:** When improvement work has been completed, the applicant returns to the program a signed Request for Disbursement (RFD) form, invoices supporting the request, and a copy of all final permits signed off by the jurisdiction's building inspector documenting completion of work to the jurisdiction's standards.
 - **Interim Disbursement:** When 75% of the materials are on-site and secure or, for a multi-improvement project, when one improvement is completed, the applicant may request a first disbursement. In the former case, an inspection by program staff is required to document that 75% of the materials are on-site. Following the inspection, the signed disbursement request, accompanied by copies of invoices and the building permit(s), will be processed and 50% of the approved amount will be disbursed. In the latter case, no field inspection is required in lieu of a final permit signed by the jurisdiction's building inspector. The total amount of the first improvement, in the case of a multi-improvement project, will be funded.
7. **Bonding:** When the RFD is received and approved by program staff, it is sent to staff in the Auditor-Controller-Treasurer-Tax Collector's (ACTTC)

office. There it is reviewed and a Final Assessment Settlement Statement is created. All statements generated from RFDs in one month are compiled into a spreadsheet. This spreadsheet is sent to an outside vendor that provides the services for managing the creation of the charges to the tax roll for each SCEIP assessment, for assessment prepayments/payoffs, individual property assessment records, and bond records.²⁴ This vendor also creates a repayment schedule for each applicant.

The ACTTC office staff also creates a bond summary that is sent with the RFDs monthly to a second outside vendor that provides bond counsel services. Bond counsel creates the bond documents associated with these requests which are then forwarded to appropriate individuals for signature.²⁵ Original signed bond documents are returned to bond counsel. In the meantime, ACTTC staff prepares the disbursement checks, accompanied by the repayment schedule and the settlement statement, which are mailed to or picked up by the applicant, given their choice on the RFD.

All properties that receive disbursements between October of one year and September of the next are included in the current year's tax roll. Capitalized interest begins accumulating on amount disbursed to property owners from date of disbursement. The data files used to create the new assessments are sent from the third party tax roll management vendor to the ACTTC and include the parcel numbers and respective assessment dollar amounts. The files are reviewed by ACTTC staff after import to ensure the transfer was complete and accurate as part of the normal tax roll extension process.

AFTER BONDING

Many of the activities during this stage of the operating process are internal to the local government and begin to involve the Office of the Tax Collector and the Office of the Recorder. SCEIP's process is described here.

²⁴ Third party [service agreements](#), including the scopes of work, are provided in the Document Library.

²⁵ Described by the [SCEIP Procedure](#) document, provided in the Document Library

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8. **Early Assessment Payoff:** Applicants do have the ability to pay off their assessment before the repayment period of the contract. In Sonoma County, applicants cannot make partial payoffs. In some cases, lenders to residential property purchasers are requiring the payoff of the PACE assessment prior to the transfer of the property.

The applicant requesting the early payoff will contact the third party tax management vendor directly to receive a payoff quote, which includes the remaining principal, the interest that has accumulated since September 1 of the last tax cycle, year and a fee for removing the lien. This amount is sent via check to the ACTTC and the assessment lien is removed from the property. The ACTTC advises the third party tax roll management vendor that the assessment has been paid off.

9. **Expired Contracts:** Applicants have a program policy-defined period of time to complete their projects. They may request a time extension if they experience unforeseen delays. In some cases, the project work exceeds the contractual period and/or the applicant makes other arrangements for paying the contractor, and no longer wishes to participate in the PACE program. In this case, the applicant must pay a fee and the assessment lien is removed from the property.

THIRD PARTY ADMINISTRATION

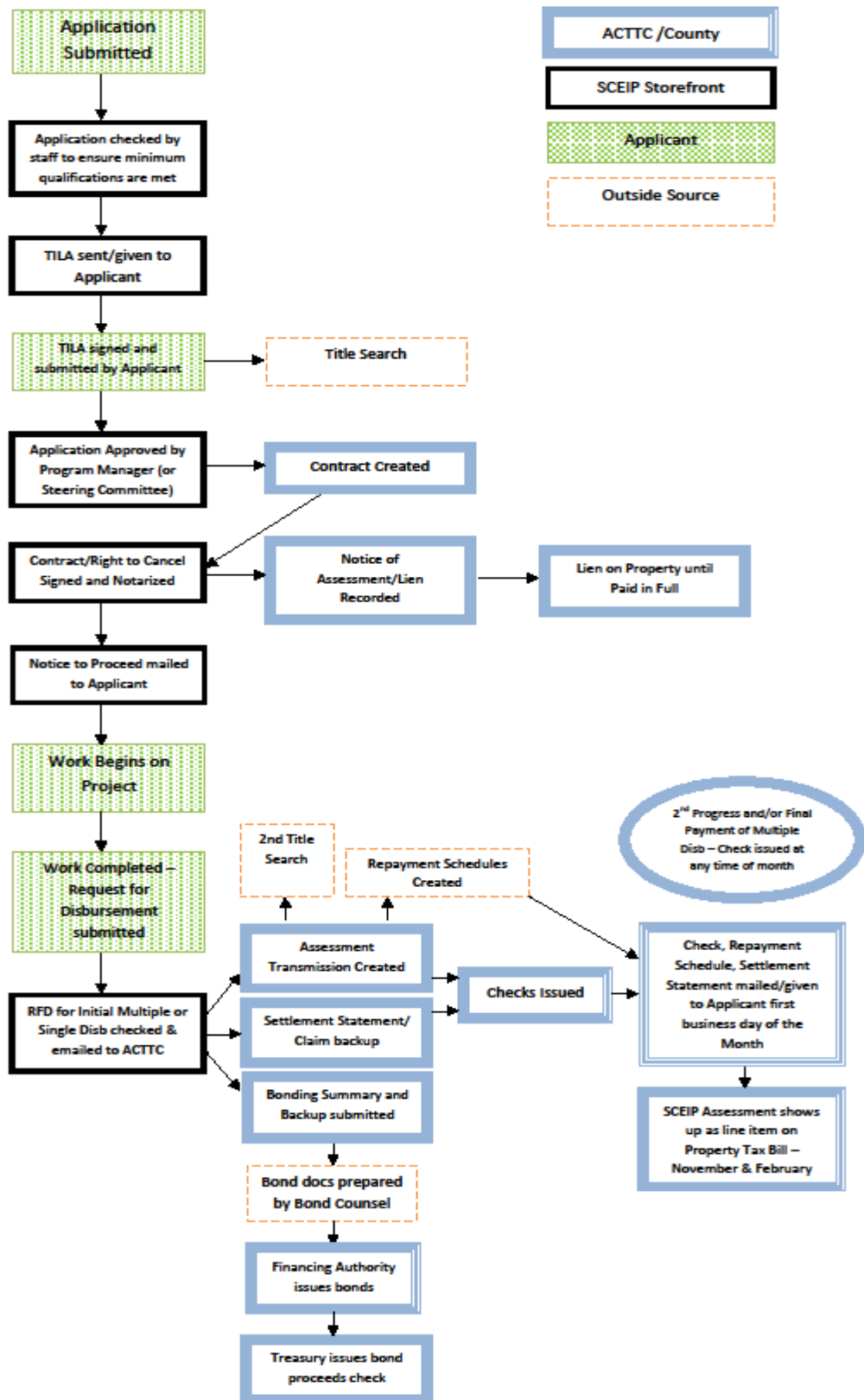
The sections above described operations specific to SCEIP, but there are many models for operating a PACE program. If, after the Investigation phase, a local government decides that it wants to offer PACE financing to its constituency community but does not wish to or lacks the in-house capacity to administer its program, the third party administration option exists. Under this model, the local government contracts with a third party to conduct some or all of the tasks associated with operating a PACE program.

Examples of this structure are the San Francisco County and Los Angeles County programs. San Francisco is working with a third party administrator to assist the city in developing and administering the program, and their subcontractor is serving as the special tax administrator responsible for formation services (Boundary Map Preparation and Recordation, Method of Apportionment of Special Tax, and other related tasks), as well as Administration Services (Data Collection, Annual Special Tax Levy Calculation and Enrollment, Annual Reports, Delinquent Tax Reporting, Prepayment Calculations, etc.).

In Los Angeles, application review and certain other administrative functions are being managed by a third-party administrator, with the County performing the back-end legal work.

SONOMA COUNTY PROCESS FLOW

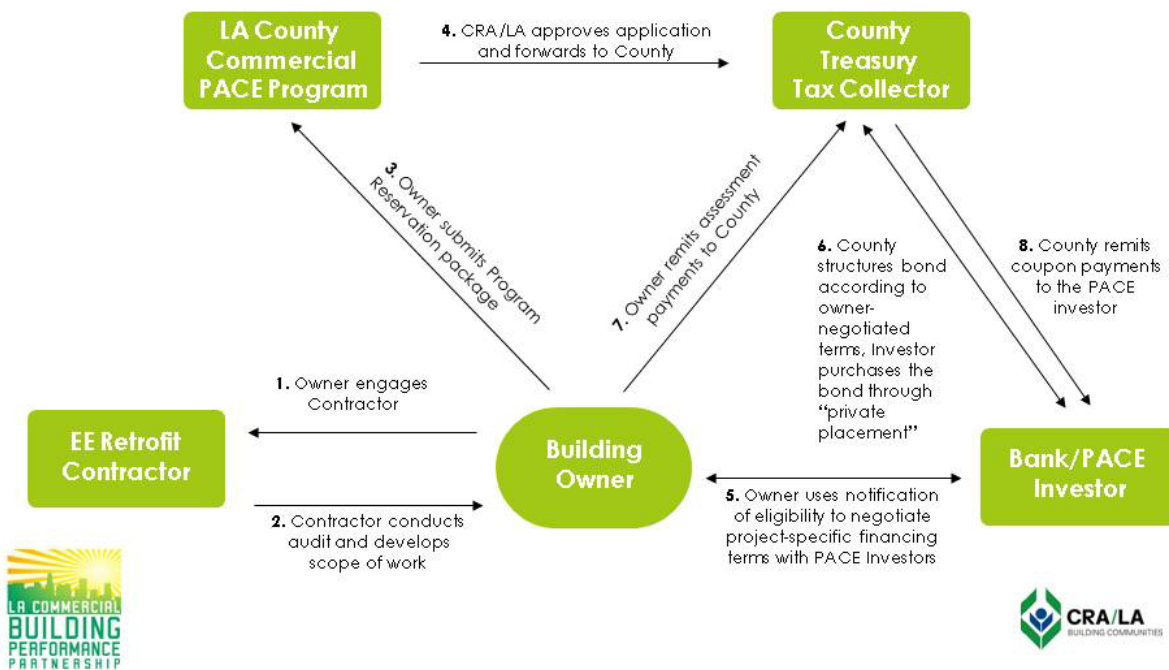
The illustration below summarizes the SCEIP process flow and illustrates the interconnection of the three process stages. In Sonoma County, the ACTTC is the Department of the Auditor-Controller-Treasurer-Tax Collector.



LOS ANGELES COUNTY PROCESS FLOW

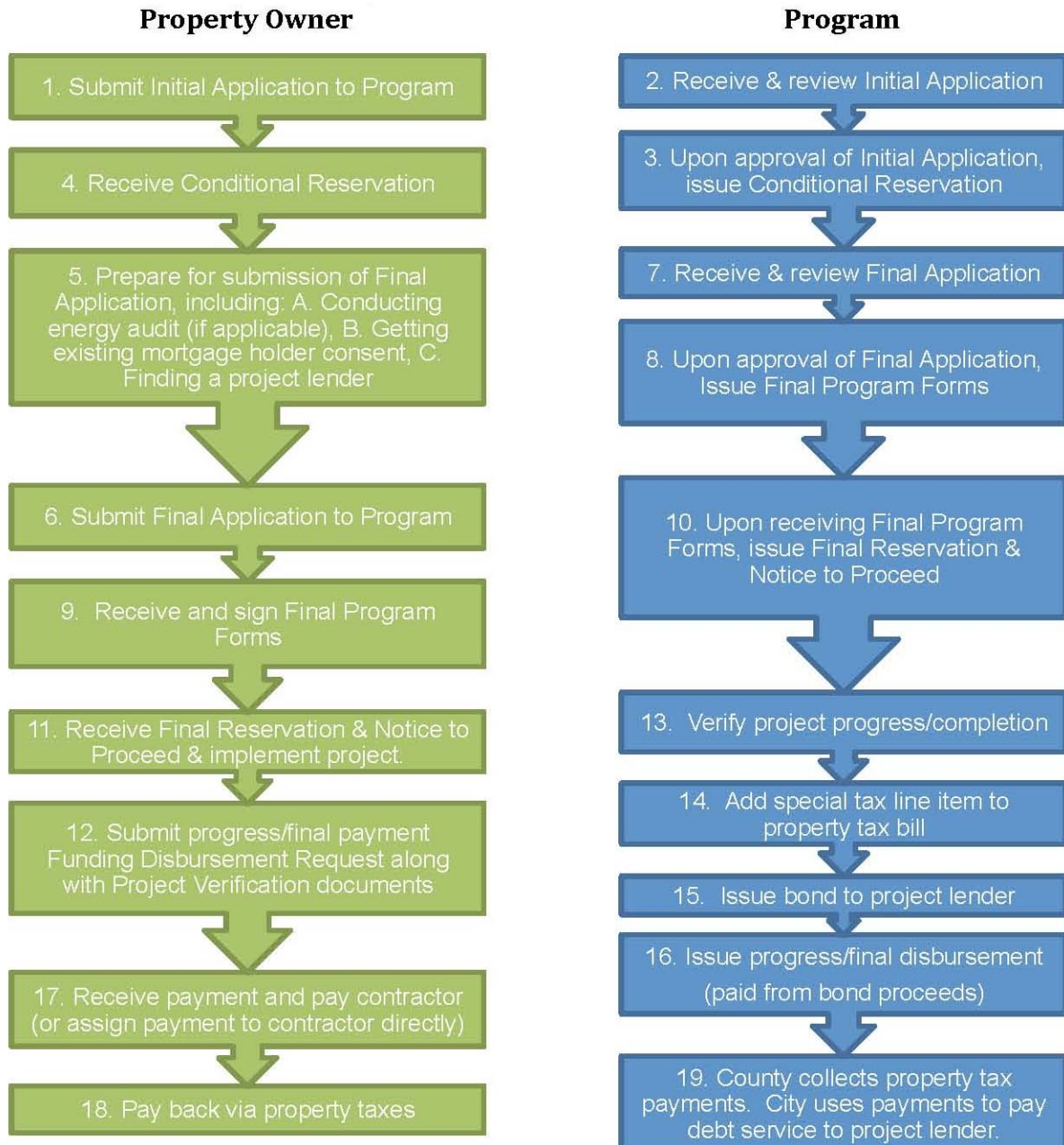
The illustration below summarizes the [LA County](#) process flow and illustrates the interconnection of the three process stages.

PACE Financing - Mechanics



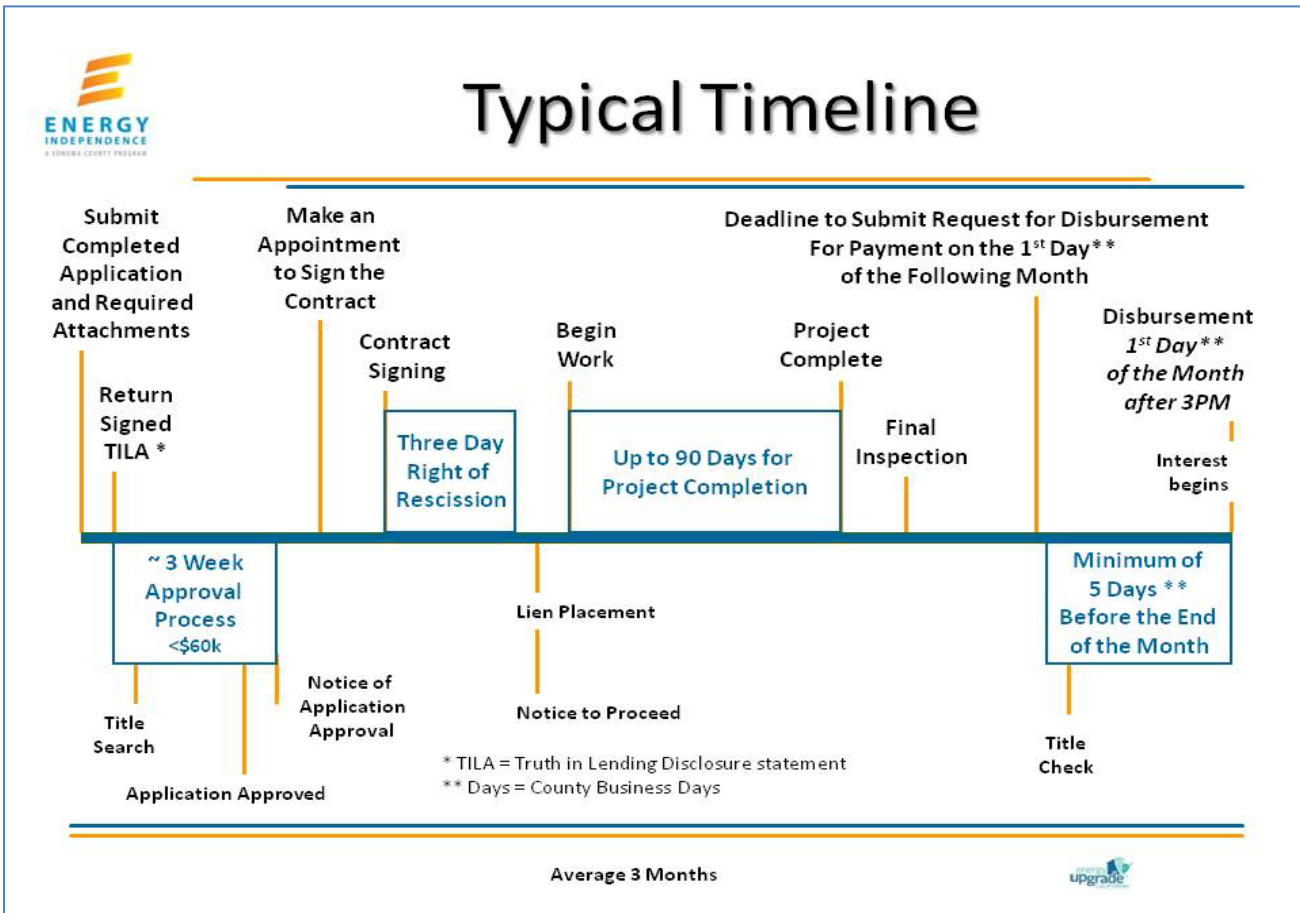
CITY AND COUNTY OF SAN FRANCISCO PROCESS FLOW

The illustration below, which may be found in the City and County of San Francisco [GreenFinanceSF](#) Program Handbook, summarizes the City and County of San Francisco process flow. The steps are numbered to indicate interaction.



TIMELINE FOR PROCESSES

In Sonoma County, the typical timeline for the first two major operating process stages (Application through Bonding) is three months, as described below. It should be noted that in Sonoma County this is the average for residential projects; a commercial-based PACE program is more likely to fund larger, multi-improvement projects with multiple contractors, which may protract this timeline by as much as an additional 3-6 months.



INTRAOFFICE COMMUNICATION

Given the variety of tasks, staff and offices involved with providing PACE program services from project start to completion, a chain of command and communication protocol is recommended to ensure the absence of cracks into which an application in process could fall. This protocol could be part of a comprehensive Communication Plan or exist as a stand-alone, documented internal policy. At a minimum, a best practice here is to assign a dedicated file manager to the application who will be responsible for all stages of the application process and accountable for ensuring all information related to the project is entered accurately into applicable databases. As will be discussed next, accurate program reporting is key to the long-term success of a PACE program.

PROGRAM REPORTING

EVALUATING REPORTING NEEDS AND USE

Reporting on program activity is key to the long-term success of a PACE program. There are many needs for program reports: reporting to elected officials who allocate budgets, reporting to regulatory agencies who determine policies, reporting to the program governance who use results to support adjustment of program policies, and writing grant proposals, to name a few. It is recommended that a jurisdiction conducts an evaluation of how it may use reports, what reports it will need to generate, and what data will be required to be collected. Out of this exercise will derive a design for a database or a number of databases, as well as a data management protocol.

This Data Assessment task could be conducted in the Program Development stage, but a jurisdiction may find it useful to wait until after program launch in order to have a “real time” gauge on the reporting needs. In the meantime, especially if the application process is automated with an online tool, essential information can be captured for later reporting needs.

DATA MANAGEMENT

Part of the reporting assessment exercise should include some thought towards how data will be collected and managed. As mentioned above, automating the application process has the associated benefits of automating data collection and ensuring its accuracy, particularly when required fields or drop-down menus

are provided for the applicant and file manager. However, not all data collection can be automated and the question for jurisdictions to consider is how it will ensure that accurate, properly formatted data is being entered by multiple users, usually with a wide range of computer skills and attention to detail.

POTENTIAL REPORTING NEEDS

There is a large range of needs for program reporting. Based on Sonoma County's experience, this section discusses potential end users and report types. [Samples of reports](#) produced by Sonoma County are provided in the Document Library.

1. **Elected Officials:** Reports used to justify budgetary decisions, drive strategic priorities, support communications with and presentations to professional associations. These might include:
 - Job creation statistics, particularly local jobs
 - GHGs reduced
 - Project types and sectors
 - Funding statistics
 - Overall program activity, such as number of applications received and approved
2. **Internal Use:** Reports used to evaluate program effectiveness and delineate areas for targeted marketing or program change by tracking certain indicators. These might include:
 - Types of projects funded
 - # of applications received by sector
 - # of projects funded by type and sector
 - How applicants heard about the program
 - # of applications by geographic region
 - # of applications by business type and size
3. **Program Partners:** Reports used to support continued support for and/or allocation of resources to program
4. **Public:** Reports to elicit general interest and continued support for the program, provide technical support to other emerging programs, and garner interest from third-party investors. Data of interest to the public might include:

- Volume of projects funded, in terms of number and investment
 - Job creation statistics, particularly local jobs
 - GHGs reduced
5. **Grant Funding:** Reports used for program expansion or sustainability funding.

MARKETING, EDUCATION AND OUTREACH

[Sample marketing, education and outreach collateral](#) from early SCEIP operation is provided in the Document Library.

PRE-LAUNCH ACTIVITIES

Targeted marketing, education and outreach activities executed just prior to, but not too long before, program launch can create an eager anticipation for the program. This will result in a high participation rate from the beginning, contributing to a self-feeding mechanism of program momentum. Some of these activities might include:

- Press releases to media with a wide audience
- Meet-and-greet informational events specifically for contractors
- Informational meetings targeted to potential participants. For example, a program for residential customers could be held at a public library.
- Employee information sessions for the local government's staff
- TV, radio and newspaper advertisements
- Direct mailings
- Property tax bill inserts, depending on timing

PROGRAM LAUNCH EVENT

The program launch should be considered like the “Grand Opening” of a business, complete with a high profile, heavily advertised event that is hosted by elected officials and senior staff and to which local media and other community leaders have been invited. The event program could include remarks by elected officials, a brief overview by staff of the program and how it will work, and time for attendees to mingle and learn more about the program. Resources such as

the application, brochures, business cards, a looping video, lists of participating contractors, staff themselves, a list of upcoming trainings or informational meetings, and giveaways embossed with program information should be on hand for the attendees to bring home.

ONGOING EDUCATION AND OUTREACH

Building on the momentum created by the Grand Opening event and any media coverage, the jurisdiction will want to continue to educate the public about the program. A combination of targeted and broad-based efforts should be used because an educated general public will support participation in the program by the targeted market. In addition to those activities listed above, some of the ongoing education and outreach efforts might include:

- Presentations to community service groups and associations, such as the Rotary Club and Realtor’s Association
- Tabling at events such as county fairs and local conferences
- Production of targeted collateral, such as a postcard to small and medium businesses
- Production of bi-lingual or multi-lingual brochures
- Hosting or co-sponsoring events directed at a target market
- Delivering presentations at regional conferences
- Social media
- Digital newsletter

The scope and scale of marketing, education and outreach activities will be determined largely by the budget as described by the Marketing and Staffing Plans. It is recommended that a local government allocate sufficient resources to this area of operations, because program participation is essential to the viability of the program. A local government should also leverage in-house and partnering city and town resources, such as an internal newsletter and networking opportunities by senior management and elected officials, which do not require extra funding.

CUSTOMER TOOLS

WEBSITE

A program website can have a big impact on program participation. A well-constructed website will provide education to consumers and alleviate potential

confusion or myths about the program, thus eliminating some of the barriers to entry. Recommended resources for customers include:

- Program documents
- Frequently Asked Questions addressing program basics
- List of participating contractors
- List of eligible improvements
- Announcements for workforce training and educational events
- Embedded calendar of events and office closures
- Contact information
- Links to outside resources

In addition to hosting static educational resources, certain online interactive tools can greatly increase customer awareness and facilitate program participation. These are discussed below.

ACTION PLAN TOOLS

These are energy and water efficiency analysis tools for property owners and contractors to easily assess energy and water use, see priorities, and then take action. Provision of this tool may be as simple as creating a link to the Energy Star's [Home Advisor](#) or [Commercial Building Performance Assessment](#) tools. Alternatively, a program may wish to provide a higher-level custom tool.

In January 2012, SCEIP launched custom [Action Planning tools](#) for residential customers designed and maintained by a third-party vendor. The primary reason for adding this unique service was to engage and motivate consumers to take action on the reduction of energy use and drive demand for retrofits. This online tool helps consumers optimize their home energy system. A combination of pre-populated data along with some basic questions about the consumer's property energy use feeds a calculator. The Action Plan engine outputs a list of economic gains per measure prioritized by the return on investment. If money is not the user's primary motivator, the tool also outputs priority lists of measures based on comfort, behavior, or maintenance. The intention is to increase consumer rates-of-action by reducing confusion over billing, incentives, tiered pricing, and measures they can take to give each consumer a tailored, simple and specific plan of action. It incorporates all possibilities for home fuel types (natural gas, electric, etc.) and all aspects of a structure, and integrates across all types of potential consumer action (behavior, efficiency and renewable retrofits, etc.). The tool's algorithms are programmed to fully promote those measures that are whole-house measures so that consumers can clearly see the benefits of a

whole-house efficiency retrofit program, such as that promoted by Energy Upgrade California. The priority measures are then tied to a workflow that connects consumers with qualified contractors and financing. All applicable rebates are also integrated into the system.

ONLINE APPLICATION TOOL

This is an automated tool that walks an applicant through a step-by-step process for determining eligibility, selecting measures, selecting finance amounts, uploading required documents, paying fees, and signing disclosures. In January 2012, SCEIP launched its online application tool, designed by a third-party vendor with an enhanced tool designed by a third-party vendor, Renewable Funding, expected to launch in March 2012. It is anticipated that this tool will facilitate and expedite the application process for the customer or their contractor representative and will also resolve data management and reporting challenges that have been experienced by the program.

ENERGY ANALYSES

Various, and sometimes conflicting, [guidelines](#) exist for the adoption of an energy analysis by PACE programs, which may be found in the “Resources” section of this manual. The U.S. Department of Energy (DOE) recommends that financing should be for high energy-efficiency value improvements that are identified on a per property basis by an energy analysis.²⁶ Additional DOE guidelines state that a PACE program design should include “an energy audit and modeling of expected savings to identify energy efficiency and renewable energy property improvement measures that are likely to deliver energy and dollar savings in excess of financed costs over the assessment term. Local governments should limit investment to those identified measures.”²⁷

The California Home Energy Retrofit Coordinating Committee (CA HERCC)²⁸ has written detailed energy efficiency and home energy analysis recommendations for California PACE programs, such as:

²⁶ From Policy Framework for PACE Financing Programs, October 18, 2009.

²⁷ From Guidelines for Pilot PACE Financing Programs, May 7, 2010.

²⁸ CA HERCC is an ad hoc committee comprised of energy efficiency and program implementation experts from many different organizations. More information may be found at <http://www.builditgreen.org/home-energy-retrofit/>

- **A HERS Phase II-compliant audit and rating** (Whole House Home Energy Rating with test-in and test-out and combustion safety testing) shall be performed and a report written that includes a list of recommended cost-effective measures.
- **Each project financed shall achieve a minimum of 20% reduction in HERS rating without renewables** via energy efficiency measures prior to financing renewable energy projects or the home shall achieve a score of 100 or less on the HERS Phase II Index.
- **Recommended HERS Rater and Contractor Qualifications** and Quality Assurance.

The Energy Upgrade California (EUC) state program requires that residential and commercial properties demonstrate a 10% gain in energy efficiency prior to obtaining renewable energy generation project financing, if these renewable projects are to be funded by PACE financing that derives from EUC grants. To assist property owners in meeting this requirement, the EUC program provides rebates for energy analyses and associated energy efficiency improvements. Since its inception, SCEIP has strongly encouraged homeowners to obtain an onsite energy survey by a Home Energy Rating System (HERS) rater or equivalent, or to fill out an online energy rating survey provided by Pacific Gas and Electric (PG&E) Company, which supplies power to Sonoma County residents. From July 1, 2011 through March 31, 2012, as a result of receiving a grant, a partnership with Energy Upgrade California and a desire to align more tightly with DOE recommendations, SCEIP began to require residential property owners to demonstrate a 10% gain in energy efficiency prior to receiving PACE funding for a renewable energy generation project.²⁹ This requirement was most often met when the property owner made energy efficiency improvements that were recommended by an energy analysis. In many cases, financing for the energy efficiency improvements was rolled into financing for the renewable energy generation project.

An onsite energy analysis has always been required for commercial property owners applying for SCEIP financing. As part of the documentation supporting a complete application, commercial property owners must submit the results of the ASHRAE Level 1-equivalent analysis that is offered free of charge by PG&E.³⁰ The City and County of San Francisco, Los Angeles County, and Placer County

²⁹ The impacts to SCEIP of this loading order requirement is the subject of [Sonoma County Case Study: Loading Order](#) in Chapter 5.

³⁰ "Procedures for Commercial Building Energy Audits, 2nd Ed.," 2011, [available directly from the American Society of Heating, Refrigerating and Air-Conditioning Engineers, Inc.](#)

Commercial PACE programs all have energy analysis requirements. These are described by their program documents, which may be found in the [“Resources”](#) section of this manual.

CHAPTER FOUR LESSONS LEARNED: THE FIRST SIX MONTHS

This section provides information specific to the Sonoma County program. Lessons learned by other PACE programs are provided in their individual profiles located in Chapter 6.

Challenge	Lessons Learned
<p>Data Management: Eight individual Excel spreadsheets were used by over 30 different staff members throughout the tenure of the program. Missing information, inaccurate information, corrupted data and much time was required to re-populate missing or incorrect information.</p>	<ol style="list-style-type: none"> 1. Assess reporting needs before designing the data collection mechanism. 2. Choose a software solution that provides an automatically populating database for tracking and an electronic conversation log – this saves staff time, creates accountability and minimizes processing delays.
<p>Define Team Roles: There was no clear delineation of responsibilities which led to duplication of effort, errors, and afforded no economies of scale in work process.</p>	<p>This was resolved by assigning staff-specific primary job functions, such as: Receptionist, Application Intake Coordinator, File Managers, Signing Notary and Program Manager</p> <p>A lesser number of staff hours are needed to accomplish the program objectives if each staff member is focused on a specific portion of the overall process. Cross-training is essential – try to avoid any single-point of failure.</p>
<p>Designate Space: The original work space layout encouraged frequent staff interruptions from phone calls and public interactions in the main area of the SCEIP storefront operation. The back office area was improperly configured to accommodate the necessary functions.</p>	<p>This was resolved by reorganizing the workspace into two functionally distinct areas.</p> <p>A lesser number of staff hours are needed to accomplish the program objectives if staff functions are performed in a dedicated space for concentrated accomplishment of work needs.</p>
<p>Have the Right Tools: Staff productivity was impacted by lack of easy access to computer terminals, printer/scanner/copiers, and</p>	<p>This was resolved by adding the technological resources to accomplish program objectives.</p>

<p>appropriate software resources.</p>	<p>Adequate office equipment, technology and training are needed to reduce staff costs and accomplish program objectives.</p>
<p>Participating Contractors: At SCEIP program launch, the sole contractor requirements were a bid for the work for which funding was requested, and documentation of a valid California state business license by the bidding contractor. A few contractors took advantage of the program’s initial success, such as representing themselves as SCEIP staff, using SCEIP marketing materials to promote their businesses, and other disreputable business practices that shed a poor light on the program and other reputable contractors.</p>	<p>SCEIP developed Contractor Standards covering such elements as: compliance with program requirements, liability insurance, worker’s compensation, and licensing and certification. Any contractor working on a SCEIP-funded project is required to sign this document. Those agreeing to abide by the standards are included on a Participating Contractor list. This has the added benefit of providing an increased level of assurance that contractors meet certain minimum requirements to the customer. SCEIP maintains ongoing communications with participating contractors in order to support their business success and provide regional and local resources. This communication channel occurs through meetings, phone calls and emails from the SCEIP staff.</p> <p>In general, contractors in Sonoma County don’t use email as their main source for communication. SCEIP has found that the local contractor community responds much better to face-to-face meetings and telephone conversations vs. receiving information electronically.</p> <p>Note: Participating Contractor information and forms are provided in the Document Library.</p>
<p>Effective Marketing Methods: Initially, due to budget constraints, SCEIP depended heavily on contractors to market the program. This created a two-fold challenge: first, program participation and types of funding requests tended to be limited to their particular line of work (in SCEIP’s case, residential solar</p>	<p>A local government should implement a multi-pronged marketing effort from program launch that follows from a solid marketing plan.</p> <p>In meeting its challenges, SCEIP broadened its marketing strategies significantly from the</p>

<p>electricity generation); and second, this narrow focus compromised the program’s later ability to transform the market to recognize loading order.</p>	<p>“word of mouth” model to the following effective methods:</p> <p><u>Property Owner Stories</u>: Testimonials from participants, particularly other homeowners, created momentum for program uptake. These were used widely in TV, radio and print media ads.</p> <p><u>Energy Champions</u>: Similar to above, these property owners hosted presentations and tours of their properties to highlight the benefits of energy efficiency and PACE financing.</p> <p><u>Trusted Leaders</u>: Enlisting trusted local leaders from government, business and the community as Energy Champions maximized the property owners’ story tool and allowed the program to reach specific constituencies.</p> <p><u>Employee Outreach</u>: Employers invite SCEIP staff to present program benefits to their staff. Employees benefit from their knowledge and employers demonstrate their support for staff and their potential for home retrofit projects.</p>
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CHAPTER FIVE: ONGOING OPERATIONS

As a program matures, feedback from early participants and stakeholder groups, changing revenue sources, process improvements and new opportunities will result in adjustment to many of its operations. This chapter provides emerging programs with an overview of what may be down the road and suggestions that a developing program may want to consider and incorporate before program launch. Many of the sections below discuss the specific experiences and lessons learned of the Sonoma County program.

FUNDING FOR PROGRAM SUSTAINABILITY & EXPANSION

The constraining factor for all PACE programs is revenue with which to operate and fund projects. It is primarily important for a program to have adequate funding to sustain itself in perpetuity; it is secondarily important to have additional revenue to expand services. Both of these topics are discussed below.

OPEN MARKET BONDING

Additional funding for projects may be attained via the open bond market. This model, as used to fund new projects, is discussed in Chapter Three. However, if a program was implemented using a source of in-house funding with a predetermined threshold amount, such as unallocated reserves or, as in Sonoma County's case, a treasury pool, it may be necessary to go to the open market in order to issue refunding bonds to replenish the in-house warehousing funds.

Refunding bonds operate similarly to the bonds that funded the PACE improvements: the sources of repayment for the Refunding Bonds are installments of principal, interest and premium, if any, to be paid on the unpaid Assessments by the owners of real property under applicable Assessment Contracts. Assessments constitute a superior priority lien and charge upon real properties in the county (or city/town, as applicable) under the applicable Assessment Contracts. The Refunding Bonds are not a debt of the general fund of the county or city. The county collects Assessment Revenues in each Fiscal Year through the county's property tax system in the same manner as other real property taxes are collected. Payments to the holders of the Refunding Bonds will be made by the Fiscal Agent.³¹

³¹ A March, 2012 open market bonding [feasibility study](#) prepared for SCEIP is provided in the Document Library.

In Sonoma County, the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), pursuant to Sections 4701 through 4717 of the California Revenue and Taxation Code (the “Code”). The Code allows the County to distribute secured real property and supplemental property taxes on an accrual basis which results in full payment of assessments each year. Any subsequent delinquent payments and related penalties and interest will revert to the County.

REVOLVING LOAN FUND

A line of credit is a lump sum available to draw down as project funding is disbursed. It becomes a *revolving* line of credit (revolving loan fund, or RLF) as these funds are replenished, such as through bonding. The initial source of this lump sum revolving fund may be from a foundation, a grant, an unallocated reserve, or a third-party investor. This form of funding is typically used to finance projects rather than ongoing operations or program start-up costs. Although a revolving fund may be an option for warehouse funding from program launch, it is more likely to be a source of funding after a program has been established and the fund provider (if external to the local government) has some assurance as to the sustainability of the program. In the case where the revolving loan fund is sourced from internally generated funds, the local government may choose to use a RLF from program launch.

In Sonoma County, a revolving loan fund was established through a grant from the California Energy Commission (CEC) that was used to fund residential projects prior to bonding. This allowed contractors to be paid immediately rather than requiring them to wait until the next bonding cycle, which favorably enhanced program participation. The RLF is replenished the first business day of each month during the bonding cycle; instead of disbursing the bonded amounts to the property owner, the disbursement is paid to the RLF to make it whole for the amount disbursed to property owners mid-month.

GRANT FUNDING

As discussed in Chapter Three, grant funding is a potential source of start-up or program development capital for a program. However, grants are rarely a source of funding for ongoing (administrative) operations or project warehouse funding until a program has been established and the granting agency has assurance of program sustainability supported by reporting metrics and indicators. Grants are an excellent source of funding for a mature program to enhance its services or,

as discussed above, to establish a revolving line of credit, particularly if the line of credit funds a specific type of project, sector or need (i.e., energy efficiency improvements to low income multi-family properties or underserved communities). As discussed in detail below, SCEIP received a generous grant from the CEC to both establish a revolving line of credit for residential properties and expand many of its program services.

FUNDING FOR PROGRAM EXPANSION

As a program matures, feedback from contractors and early participants will necessitate program changes. This feedback may also define opportunities for enhancing and improving services. Like any successful municipal program, expanding scope requires additional capital. Sources of funding for program expansion are:

- **Reallocation of funds within the government organization:** Elected officials control the budget, and they may decide on the basis of a program’s success that it is in the highest interest of their constituency to increase funding to this area of the government’s operations.
- **Grant funding:** If money cannot be reallocated from other sources within the organization, grant funds are an excellent option. The drawback to this is that the expanded services may end when the grant funding ends. However, this may also be a fortunate consequence if a municipality is only interested in piloting an expanded service or if the grant-funded service becomes more labor-intensive than foreseen. This source of funding using Sonoma County’s experiences is discussed in detail below. If grant funding is used, staff must be sure they understand all of the grant requirements so that appropriate steps can be taken to meet all grant requirements.
- **Collaboration with partners:** Working with other agencies having mutual goals is an excellent way to pool limited resources and offer “more for less.” Partners may emerge after a program reaches a certain maturity and participation level, that were earlier identified but reluctant to commit resources. In addition, collaboration may also increase the chances of receiving grant funding. SCEIP’s experience with collaboration to enable service expansion is discussed in detail below.

RESTRICTIONS ON CERTAIN FUNDING SOURCES

The type and nature of activities for which certain sources of funding may be used may be dictated by law or by funding agencies and partners. We strongly advise that a local government engage counsel prior to accepting an outside source of funding in order to determine any such restrictions and their potential impact to the PACE program. For example, federal grant money received to provide commercial project funding may require that all contractors involved in the project are paid using the Davis-Bacon wage scale with the related record-keeping provisions.

A recent experience that SCEIP had involving restrictions on federal grant funds it accepted is documented below in the “Making Policy Changes” case study. In summary, due diligence and a thorough understanding of any “strings attached” will ensure a minimum of stress to program staff.

SERVICE EXPANSION

As a program matures, not only will it evolve many of its operating processes, it will also expand its reach and role. In addition to the areas discussed above, the following are some of the specific changes a program may experience or opportunities it may pursue and how these may be funded, based on the experience of SCEIP.

STRATEGIC PLANNING

A Chapter Two Best Practice recommended that a Strategic Plan be created prior to program design and development. That said, as a program experiences several months of operations, it may realize early success underestimated by the original Strategic Plan or conversely, the Plan objectives may have overestimated the capacity of the program. Although a Strategic Plan is typically written to endure over a long period of time, it should be revisited and readjusted as appropriate several months after program launch.

WORKFORCE TRAINING

Building workforce capacity is imperative to the sustainability of a PACE program. While workforce development was a peripheral component of the original SCEIP, the County early on realized the importance of a trained workforce to successfully delivery of the program. It has partnered with local training programs and the Workforce Investment Board to increase the number of trained residential energy efficiency and clean energy workers. Workforce

development is now an integral part of SCEIP's mission and operations, and since program launch, it has expanded substantially its role in this important activity. SCEIP continually reaches out to contractors and raters in the community through newsletter, email blasts, social media, partnering agencies and groups, forums, conferences and trainings.

In late 2009, SCEIP received \$77,402 in grant funding through the Workforce Investment Board to develop services to identify and train workers for employment opportunities in green energy occupations, develop an online database to project green workforce needs, and to create a tool lending library of Home Energy Rating System (HERS) certified equipment. This grant also provided the funds to hire a part-time staff person to coordinate these activities.

The Tool Lending Library (TLL) launched in September 2010. The TLL has been an invaluable resource for Sonoma County energy professionals. The library has over 100 tools available, including three complete sets of residential envelope testing tools along with additional specialty tools and commercial toolkits. As of March 2012, there are 36 tool borrowers actively using the library. It has allowed building performance contractors and HERS Raters to borrow, free of charge, the necessary tools to perform the testing and verification of the work performed during the energy upgrades. The tool lending library has become a resource for those individuals entering the energy sector. Several of these individuals have gone through the Workforce Investment Board "Green Grant" training or the subsidized BPI or HERS training that was offered through Ecology Action and other agencies. They have borrowed the tools for practice, to use during their field testing, and as a resource for their business start-up. The [TLL policy and procedures](#), including what constitutes an authorized borrower, may be found in the Document Library.

More recently, in March 2011 SCEIP received a grant from the California Energy Commission to subsidize HERSII residential energy analyses and to fund education, re-education, outreach and marketing activities to inform and train contractor participants on program changes and new opportunities that would occur as SCEIP moved to align with federal/state guidelines. This included funding to train building performance contractors on the energy analysis rebate program and energy audit software. As a result, SCEIP conducted several multi-day trainings free of charge to contractors. At the same time, SCEIP partnered with the Sonoma County Regional Climate Protection Authority (RCPA) to deliver Energy Upgrade California rebates and incentives, which also involved training contractors on new associated business opportunities.

In summary, as a result of several grants and partnerships, SCEIP has created a vehicle for workforce training. Approximately 160 individuals have participated in SCEIP-provided contractor classes, with approximately 25% of them taking more than one class. Concurrently, other regional agencies such as PG&E have offered additional contractor trainings associated with the SCEIP classes. In addition, 36 contractors are registered to use SCEIP's Tool Lending Library. Thus, conventional building contractors have entered the green building market, and many have changed their business models to include energy efficiency analysis and retrofit expertise, providing workforce capacity to meet PACE program demand.

RESOURCE CONSOLIDATION (BECOMING A ONE-STOP-SHOP)

A local government may find that as a positive consequence of a well-received PACE program (or concurrently with the implementation of a PACE program), there emerge over time many widespread efforts by other organizations throughout the region to promote different aspects of energy efficiency: other financing options, rebate and incentive programs, contractor services, educational efforts such as home tours and presentations, and general information. While all such efforts are beneficial to the consumer, multiple sources of sometimes multiple messages are also confounding to the consumer who may become too overwhelmed to take action. As its PACE program becomes established, the local government may become the logical lead in consolidating all of these resources.

Such was the case in Sonoma County. SCEIP obtained a grant from the CEC to prove the concept of the one-stop-shop by developing a local portal for multiple climate and energy efficiency programs and efforts in the region. This portal (the Hub Tool) integrates all efforts to present one face, or point of entry, to the consumer to minimize confusion. The Hub Tool features consist of consumer, contractor, and administration web portals that access an underlying central database structure which includes property, applications, contractors, and rebates. The website also supports the goals of lower maintenance costs, optimized content for search, and replication for other municipal governments. Some of the customer tools that work together to streamline and increase project activity are discussed in detail in Chapter Four and also include:

Consumer/Property Owner Web Portal

- **Web Presence:** Intuitive design for seamless access to program information, and other one-stop-shop web services including action planning, contractor/rebate search, and online application tools. Supports Energy Upgrade California content, SCEIP content, and associated branding
- **Community Map:** To illustrate the site of installed projects, identify sites offering the best opportunities for energy savings and solar generation, and provide other information deemed valuable by market research
- **Account Creation:** Enables single sign-on user for all web tools with ability to save data through the process
- **Action Planning Tools:** Energy & Water Efficiency Analysis Tools for property owners and contractors to easily assess energy use, see priorities, and then take action
- **Eligible Projects/Packages:** Accessible when using action planning tools or when applying on line
- **Access to Rebate and Incentive Information**
- **Directory of Professionals:** Search for qualified professionals filtered by project type
- **Online Application Tools:** Intelligent step by step process for determining eligibility, selecting measures, selecting finance amounts, uploading required documents, paying fees, and signing disclosures
- **Sonoma County Programs Information:** Information about local programs and events

Program Administration Portal

- **Content Management System – CMS:** Enables staff update of content throughout the website including pages, videos, images, web services (contractor/rebate listings, action planning tools, application tools) and these utilities:
- **Dashboard:** Configured through the content management system (CMS) so SCEIP and other Sonoma program administrators can automatically update the performance management metrics for public viewing
- **Reporting:** Automation of all required program reporting, updated through the CMS
- **Eligible Contractor Management:** Management of eligible contractors through the CMS
- **SCEIP (PACE) Administration:** Administration of the application and underwriting process

Contractor Portal: Separated secured site for contractor community

- **Account Creation:** Enables single sign-on user for all eligible web tools with ability to save data through the process. Contractor signs on to site to access their customers, projects, and contractor-only resources
- **Contractor Participant Information:** Update of company information
- **Contractor Workflow Process Management:** Ability to plan (via action planning tools) and apply on behalf of the customer
- **Contractor Resources:** Training, information and tools for contractors only

Centralized Data Repository: Database infrastructure for above portals

- **Property Database:** Property specific information to assist customers and contractors in estimating project's impacts on a property's footprint
- **Application (Project) Database:** repository for consumer and/or contractor application data related to improvements on a property with specific project information
- **Contractor Database:** Database of qualified contractors including licensing, certifications, company information, and products they deliver
- **Rebate Database:** Database of local, state, and national rebates and tax relief with filters for specific measures

In addition to the grant funding, the successful implementation of the one-stop-shop portal was made possible by close collaboration with program partners such as Energy Upgrade California, the contractor community, various non-profit organizations and the local utility PG&E.

The [RFPs and Service Agreements](#) for the development and implementation of the Hub Tool are provided in the Document Library.

SHARED SERVICES

As PACE program staff develop skills processing, tracking and reporting on applications and projects, they may become a desired resource for other agencies that lack the budget and/or time to hire and train staff to administer similar programs, particularly if those programs are limited in duration. The PACE program staff may have the opportunity to expand their role to become part-time consultants or administrators for other similar programs.

As an example of the potential for shared service opportunities, SCEIP will soon become the administrator for an on-water bill financing program piloted by an incorporated city within Sonoma County. In this capacity, SCEIP staff will oversee program planning and implementation as well as track program participation and results.

Although most shared services will not be for PACE programs, they are opportunities to leverage PACE program staff to gain additional program exposure and revenue for staff salaries.

EVOLVING STAFFING AND SPACE NEEDS

As a program becomes established with more participants and potentially expanded services, the local government will require more staff, space and office equipment. By the end of the second calendar year, the SCEIP staffing consisted of 1 full time manager, 2 full time assistant managers, a receptionist, a technical analyst (funded through a grant) and 4 program representatives. This was a nearly three-fold increase in on-site personnel from 3.5 FTE to 9 FTE. As a result, there was a need for expanded space particularly in the areas with customer access. The lobby was the center of program activity and was expected to see an increase in traffic with the anticipated addition of the online web portal, the acquisition and development of education and outreach tools, and the market transformation of the building performance industry. In addition, the CEC grant made necessary the addition of several more term-limited positions, so the program had to develop a mechanism for expanding and contracting its space and equipment needs as funding was or was not available.

In similar situations to SCEIP, a local government might consider some of the following space accommodations:

- Additional public work stations for completing online action planning or program application
- Addition of resource books and materials on water conservation, energy efficiency and renewable energy generation
- Addition of public comfort services such as coffee, water, vending, to support their length of stay
- Addition of services desk to guide visitors through the process and answer questions
- Dedicated presentation and training room
- Building performance testing equipment demonstration space

-
- Increase of existing functional areas needed to accommodate program growth
 - The ability to consolidate and expand office/cubicle space to accommodate the fluctuating space needs of term-limited, temporary positions

To accommodate changing personnel needs, SCEIP made use of temporary employment agencies, contracted service providers, and temporary staff “on loan” from other departments until its expanded program services and increased consistent need for a certain level of professional skills justified hiring permanent employees.

REGIONAL PROGRAM PARTNERSHIPS

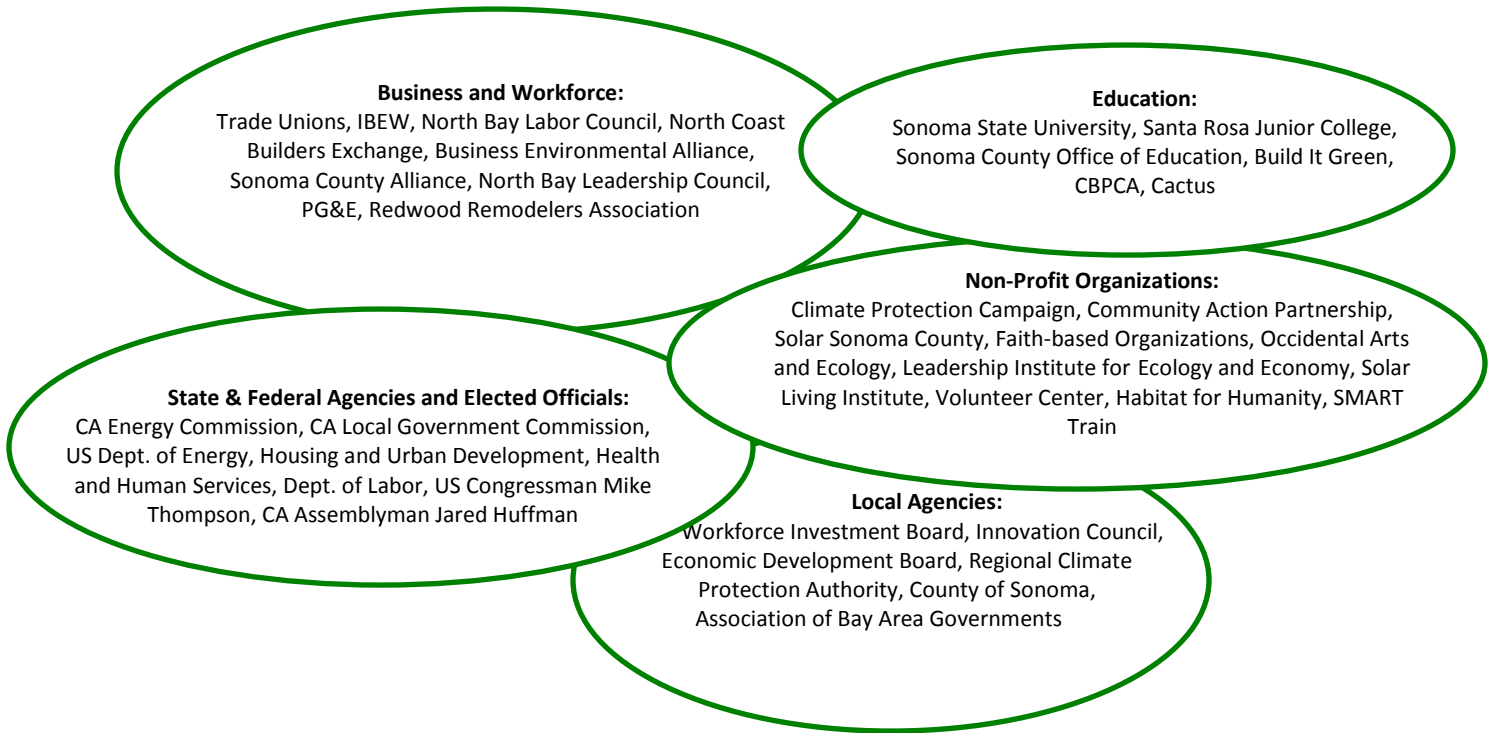
Program partnerships will evolve as a PACE program matures. This will provide opportunities for expanded services and marketing efforts through pooling of monetary and in-kind resources, ideas and staff capacity. Although many of its current partners conceptually supported the development of a PACE program, it wasn’t until the program was launched and established that the partnerships fully became defined.

In Sonoma County, many partners play many different roles, all of which support some or most aspects of SCEIP. Although too many to name here, some of these partnerships currently provide for:

- Promoting education for efficiency and influence projects toward a “reduce then produce” concept
- Improving collection of customer data in order to develop education and outreach (utility partnership)
- Linking with green jobs training
- Offering additional rebates and incentives for energy efficiency, water conservation and renewable energy generation improvements
- Alignment with other County-wide projects including without limitation Energy Upgrade California, the Home Energy Assistance Program (HEAP), Sonoma County Water Agency conservation projects, and Green Jobs programs
- Engaging with other municipalities as a resource to leverage resources and workload (shared services)
- Working through the challenges created by the need to adapt to emerging state and federal program parameters
- Providing feedback and data collection on program initiatives

- Collaborating on grant proposals

Some of the SCEIP partners are:³²



SCEIP attributes its success and continued support by the elected officials, business community and general public to these strong partnerships.

³² This illustration is provided as an example of the different areas of SCEIP partnerships and is not intended to be all-inclusive of all organizations and agencies. For more information on any of the partners shown, please visit their websites which may be found via an Internet search engine.

MARKETING, EDUCATION AND OUTREACH

INCREASED STAFF TIME

As a direct result of service expansion, marketing and education methods are certain to expand as well. Initially, SCEIP had a relatively small budget for these efforts. With increased financing to expand its services, a portion of this financing was allocated to promoting of these services as well as enhanced promotion of the core PACE program. A full-time staff person was hired to coordinate marketing, education and outreach efforts and significantly more activities have been performed in the areas of media coverage, presentations and event tabling, targeted brochures and mailers, and website development.

PARTNERSHIPS AND FEEDBACK

Leveraging partnerships to “get the word out” becomes increasingly important as a program evolves and services expand. However, as discussed in the policy change case study below, it is important that the message to consumers is simple and consistent or the consumer will become confused to the point of inaction. SCEIP’s one-stop-shop model facilitates streamlined marketing and education, as well as the recently created Marketing Team advisory board that is comprised of representatives of major collaborating partners and subcontractors.

A program that has been operating for over a year may want to consider a participant and contractor survey. This can provide valuable feedback that can dictate needed adjustments to the program, changes to policies and ideas for tailoring outreach efforts.

BRANDING

A consistent program brand is as important as a consistent, simple message. Like any branding, the association between the program and its services will become more widespread and ingrained over time. Most recently, SCEIP entered into a partnership with Energy Upgrade California but, in order to avoid confusing consumers by changing how the program is identified, SCEIP managers made the decision to retain the original SCEIP brand. Although consumers have confused EUC with the regional utility at tabling events, SCEIP has remained distinct.

MARKETING PLAN

As a program matures, we advise that the marketing plan be revisited. The [revised marketing plans](#) for SCEIP are provided in the “Resources” section of this manual. SCEIP marketing materials, including participant and contractor surveys, are provided in the Document Library.

DATA MANAGEMENT AND REPORTING

Many of the reporting needs a program will have are discussed in Chapter 4. With program maturity, staff should expect that many types of program data will accumulate and it is the management of this data that becomes important to consider. Ideally, the program will have been launched on a database platform, which has the versatility to easily accommodate changing reporting needs and can ensure consistency of data collection over time.

SCEIP’s data is presently managed through the use of Excel spreadsheets. As the volume of data has grown, these spreadsheets have become more unstable, thereby eliminating many of their automated functions. Additionally, the spreadsheets can only be accessed by one staff member at a time which has created an inefficient process. The program is moving to a database tool with robust reporting capabilities that can be utilized by multiple agencies. The [service agreement](#) with scope of work for this initiative is provided in the Document Library.

ANNUAL REPORT

After a year of operation, it might be in the best interest of the program to produce an annual report. This allows a program to highlight its achievements and justify its budgetary requests to local government management and elected officials. It also provides a vehicle for transparency to the public, information to collaborating partners and potential partners, and an excellent resource for grant proposals and marketing materials. A copy of the [SCEIP 2011 Annual Report](#) may be found in the Document Library.

MAKING POLICY CHANGES

From time to time, it may be necessary for a program to make changes to its policy as a result of conditions of funding (particularly grant funding), changing federal guidelines and accepted best practices, and feedback from the

community. In order to prepare for the consequences of a policy change, program managers and advisory boards should consider the following:

- **Legal:** Is this change the result of unavoidable legal requirements or is it a process improvement? In the former case, are these requirements in perpetuity? What legal counsel is needed, and how much will this cost to the program?
- **Operational:** How will the change affect program operations? Will it result in more or less workload for staff? Does program have capacity to meet increased work load? Is policy change time-limited or will extra resources be needed in perpetuity? What are all foreseeable operational consequences of policy change, and are the program and staff equipped to address them?
- **Elected Official Notification:** Is the policy change minor or something that requires advance approval from an elected board? How are participating local governments affected? Is notification of/approval for change required by participating local governments?
- **Contractors:** How will the policy change affect the contractor community, their workload and skill set to deliver on new program requirements? If affected, how will they be educated on the new requirements and/or trained for new skills?
- **Marketing, Education and Outreach:** How will the general public be affected by program changes? What and how much outreach will be conducted to ensure an educated market?

The following case study is an example of the potential ramifications to all of the above of making a significant policy change.

SONOMA COUNTY CASE STUDY: LOADING ORDER

On July 1, 2011, SCEIP modified the program requirements for PACE financing to align with the conditions of the American Recovery and Reinvestment Act (ARRA)-funded California Energy Commission (CEC) grant. Under these conditions, all renewable energy generation projects including solar photovoltaic (PV) required a 10 percent energy efficiency improvement as part of the project for homes with a Home Energy Rating System (HERS) score above 85. This requirement was designed to meet the mandate of California Assembly Bill 578,³³ and to achieve the goals established in the California Energy Action Plan, Integrated Energy Policy Report, and Long Term Energy Efficiency Strategic Plan.

³³ [The full text of AB 578 may be viewed by clicking here.](#)

These plans place high priority on achieving dramatically greater energy efficiency in existing buildings including achieving an average energy savings of 40 percent in all California residential buildings by 2020. The CEC, in conjunction with the California Public Utilities Commission, implemented the Energy Upgrade California (EUC) Program, providing the framework and infrastructure for a comprehensive residential and commercial retrofit program through the grant funding. Under the CEC grant, SCEIP has partnered with Energy Upgrade to deliver this framework and the one-stop-shop model.

This policy change involved two state agencies, residential participants, the contractor community, grant reporting requirements, program revenue stream, changes to several operational procedures and most program documents, new regional partnerships and associated role definition and new education and outreach requirements.

The immediate effect to SCEIP was a significant drop in overall program participation.³⁴ The reduction in solar PV applications was expected as a direct consequence of the increased requirements. The week prior to July 1, 2011, SCEIP received over 40 residential solar PV project applications. In the 7 months since July 1 (through January 31, 2012), SCEIP has received just 20 of these applications.

However, SCEIP allows over 90 other eligible improvements and, after July 1, 2011, requests for financing of these projects declined as well. In response, program staff and collaborating partners conducted several focus group activities and contractor meetings to determine the nature of the issues with the new program requirement and simultaneous expansion with EUC partnership. The leading barriers to program participation and effectiveness overall include:

1. The Federal Housing and Finance Agency determination about PACE
2. The continued slow recovery of the U.S. economy
3. The 10 percent energy efficiency requirement for renewable energy generation financing
4. Property owner pre-existing awareness of the SCEIP and confusion by the introduction of the EUC statewide model

³⁴ This is documented in the sample [February 2012 monthly report](#) located in the Document Library. This report illustrates the changes in program participation from launch through February 29, 2012, including the impact of the FHFA instructions on July 6, 2010 and the implementation of the July 1, 2011 loading order requirement.

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5. Limited understanding of the benefits of energy efficiency, water conservation, renewable energy generation and the science of the whole building approach to retrofits
 6. The 7 percent interest rate for PACE financing

With focus on the elements the program can affect, the conclusions specific to this policy change and general to implementing a major policy change are the following:³⁵

1. Keep it Simple

Interactions with Sonoma County consumers have shown a simple message focused on the consumer point of view produces better leads and more consumer confidence. Consumers can and do get overwhelmed by the complexity of multiple and overlapping rebates, the decision about who to hire (i.e. a whole-house BPI contractor or a HERS II rater), the question of whether they can afford an upgrade, how much they will save (return on investment) and how to pay for it. The Sonoma County marketing team found that it was helpful to guide individual consumers to a qualified home building performance contractor who could help the homeowner determine what rebates applied to their needs and goals. This guidance was accomplished primarily through SCEIP's one-stop-shop model as described above.

2. Educate, Educate, Educate

Education is imperative! For most property owners, the concept of loading order is new; they need to understand the whole-building concept and what it can do for them in terms of lower energy bills and a healthier and more comfortable indoor environment. Consumers need to understand fully the cost, benefits and project process of an energy analysis and how recommended improvements are determined before they will understand the “reduce before you produce” mantra. Clarifying the effects of electrical efficiency and gas load reduction improvements and how they correlate with solar PV for generation is important.

3. Train the Contractor Workforce

Equally important is workforce training, so that the professionals working with the property owners can fully assess the owners' needs and assist them to take advantage of all applicable rebate and financing options. In Sonoma County, the EUC and SCEIP programs developed a Participating Contractor list that involved certain requirements for contractors wishing to work in these programs. The

³⁵ These lessons learned are also captured in summarized form at the end of this chapter.

requirements included a level of training and certification that is expected by EUC/SCEIP, which recognizes a contractor must be a salesperson, a building scientist, a rebate and financing guide and homeowner advocate all rolled into one. This business model is relatively new and many Participating Contractors, especially the small- to medium-size companies, are still struggling to fulfill this expanded role while maintaining a viable profit. Locally EUC/SCEIP continues to work with local agencies and resources to support workforce and business development.

4. Use Proven Marketing Strategies

SCEIP has expanded its marketing channels beyond the traditional tools of TV, radio, billboards and news print. Although some of these mechanisms have their value, the most effective means of educating property owners was found to be a) testimonials from homeowners who had gone through an energy analysis and loading order project, particularly when those homeowners were neighbors, and b) Sonoma County Participating Contractors expressing an interest in “promoting the program” from the very beginning, volunteering to staff tables and make presentations. SCEIP contractors do participate in outreach events to promote the program as a whole, versus their individual companies, in order to foster consumer confidence in the EUC and SCEIP programs. Worth mentioning are also use of our trusted messenger channels. Outreach events specifically targeted through employer invitation, school visit presentations and community group invitations have resulted in program interest and education of the public.

5. Constant Communication

Communication with the state agencies, elected officials, partnering agencies and advisory boards was essential for SCEIP to adjust its operations and marketing strategies quickly to accommodate the unforeseen consequences of the loading order policy change. Open dialogue and strong partnerships were the foundation that provided for the eventual success of the whole house / loading order concept and market transformation.

POLICY AND PROCEDURE REVIEW AND DOCUMENTATION

As has been discussed in this chapter, ongoing operations will necessitate changes to the operational processes and policies of an evolving PACE program. A periodic review of guiding documents to ensure consistency with new program policies and procedures is advised.

Documents that will require review and potential adjustment include without

limitation: Program Report and Administrative Guidelines (or other document required by law for the program), program policies, program operating procedures, and all forms and templates that may have changed with changing policies and procedures, such as the disbursement request form or notice to proceed letter. The strategic plan should also be adjusted as program services are expanded.

As documents are altered, protocol should be established for tracking versioning and to ensure that the most up-to-date documents are available on the website, as applicable, and in use by all staff.

CHAPTER FIVE LESSONS LEARNED: ONGOING OPERATIONS

This section provides information specific to the Sonoma County program. Lessons learned by other PACE programs are provided in their individual profiles located in Chapter 6.

Challenge	Lessons Learned
<p>Policy change: Due to alignment with DOE guidelines and requirements attached to accepting federally-sourced grant funds, SCEIP implemented a new policy requiring applicants to demonstrate 10% efficiency improvement before solar or other renewable energy generation projects were financed. As a result, program volume declined substantially.</p>	<p>A local government must consider and prepare for all potential consequences of significant policy changes, and use this thoughtful deliberation to ascertain if a program change is in the public best interest regardless of its potential affect on program participation. Consideration must be given to all potentially affected stakeholders, particularly the contractor community, and education of all stakeholders prior to program changes is imperative.</p>
<p>Energy Analysis: With grant funds from the state, SCEIP was able to offer free or nearly free Home Energy Rating System (HERS) energy analyses to residential customers for a limited time. The purpose of the energy analysis data was to allow potential applicants to evaluate their options from a scientific perspective and gain the greatest savings available, for the lowest possible cost, and to provide for the new SCEIP policy of demonstrated 10% efficiency improvement before solar or other clean generation projects were financed.</p>	<p>Sonoma County homeowners have benefited immensely by taking advantage of the energy analysis rebate program provided by SCEIP. Learning how their home consumes energy, some of their own behavioral patterns and about the availability of rebates for upgrades is a crucial part in creating the market transformation necessary to reach the aggressive GHG reduction goals.</p> <p>However, beware the unintended consequences of a successful program expansion! SCEIP learned that it needed to consider the effect of a new program on the capacity of the labor force (contractors) to provide the services. Contractors were overwhelmed with the associated paperwork requirement and many lacked the capital to expand their labor force and training to meet increased demand for services created by</p>

	SCEIP (see next lesson learned).
<p>Expanding Services and Participating Contractors: SCEIP contractors expressed an interest in promoting the program’s service expansion (subsidized energy analysis and EUC whole house upgrade partnership) from the very beginning, volunteering to staff tables and make presentations. They offered to participate in outreach events to promote the program as a whole, versus their individual companies, in order to foster consumer confidence.</p> <p>However, increasing complexity of the rebate and financing processes offset expectations that associated increased business volume would cover the costs of participating in the expanded programs. These unplanned costs became a significant barrier for small contractors who have limited capacity to absorb the administrative overhead to offering the EUC incentives.</p>	<p>The majority of customers still enter the program through contractor outreach and “word of mouth.” Having well trained and competent contractors involved in the outreach and education of the consumers is a plus.</p> <p>Working closely with participating contractors and bringing them into marketing partnerships benefits both parties (contractor and program). Educating the participating contractors and facilitating open communication between contractor sectors (i.e., between HERS raters and building performance contractors) is essential in program success. Educating contractors on the administrative requirements of a program change is equally essential to ensure they set realistic expectations and avoid program burn out.</p>
<p>Workforce Development: SCEIP contractors have identified the following as areas where they need support: (1) accurate use of EnergyPro software, (2) rebate programs and how they work together, (3) administration of rebate and financing application paperwork, (4) professional training and scholarships, (5) integrations of HERS II raters into their home performance contractor business model, (6) sales and marketing training, (7) business model options for small/medium sized companies, (8) growth capital to expand as demand rises, and (9) integration of efficiency and solar services.</p>	<p>SCEIP, partnering with EUC program administrator RCPA, has used local and regional resources to respond to the specific needs identified by local Participating Contractors. SCEIP has hosted several EnergyPro software trainings; circulated information about regional trainings and scholarship programs; and held a series of contractor marketing meetings to offer support for company marketing campaigns, collateral, and co-op marketing tools, as well as providing individual marketing coaching. In addition, the SCEIP website will host a contractor portal to support continuing education and provide resources for business development.</p>
<p>Contractor Tools: Contractors and raters needed access to the tools necessary to</p>	<p>Building workforce capacity is imperative to the sustainability of a PACE program. This is</p>

<p>deliver SCEIP program services.</p>	<p>assisted by providing the workforce with the tools they need to deliver program services. SCEIP created a Tool Lending Library (TLL) to fulfill this need. A sufficiently-equipped library will cost approximately \$15,000-\$20,000. SCEIP's TLL was made possible by a partnership with the Sonoma County Human Services Department, which obtained a grant from the California Clean Energy Workforce Training Program.</p>
<p>Open Market Bonding: SCEIP conducted a feasibility study to research and implement a refunding bond strategy for pooled PACE assessment bonds. This strategy would allow jurisdictions to bring their assessments to market to obtain financing more quickly when program need requires, by pooling contracts rather than trying to drive a program to a marketable scale before bonding. This study was funded by a grant from the California Energy Commission.</p> <p>Note: This Bonding Feasibility study is provided in the Document Library.</p>	<p>Based on the structures presented as part of the RFP submissions, discussion with the selected RFP bond underwriter, and knowledge gained during the draft feasibility study of financing options, it appears that there may be multiple financing structures available for a successful bond transaction. However, due to the legal structural considerations, the imposed grant deadlines to consummate a bond transaction, the market's inexperience with an asset class such as this and the SEC rules making process, an open market bond transaction is not feasible in March of 2012 (for Sonoma County) due to timing and financial considerations.</p>
<p>Restrictions on Funding Sources: Requirements by the federal government attached to the use of ARRA stimulus grant money for program service expansion created a significant reporting burden for staff and caused a decline in program participation.</p>	<p>A local government must consider and prepare for all potential consequences of accepting outside sources of funding, particularly if additional requirements will impact the flexibility of a program, create additional work load, negatively affect program participation, or confuse the consumer by causing the program to deviate from its core services. Using the Strategic Plan as litmus test for accepting or refusing funding is recommended.</p>
<p>Streamlining the message: Having multiple programs, incentives (PG&E Whole House Upgrade, SCEIP and Regional Energy Analysis rebates, regional incentives) and participating</p>	<p>Having the One-Stop-Shop is essential in streamlining information for participants and contractors. Without a central location for participants to go to access information on</p>

<p>contractor types (HERS II, BPI, single-measure) and multiple application forms and requirements becomes cumbersome to manage and articulate to consumers.</p>	<p>rebates and incentives, find contractors, fill out forms, connect with workshops and events, potential customers get overwhelmed, confused and frustrated.</p> <p>In Sonoma County, a one-stop-shop web-based portal (the Hub Tool) integrates all efforts to present one face, or point of entry, to the consumer to minimize confusion. The Hub Tool features consist of consumer, contractor, and administration web portals that access an underlying central database structure which includes property, applications, contractors, and rebates.</p>
<p>Partnerships for Program Success: A local government may find that as a positive consequence of a well-received PACE program, there emerge over time many widespread efforts by other organizations throughout the region to promote different aspects of energy efficiency: other financing options, rebate and incentive programs, contractor services, educational efforts such as home tours and presentations, and general information.</p>	<p>Having existing partnerships and building new to leverage core competencies minimizes the duplication of effort and decreases consumer confusion. It is easier to leverage the work of others than to create a service or a marketing effort from scratch; building the cart while you push it is VERY challenging. These partnerships include, without limitation, utility companies, non-profits, local business, educational institutions, and contractors. It is essential to communicate through as many channels as possible, and to not assume everyone uses technology!</p> <p>As one example of a successful partnership, SCEIP has used a collaborative approach for marketing, education and outreach. SCEIP partnered with the Regional Climate Protection Authority (RCPA), a local Sonoma County SEP grant (Energy Upgrade California) participant. By using this approach, SCEIP was able to leverage the marketing funds from both organizations to create a comprehensive, streamlined marketing campaign and to also leverage staff availability for events and presentations.</p>

<p>Leave No One Behind: In Sonoma County, underserved communities continue to demonstrate low participation rates in retrofit programs. The observed demographic of SCEIP participants is dominantly Caucasian, middle to upper class, and college-educated.</p>	<p>To reach other demographic groups, SCEIP has expanded its outreach and education efforts such as creating more bilingual (Spanish) collateral, targeting underserved communities for presentations in neighborhoods and local libraries, and making connections with various service organizations. SCEIP has also partnered with several agencies serving lower income customers such as Community Action Partnership to educate potential participants of the benefits of energy efficiency. We continue to reach out to the multi-family commercial real estate sector as well. Additionally, because PACE provides funding to property owners rather than tenants, SCEIP has expanded its services beyond being a strictly PACE program to administering other programs in which tenants may participate such as on-bill financing for water and energy efficiency improvements.</p>
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CHAPTER SIX: PACE MODEL PROGRAMS

This chapter provides a summary overview for four PACE programs in California: those of Sonoma County (residential and commercial), Placer County (commercial), the City and County of San Francisco (commercial), and Los Angeles County (commercial). Contact information for individual programs is located in the “Program Snapshot” sidebar.



PACE MODEL PROGRAMS

COUNTY OF SONOMA: ENERGY INDEPENDENCE PROGRAM

SUMMARY

The County of Sonoma adopted a Resolution of Intention to establish an AB 811 program on March 3, 2009. Following a public hearing, on March 25, 2009, Sonoma County's Board of Supervisors approved the program report, established the AB 811 assessment program and launched the Sonoma County Energy Independence Program (SCEIP). SCEIP was the first countywide municipal program of its kind in the State of California to provide PACE financing, and continues to provide both residential and non-residential PACE financing.

Joined by every incorporated city and town, SCEIP covers all areas in the geographic County of Sonoma. Since program launch, SCEIP has financed over \$55 million in projects, representing over 1600 residential properties, 50 non-residential properties and 2600 individual improvements. Because a majority of the improvements have been performed by local contractors, most of the \$55 million in funding provided by the County has remained within the local community generating over 70 job-years of local labor.

SCEIP allows more than 90 eligible measures for energy efficiency, water conservation and renewable energy generation. Since program launch, SCEIP has financed over 7.7 MW of photovoltaic solar generation, equating to a GHG reduction of 4,700 tons annually. An effort to quantify the energy savings and GHG reduction for financed energy efficiency and water conservation projects is currently underway. In March, 2011, this program became a partner of Energy Upgrade California, a state-wide initiative to reduce energy consumption in existing buildings.

PROGRAM SNAPSHOT

Launch Date:

March 2009

State/Geographic Area:

CA / Sonoma County
(unincorporated and 9
incorporated cities)

Applicable Sectors:

Residential, Commercial,
Industrial, Agricultural,
Multifamily (≥5 units)

Legal Authority:

CA Assembly Bill 811

Project Funding Source:

County Treasury Pool, Open
Market bonds

Initial Investment:

\$45 million

Eligible Improvements:

Energy efficiency, water
conservation, renewables, custom

Energy Audit Requirements:

ASHRAE L1 for non-residential

Mortgage Lender Requirements:

For commercial properties, must
provide lender acknowledgement
of PACE assessment

**Program Property Underwriting
Criteria:**

Located in Sonoma County
On secured tax roll
Current on mortgage debt and
property taxes
No recent defaults, bankruptcies
or late property taxes
Property debt cannot exceed
property value, excluding PACE
assessment
Amount funded cannot exceed
10% property value
Title search to confirm ownership

Web Site:

www.sonomacountyenergy.org

FINANCE MODEL

SCEIP has adopted the self-financing model. The “warehouse” of funds for the program includes \$45 million from the Sonoma County Treasury and \$15 million from the Sonoma County Water Agency reserve fund. The Sonoma County Joint Powers Financing Authority (“Authority”) manages this warehouse. The Treasury Pool purchases bonds issued by the Authority, which acts as a pass-through to provide these funds to SCEIP for project financing. The County repays the Treasury Pool at a 3% interest rate from the assessments received by the County pursuant to the assessment contracts with the property owners (excluding the annual administrative assessments to be paid by the property owners).

SCEIP also allows private investors to purchase bonds directly from the Authority to fund specific projects.

OPERATIONS

SCEIP operates from a central business office, or “storefront.” A spacious lobby accommodates a receptionist, walk-in visits, and application processing with the public and contractors. Secured office space houses meeting and contract signing rooms, cubicle and office work areas, a building performance tool lending library, and an office supply and equipment room.

Staffing fluctuates with program activity and services. Currently, due to grant funding and internships, SCEIP employs 10 full-time employees for its day-to-day operations. Financial expertise is provided by the county Treasurer/Tax Collector office personnel, program oversight is managed by the General Services Department, and guidance is provided by a steering committee comprised of 10 County staff with legal, financial, managerial, and energy and sustainability expertise. A website provides a “one-stop-shop” clearinghouse for online applications, energy efficiency education, contractor listings, partnering agency programs and resources, rebate and incentive information, resources specifically for contractors and municipalities, and general inquiries.

Applications are accepted online or by fax, email, postal mail or walk-in. Applications are reviewed for eligibility and completeness prior to a request for a title search and, given a clean

PROGRAM METRICS

as of March 1, 2012

Number of applications received:
2365

Number of Approved Projects:
1813

Range of Approved Amount:
\$2,540 - \$2.3 million

Improvements Funded:
1551 Energy Efficiency
58 Water Conservation
1029 Generation

Partnering Open Market PACE Lenders
1

Projects Funded by Open Market Lenders
1 (Commercial Generation)

title report, typically approved within three to four weeks of application receipt. Notice to proceed follows the contract signing and legal rescission period, and disbursement of project funding occurs with documentation of project completion. Bonding of project funds occurs the first business day of each month following the disbursement, and interest accrues (capitalized interest) from bonding date to September 1. The assessment appears on the first tax bill after September 1, at which time the repayment term commences. Full prepayment of the assessment is allowed; currently there is no prepayment penalty.

MARKETING, EDUCATION AND OUTREACH

In addition to its website, SCEIP employs a wide variety of marketing, education and outreach (MEO) methods. Approaches depend on target audience or market sector, and range in cost and scale. Various MEO activities include tabling events, small and large group presentations, mailers, print, TV and radio ads, social media, a monthly e-newsletter, email blasts, banner advertisements on other websites, tax bill inserts and yard signs. Grant funds have allowed SCEIP to expand marketing efforts and test the effectiveness of different approaches.

Education of contractors and partner agency staff about SCEIP has been a particularly effective mechanism for program uptake. SCEIP has found that word of mouth has driven most of SCEIP's volume. Enlisting participants who have had a positive experience with the program to host open houses, give presentations and provide quotable testimonials has also been effective to engage their neighbors and professional colleagues, and like-minded property owners.

WORKFORCE DEVELOPMENT

Workforce development is an integral part of SCEIP's mission and operations, and since program launch it has substantially expanded its role in this important activity. SCEIP has partnered with local training programs and the Workforce Investment Board to increase the number of trained residential energy efficiency and clean-energy workers. In addition, SCEIP continually reaches out to contractors and raters in the community through its dedicated web portal, newsletter, email blasts, social media, partnering agencies and groups, forums, conferences and trainings.

In late 2009, grant funding allowed SCEIP to purchase building performance testing equipment and open a tool lending library. This library allows building performance contractors and HERS Raters to borrow, free of charge, the necessary tools to perform the testing and verification of the work performed during the energy upgrades. The tool lending library has become a resource for those individuals entering the energy sector.

PARTNERSHIPS

SCEIP attributes its success and continued support from elected officials, the business community and general public to strong partnerships with collaborating organizations and agencies. In addition to the nine incorporated cities and towns in Sonoma County, all of which are included in the SCEIP assessment program, partners include local agencies, the utility companies, business organizations, non-profit organizations and state and federal agencies.

LESSONS LEARNED

Over the last three years, the lessons that have been learned by SCEIP staff and advisors have been many. Please refer to the Lessons Learned section of the Replication manual for a summary of major lessons learned since program launch.



PACE MODEL PROGRAMS

PLACER COUNTY: MPOWER PLACER

SUMMARY

MPOWER Placer (**M**oney for **P**roperty **O**wner **W**ater and **E**nergy efficiency **R**etrofitting) is a countywide program that promotes more efficient use of water and energy, enables businesses to reduce energy costs, and strengthens our local economy through job creation. Now, more than ever, commercial and multifamily property owners are looking for ways to save money on their energy bills, reduce their impact on the environment, and stimulate the local economy. With the help of MPOWER Placer that goal couldn't be easier. With no upfront costs MPOWER Placer finances to qualified Placer County property owners energy efficiency improvements and energy generation systems such as solar photovoltaic.

FINANCE MODEL

MPOWER Placer's funding source is a financing arrangement whereby the County Financing Authority issued a bond not to exceed \$33 million that was purchased by the County Treasurer for its Treasury Pool. As projects are approved funds are drawn from the Treasury Pool. As the number of projects increase they can be bundled together and sold to interested investors on Wall Street.

OPERATIONS

Staffing levels are kept low and all personnel are cross-trained to perform the duties required by the MPOWER Placer program. The financial expertise is provided by Treasurer/Tax Collector management personnel while the day-to-day activities are performed by two Program Specialists who were selected due to their backgrounds in building planning /construction as well as customer service and technical skills. Operations are conducted from the Placer County Treasurer Tax Collector Office

PROGRAM SNAPSHOT

Launch Date:

March 2010

State/Geographic Area:

CA/Placer County
(Sacramento Valley to Lake Tahoe)

Applicable Sectors:

Commercial, Industrial, Agricultural, Multi-Family

Legal Authority:

AB 811

Property Eligibility:

Principal amount may not exceed 10% of property value plus value of improvement
The property value must demonstrate a 10% equity prior to the assessment financing.

Project Funding Source:

County Treasury Pool, Open Market bonds

Initial Investment:

Invested (Bonded): Up to \$33M.
Disbursed: \$1.1M as of 2/29/12

Annual Operating Budget

\$600,000

Other Program Criteria

Documentation showing that the installation of the financed improvement will generate a net positive cash-flow.
Properties aggregate tax rate may not exceed 5% of the value.

Eligible Improvements:

Energy efficiency, water conservation, renewables, custom

Energy Analysis Requirements:

Energy Audit Required – provided for free by local utility providers partnered with mPOWER Placer

Contractor Requirements:

Current contractors and business license

Mortgage Lender Requirements:

Lender must sign acknowledgement letter

Web Site:

www.mPOWERplacer.org



where the public can speak with MPOWER Placer staff and apply for funding. From time to time the Program also operates from mobile locations. A website is also maintained providing Program information, outreach, education and an opportunity to apply directly online. Outreach seminars are conducted throughout the County at various city and county venues. Travel to community outreach seminars and other types of marketing events are provided by one of the county owned hybrid pool cars. All of these measures contribute to the low overhead cost of operation.

MARKETING, EDUCATION AND OUTREACH

MPOWER Placer found the most effective marketing and outreach approach to be a broad outreach using a variety of avenues. For this reason, several different approaches are pursued to market mPOWER Placer and PACE in order to reach as much and as extensive of a commercial audience as possible.

The MPOWER Placer website is designed to provide a detailed overview of the program; offer information to building owners that will assist in the reduction of energy and water use; and allow online application for energy efficient improvements. All other types of advertising are designed to drive traffic to the website.

A seminar is required for property owners wanting to utilize MPOWER Placer PACE financing. Since PACE programs offer a unique financing model, it is important the property owners fully understand all aspects of the program. The seminar explains the PACE financing as well as the concept of loading order, hiring a contractor and other best practices. Regular email blasts are possibly the single most effective tool employed. MPOWER Placer has become more widely known by informing our large contractor base, trade organizations and property owners about community workshops and other relevant information at every opportunity.

Earned media articles and press releases in local newspapers and business journals are no-cost effective marketing tools that allow MPOWER Placer to explain the importance of PACE and highlight the MPOWER Placer program. News articles featuring commercial properties that have installed energy efficient measures with the help of MPOWER Placer financing not only benefit MPOWER Placer but also the business investing in the improvements.

PROGRAM METRICS as of March 1, 2012

Number of applications received:
19

Number of Approved Projects:
5

Range of Approved Amount:
\$38,570-\$331,162

Projects Approved:
0 Energy efficiency
0 Water conservation
5 Renewable energy generation

Partnering Open Market Lenders
3 and growing

Projects Funded by Open Market Lenders
2





Due to the lender notification requirement for PACE programs, MPOWER Placer has taken a proactive approach to educate local banks by holding outreach events. Program benefits and safeguards are presented and an open dialogue between bank representatives and MPOWER Placer staff is encouraged. Based on the outcome of some of those meetings, MPOWER Placer has amended the Assessment Contract to assuage concerns over bank liabilities and lien status. Social media marketing using Facebook and Twitter is a recent addition to MPOWER Placer's outreach efforts. This has proven to be a fast effective method of reaching a large number of like-minded individuals and companies with real-time events and newsworthy postings.

WORKFORCE DEVELOPMENT

MPOWER Placer holds educational seminars for contractors specializing in energy efficiency to explain the PACE financing model and add MPOWER Placer as a sales tool for their businesses. We frequently partner with other organizations to provide broad based meaningful information that contractors can immediately utilize in their business.

PARTNERSHIPS

MPOWER Placer works closely with their stakeholder community to obtain services, referrals, education opportunities, program synergies, and combine different service options for property owners in Placer County. We also utilize stakeholders in the legislative efforts to further PACE development.

- Agencies: Placer County Manufacturer's Group, Placer County Economic Development, Placer County Community Development Resource Agency
- Cities: all seven cities in Placer County
- Sacramento Area Realtors
- Northern California Bankers Association
- U.S. Small Business Administration
- County Departments and Divisions: General Services, Assessor, Recorder
- Educational institutions: Golden Sierra Job Training Agency, UC Davis,
- Local building and trade organizations: BCI, PCCA
- Non-profits: Green Cabinet, Valley Vision, Sierra Business Council, Placer Sustain, Green Finance, PACENOW
- Pacific Gas and Electric Company (PG&E), Roseville Electric, SMUD, Liberty Energy
- Placer County Air Pollution Control
- Placer County Water Agency
- State and Federal Agencies: CEC, CPUC

The local utility providers (PG&E and Roseville Electric) have been big supporters of MPOWER Placer. They provide referrals, access to commercial accounts for seminars, as well as free ASHRAE Level I energy audits for applicants. In addition, they have provided an additional knowledge base for green technologies and energy efficiency,

LESSONS LEARNED

There are several lessons that have been learned.

1. Consistent messaging is the key to success. When sharing the PACE message and details, it is important that correct terminology be used at all times. When discussing with lenders, it is important for them to understand the assessment is a priority lien, not a subordination. There is no acceleration of the PACE assessment in the event of delinquency or default. We frequently state the following:

MPOWER Placer and PACE programs are a Win, Win, Win situation. Property owners win because they realize utility bill savings and gain energy independence. Local agencies win because they achieve energy independence and goals related to reductions in energy consumption. Lenders win because they receive increased collateral value on their loans and increased positive cash flow for their borrowers.

2. Marketing to a commercial PACE program is very different from marketing a residential/commercial PACE program. Depending on the type of property, many commercial properties are not owner occupied. Some of the owners are utility paying and some aren't. Trying to contact the interested party can be difficult and that hinders uptake of the program.

PACE MODEL PROGRAMS

CITY AND COUNTY OF SAN FRANCISCO: GREENFINANCESF

SUMMARY

The GreenFinanceSF Program is sponsored by the City and County of San Francisco, and administered by the Department of the Environment in partnership with Renewable Funding and a number of contractors. GreenFinanceSF is a Property Assessed Clean Energy, or PACE program. PACE provides building owners access to low-cost financing to make clean energy upgrades. PACE is completely voluntary, and greatly improves the economics of investing in these kinds of improvements, which can ultimately reduce operating costs, attract tenants, and enhance property value.

The GreenFinanceSF-Commercial program is using the “open market” PACE model in which property owners negotiate project financing, including the interest rate and repayment term, with qualified project lenders willing to fund their project. When a project is approved, the City sells a bond to the project lender, and the proceeds from the sale fund the project. A special tax is then levied on the property, which is collected through the property tax bill and paid back to the project lender. The Program assists in facilitating introductions between interested owners and qualified project lenders.

FINANCE MODEL

The GreenFinanceSF-Commercial program is using the “open market” PACE model which enables property owners to independently secure financing for a defined project with an investor of their choice; this may be a third-party investor, bank, or the existing mortgage lender, as long as they meet program requirements. The investor purchases a special tax bond from the City, and the proceeds are then used to provide permanent financing for their project(s).

PROGRAM SNAPSHOT

Launch Date:
November 2011

State/Geographic Area:
City and County of San Francisco

Applicable Sectors:
Commercial, Industrial,
Multifamily (≥5 units)

Legal Authority:
Mello-Roos Community Facilities
Act of 1982

Project Funding Source:
Private placement PACE bonds

Program Property Underwriting Criteria:

Located in City/County of San Francisco
Currently pay property taxes¹
Lien holder consent/acknowledgement
Current on mortgage debt and property taxes
No recent defaults, bankruptcies or late property taxes
Combined property debt cannot exceed property value²
Title search to confirm ownership

Initial Investment:
Legislation has authorized up to \$100M in special tax bonds, to be purchased by private investors

Eligible Improvements:
Energy efficiency, water conservation, renewables, custom

Energy Audit Requirements:
ASHRAE L1 for < \$100,000 cost
ASHRAE L2 for > \$100,000 cost

Mortgage Lender Requirements:
Must provide affirmative acknowledgement/consent to PACE special tax

Web Site:
www.greenfinancesf.org

OPERATIONS

One of the notable characteristics of the open market PACE model is that implementation should be less labor and resource intensive than other approaches (e.g. residential, pooled bonds). This is because: 1) it leaves detailed underwriting and other financial analysis to sophisticated property owners, investors and other parties, i.e. the Program sponsor establishes the property and project eligibility criteria and other elements (e.g. quality assurance), and reviews and approves applications based on those minimum requirements; and 2) commercial projects will be lower volume/higher cost than residential projects.

Like Los Angeles, there is a two-step application process for PACE financing through GreenFinanceSF. Interested property owners can submit an Initial Application to quickly indicate their interest in participation and to submit preliminary details of their proposed project. This also allows the Program to promptly ascertain project eligibility and issue a Conditional Reservation to owners that meet program requirements. The Initial Application includes a request for an allocation from the Debt Service Reserve Fund, if desired. The Conditional Reservation will remain valid as long as the applicant makes progress toward completing the second step of the application process.

The Final Application is a more detailed process that requires the property owner to complete all related planning and application tasks, including: conducting an energy audit (if applicable), obtaining existing mortgage holder acknowledgment/consent, and finding a project lender. Upon review and approval of the complete Final Application, the Program will issue a Final Reservation, including adjustments based on any refinements to project scope and desired amount to be financed that have occurred since issuance of the Conditional Reservation.

When applications are approved, a bond will be issued to the project lender; bond counsel will assist with legal and bond documentation. At closing,

PROGRAM METRICS as of March 1, 2012

Number of applications received:

1

Number of Approved Projects:

In process

Range of Approved Amount:

No upper limit. Current project inquiries range from \$300K - \$1.5M

Projects Approved/Pending:

Based on current project inquiries, both energy efficiency and renewable energy generation

Partnering Open Market PACE Lenders

6, with more coming

Total Market Size

262M square feet of commercial property > 10,000 sq. ft. in City and County of San Francisco

Footnotes:

¹Nonprofit entities that do not pay ad valorem property taxes can agree to pay Mello-Roos special taxes, and are eligible for GreenFinanceSF

²Value can be determined by assessed value (public records), or an appraisal by a City-approved appraiser (appraisal will assume completion of financed improvements and the burden of the special taxes)

bond proceeds will be deposited into the bond fund managed by the city's fiscal agent and disbursed to fund the project. The city's special tax administrator will set the Rate and Method of Apportionment of the special taxes, forward to the Treasurer/Tax Collector for inclusion in the annual tax roll, and also provide ongoing reports on the performance of the special taxes. As the PACE payments are collected by the City, they will be remitted to the PACE investor. The Department of the Environment will monitor program activities and report regularly to the Board of Supervisors.

MARKETING, EDUCATION AND OUTREACH

The GreenFinanceSF program has conducted many activities to market and promote the program opportunity, including: website; press releases, social media, industry blogs, newsletters; direct mailers; meetings with individual owners and Industry group presentations; program partner meetings (capital providers, utilities, contractors/service providers, mortgage lenders). The Program has also linked the PACE financing opportunity with education and outreach efforts in support of the "Existing Commercial Buildings Energy Performance Ordinance," which requires owners of affected commercial properties to benchmark their building with ENERGY STAR Portfolio Manager and conduct energy audits, and to report results to the City.

WORKFORCE DEVELOPMENT

The GreenFinanceSF team has been working closely with PACE service providers to generate demand for projects, and is especially interested in working with local energy companies. At the time of this writing there are active discussions underway with other PACE programs and to seek grants that will help develop partnerships with local workforce investment boards and colleges to advance training opportunities for commercial building upgrade activities (e.g. audits, construction).

PARTNERSHIPS

The City selected Renewable Funding and Goodwin Consulting Group through an RFP to assist with program design and administration, and special tax administration. Other key partners include bond counsel (Jones Hall), technical engineering (kW Engineering), and other city departments (City Attorney, Office of Public Finance, Treasurer/Tax Collector). Other key partners include Pacific Gas and Electric, and SF Energy Watch.

Open Market PACE is inherently an active collaboration between the City sponsor and private sector actors such as investors, ESCOs and other energy service providers, mortgage lenders, and the local commercial real estate community. We continue to have productive dialogues with all interested parties to increase awareness and education about the benefits of PACE.

LESSONS LEARNED

During the development process, the Program team conducted substantial outreach to commercial PACE stakeholders in hopes of soliciting feedback on key areas such as program underwriting, legal and bond documents, and technical standards. There was also a great deal of information sharing between San Francisco and Los Angeles during this time. We believe that the transparent and inclusive development process that led to similar approaches for the two open market PACE programs in SF and LA will contribute to successful implementation.



PACE MODEL PROGRAMS

LOS ANGELES COUNTY: COMMERCIAL PACE PROGRAM

SUMMARY

Los Angeles County launched an open market (or “owner arranged”) PACE financing program in November 2011, utilizing AB811 as the legal underpinning.

This model is designed to more closely match traditional commercial property project finance, create a competitive marketplace for financing, allow for specialized financing that addresses unique market segments, allow existing mortgage lenders to proactively participate, and avoid the timing delays associated with the pooled bond approach in which a government must wait to aggregate a sufficient number of disparate projects before issuing a bond.

To facilitate deals coming together, Los Angeles County is creating a list of PACE investors, which will be posted on the program website so that interested property owners, contractors, and banks, can connect with potential investors. The program website is envisioned to eventually serve as a clearinghouse for PACE financings, where property owners can seek proposals from potential investors, and where investors can source projects.

FINANCE MODEL

Under this model, property owners have the flexibility to independently secure financing for a defined project with an investor of their choice, which may be their existing mortgage lender and/or a 3rd party. The investor purchases a tax assessment bond from the County, the proceeds from which are then used to provide permanent financing for their project(s).

PROGRAM SNAPSHOT

Launch Date: November 2011

State/Geographic Area:
CA/Los Angeles County

Applicable Sectors:
Commercial, Multi-family (>5 units)

Legal Authority:
AB 811

Property Eligibility:
Commercial property located within boundaries of a City or unincorporated area that has opted in to the PACE financing district, and which meets program underwriting criteria

Project Funding Source:
Proceeds from the private placement of individual bonds for each project

Initial Investment:
The Program will be funded with private capital, and as such no initial investment was required by the County

Eligible Improvements:
Energy efficiency/conservation, water efficiency/conservation, on-site clean power generation, industrial process energy/water efficiency/conservation, earthquake code compliance

Energy Analysis Requirements:
ASHRAE Level 2 Energy Audit, with cost and savings projections for all energy and water conservation or renewable energy measures proposed.

Contractor Requirements:
At present, contractor selection is left to the property owner.

Mortgage Lender Requirements:
Must consent to PACE assessment

Web Site:
www.EnergyUpgradeCA/LAPACE

The terms of the financing are negotiated independently of the government, and are predicated on 1) the senior lien that the PACE mechanism affords, 2) the nature of the improvements and the associated costs and savings, and 3) the underlying credit of the owner/building.

There is a two part application process for PACE financing. Part 1, the PACE Reservation, serves to verify through a preliminary title search that basic program underwriting requirements are satisfied, including verification that:

1. The property is used for commercial purposes and is not residential and not publicly owned;
2. The applicant is the legal owner of the property, and all the legal owners of such property agree to participate;
3. All existing private lien holders on the property acknowledge/consent to the PACE assessment;
4. The property is located within Los Angeles County, and if within the boundaries of a city, the city has adopted a resolution opting into the Los Angeles County Energy Program to support PACE transactions;
5. The property is not undergoing initial development at the time of project financing;
6. Property taxes and assessments are current on the property and have not been delinquent for a period up to five years (or since the date of the most recent transfer if less than five years);
7. The property is not subject to any involuntary liens or judgments;
8. The property owner certifies that he/she is not in bankruptcy and the property is not an asset in a bankruptcy proceeding;
9. The property owner certifies that he/she has not declared bankruptcy within the last 10 years;
10. The property owner certifies and demonstrates that he/she is current on his/her mortgage, has not defaulted on the deed(s) of trust and can legally enter into the Program.

PROGRAM METRICS as of March 1, 2012

Number of applications received:
5

Number of Approved Projects:
In process

Range of Approved Amount:
No upper limit. Current applications range from \$400k - \$2m

Projects Approved/Pending:
1 energy efficiency
1 renewable energy generation

Partnering Open Market Lenders
5, with more coming

Total Market Size
1.82 billion square feet of commercial property in LA County

Part 2 of the application process, the PACE Financing Application, serves to initiate the formal request for PACE financing. Along with the PACE Financing Application Form, the applicant must also submit:

1. Lien-holder Consent Form
2. Investor Commitment Letter / Term Sheet
3. Contractor bid documents to back up the proposed scope of work
4. Evidence of authority of signatory to enter in to the PACE financing

Once the PACE Financing Application is approved, the materials are forwarded to LA County and the parties begin drafting of the transaction documents. Unless otherwise specified, upon closing the funds are placed in escrow and drawn down according to the construction schedule, much like a normal construction loan. Payments are due according to the normal property tax collection schedule, in March and September each year until the bond is fully amortized.

OPERATIONS

Application processing and phone/email inquiries are currently handled through a centralized office, which has been contracted out by LA County. LA County manages bond issuance and assessment administration, as well as payments to PACE investors. LA County is ramping up marketing efforts, and will bring on a 3rd party program manager in 2012.

MARKETING, EDUCATION AND OUTREACH

LA County has been working closely with the City of LA to market the program, primarily through email marketing, webinars, in person presentations, and one-on-one meetings with property owners, banks, investors, and contractors. LA County will ramp up with activity in 2012, now that the program is fully operational.

WORKFORCE DEVELOPMENT

LA County has been working closely with the contractor community to educate them on PACE as a tool to fund their projects. This interaction has primarily occurred through webinars, and in-person presentations to industry groups and labor unions.

PARTNERSHIPS

Utilities: Los Angeles Department of Water and Power, So Cal Edison, and So Cal

Industry Groups: Environmental Bankers Association, US Green Building Council, Building Owners and Managers Association

Labor: International Brotherhood of Electrical Workers, National Electrical Contractors Association

LESSONS LEARNED

While it is still early, there are several key lessons that have been learned so far:

1. Position PACE as an opportunity for banks, not as a threat. Mortgage lenders may elect to offer PACE as a new product for their existing customers, thus avoiding the consent issue. Banks have a built-in customer base, and have deep knowledge of their clients' financial situations. The fastest way to scale PACE is for banks to get on board and utilize PACE as a tool for their existing clients to upgrade their buildings. Another option in certain localities, such as Los Angeles, is for banks to co-invest alongside a third-party investor and put in place covenants to protect the parties' interests.
2. Emphasize that there is no acceleration of the PACE assessment in the event of delinquency or default. Many assume that the full amount becomes due if there is a non-payment, since this is the norm with most forms of debt. However that is not the case with PACE, so PACE is much less risky to banks than they initially think.

Example:

- Commercial building worth \$10 million
 - Mortgage of \$8 million
 - \$500,000 PACE retrofit
 - Assume the PACE project is financed with a 6%, 20 year assessment such that there are annual payments of about \$43,000.
 - If the building is foreclosed on after a year and there is a PACE payment in arrears then this amount, \$43,000, is paid ahead of the mortgage
 - This represents approximately 0.5% of the value of the mortgage
 - Mortgagee will be made whole, since there is sufficient equity in the property
3. Emphasize that PACE assessments should be a "pass-through" under most commercial leases, enabling the owner to recoup his invested capital from tenants and thus solving the "split incentive" in non-owner-occupied buildings.

QUESTIONS AND ANSWERS

The Questions and Answers specific to the SCEIP program are so noted.

GENERAL PACE

Q: What is PACE?

A: Property Assessed Clean Energy (PACE) is a program that provides up-front financing (“PACE financing”) through a municipality to eligible property owners to finance installation of energy efficiency and water conservation improvements and renewable energy systems on their property. The program is 100% voluntary.

Property owners repay PACE financing through an assessment levied against their property, which is payable on their property tax bill. The assessment is paid off over a term determined by a contract between the property owner and the local government. The typical maximum repayment duration is 20 years. The obligation to repay the assessment is attached to the improved property, not the property owner, and transfers with the sale of the property to the new owner.³⁶

Q: What are the benefits to a local government of developing a PACE program?

A: PACE can be a significant component of a local government’s effort to reduce local greenhouse gas emissions, to promote energy efficiency improvements in its buildings, to make the shift to renewable sources of energy more affordable, and to reduce energy costs for residents and businesses. PACE poses little to no liability or exposure to the local government’s general fund. Thus, a local government can implement a PACE program and recoup almost all costs of running the program through a pass-through to participating property owners. PACE can drive local economic development by ensuring that local solar installers and renewable energy companies are integral partners in the program. A side benefit of PACE is spurring local job creation.

Q: How long does it take to launch a PACE program?

A: Once enabling legislation is passed, the process for adopting and implementing PACE is very similar to establishing any other special tax or assessment district. Approximately 3 to 12 months depending on the local government’s approval process and schedule.

³⁶ See “[Federal Mortgage Regulators](#)” below for a detailed discussion of the current status of this intent

Q: Who will provide the up-front funding for the program?

A: Cities and counties typically provide funding for the program through the issuance of a bond that is repaid through special taxes or assessments on the annual tax bill of participating property owners. Repayment of the special taxes or assessments is secured by the participating properties.

Q: How long does it take to launch a PACE program?

A: Once enabling legislation is passed by the state, the process for adopting and implementing PACE is very similar to establishing any other special tax or assessment district. Approximately 3 to 12 months depending on the local government’s approval process and schedule.

Q: Why is PACE necessary when private financing options already exist?

A: There are several financing options available in the market, including third-party finance options such as a Power Purchase Agreement (PPA), solar leases, home equity lines of credit, and conventional loans. Municipal financing represents yet another option. Ultimately, property owners will determine which mechanism works best for their situation. However, PACE does have several unique benefits that should be noted, including:

- A) The lien can stay with the property and is transferred as the property changes hands. This removes a long-standing barrier to homeowners making energy improvements. FHFA policy currently interferes with this benefit.³⁷
- B) PACE assessments are available to cover whole house energy improvements, including energy efficiency as well as solar, for which other financing mechanisms may not currently exist.

Q: What property types are eligible to participate in a PACE program?

A: It is the choice of the local government. In Sonoma County, any property type is eligible if it is on the secured tax roll; tax-exempt and government organizations are not eligible to participate in SCEIP.

Q: Can tax exempt non-profits participate in a PACE program?

A: At least in California, it is possible to provide PACE financing for property owned by non-profit entities that do not otherwise pay property tax. In order to place a PACE assessment on a property that is not on the secured tax role, the Tax Collector must agree to prepare a tax statement and collect the amount for the special PACE assessment. There are also policy considerations: for example, if a church or a hospital is one/two/five years delinquent, is the municipality willing to foreclose? Also, investors may have additional concerns about lending to properties owned by non-profit entities. Each municipality can modify their program to fit their need. We would recommend discussing with legal counsel.

³⁷ See “[Federal Mortgage Regulators](#)” below for a detailed discussion of the current status of this intent

Q: What are the benefits of PACE to property owners?

A: Key benefits include: 1) PACE does not rely on, or draw down, a property owner's available credit line. 2) Property owners enjoy decreased utility bills. 3) Finally, the repayment obligation attaches to the property not the property owner, and as such generally allows for seamless transferability when the property changes ownership.³⁸ Given that the average American moves out of their home every six to nine years while repayment for deep energy retrofits and solar investments take longer, transferability of financial obligation is a crucial benefit of PACE.

Q: How much will a participant save on their electric bill?

A: Every property is different. For most property owners a few simple calculations - based on a potential participant's current energy consumption - can estimate the expected reduction in their utility bill. The goal is for utility bill savings from solar and efficiency improvements to be the same or greater than the amount of the incremental property taxes during the 20-year financing period.

PROGRAM COSTS

Q: What is the ratio of administrative costs to total cost of improvements?

A: For SCEIP, this ratio is difficult to quantify because the Sonoma County program has incurred periodically large administrative costs due to its ongoing litigation with the Federal Housing Finance Agency (FHFA). Those costs removed, this ratio is approximately 4%.

Q: What is the projected cash flow and assessment activity for SCEIP?

A: It is difficult to predict cash flows because we continue to experience changes in the residential program participation, first related to the July 6, 2010 FHFA instructions to lenders and second related to the July 1, 2011 implementation of a 10% efficiency requirement prior to funding any renewable energy generation (i.e., solar PV) project. Sonoma also has debt service on loans attributed to uncaptured start-up expenses from the first year of operations (see related question below).

Q: How long did it take for Sonoma County to recoup start-up costs for SCEIP?

A: The program is repaying advances for program start up to the County, the Sonoma County Water Agency and County Counsel through fiscal year 2013-2014. A stable net positive cash flow is anticipated by FY 2013-2014 with dependencies on the impacts of HR 2599 and the litigation with the FHFA.

³⁸ See "[Federal Mortgage Regulators](#)" below for a detailed discussion of the current status of this intent

Q: In estimating the program costs, how much of the costs are fixed vs. variable costs related to demand/volume of applications being processed?

A: In the “ongoing delivery” section of the [sample budget](#) provided in the “Resources” section of this manual, fixed and variable costs have been identified to the best estimate possible. Sonoma cannot estimate the anticipated volume of another local government and highly recommends that the government perform a market survey to assist with this determination.

PROJECT FINANCING

Q: What types of bonds does SCEIP issue? How does the amount of interest paid on the bond compare to the amount of interest charged to participants?

A: SCEIP issues Contractual Revenue Assessment bonds with an interest rate of 3%. SCEIP participants pay an interest rate of 7%. The County uses the difference, or the “spread” to fund its SCEIP operations.

Q: What is the average assessment amount for Sonoma’s bond issuance? Is there a maximum amount that SCEIP will finance, and on how the assessments were distributed between residential and commercial?

A: The average residential assessment is \$28,000 and the average non-residential assessment is \$194,000. The maximum portfolio that the Treasury Pool has authorized to invest is \$45 million, with an additional \$15 million available from the Sonoma County Water Agency. There is no maximum financing amount; the maximum available for each individual property is based on several underwriting criteria as described by the [SCEIP Program Report and Administrative Guidelines](#) provided in the Document Library.

Q: In Sonoma County, is there a standardized bond agreement or is there a different agreement for each transaction? Does the agreement change if outside financing is utilized?

A: Sonoma County currently has a standardized set of bond documents. However, if you start considering other alternatives, then the cost of designing different documents for other investors could become very costly. If the County goes to an outside financing source, then it will very likely have to pay substantial costs to prepare an offering circular and other legal documents to sell the bonds. The County did modify its existing bond documents, with the assistance of bond counsel, to accommodate an owner-arranged financing transaction where a bond was issued for a \$1.6 million project and sold directly to an investor. In that case, the investor paid for the additional cost to modify the bond documents.

Q: Is Sonoma County working with any private capital or lending institutions to provide funding?

A: Sonoma County's initial pool of funds came from the purchase of Bonds by the County Treasury. The County was awarded funds through a grant from the California Energy Commission to execute a feasibility study of purchasing SCEIP bonds by a third-party investors. This study is provided in the Document Library. Selling our bonds on the open market will allow SCEIP to replenish its pool of funds, which will enable SCEIP to continue our financing.

SCEIP has also executed its first "owner arranged financing" model, wherein an application was submitted for \$1.6M financing in conjunction with an external entity willing to immediately purchase the bond for that specific transaction. [Documents for this transaction](#) are provided in the Document Library.

FEDERAL MORTGAGE REGULATORS

Q: What are the concerns of the Federal mortgage regulating agencies?

A: The surge in interest in PACE programs in 2010 produced growing concern among mortgage regulators such as the Federal Housing Finance Agency (FHFA), and their regulated entities, Fannie Mae and Freddie Mac. In May 2010, Fannie Mae and Freddie Mac, government sponsored enterprises that purchase a very large segment of conforming single family home mortgages, issued letters of instructions to lending institutions. These instructions stated that the terms of the Fannie Mae/Freddie Mac Uniform Security Instruments prohibit loans that have senior lien status to a mortgage, thus implying that PACE assessments were loans and would be an unallowable encumbrance to a property with a Fannie Mae- or Freddie Mac-backed mortgage. Following this, on July 6, 2010 the FHFA [issued a statement](#) determining that "PACE loans...present significant risk to lenders and secondary market entities" and called for all state and local governments to pause their programs. These issues remain unresolved at this time.

Q: What is the delinquency rate for SCEIP?

A: 2009-10 was the first year PACE assessments were placed on the tax bills. Total Secured tax delinquencies in the county that year were 3.3%. PACE assessment delinquencies were 1.19% as of 6/30/10. As of February 2012, the 2009-10 Secured tax delinquencies have dropped to .75%. PACE assessment delinquencies have dropped to .27%.

2010-11: Total Secured tax delinquencies in the county were 2.3%. PACE assessment delinquencies were 1.84% as of 6/30/11. As of February 2012, the 2010-11 Secured tax delinquencies have dropped to 1.1% PACE assessment delinquencies have dropped to .76%.

As compared, then, the delinquency rate with a PACE assessment is much lower in comparison with county-wide delinquencies.

Mortgage Defaults: Of the 1,459 assessments placed on properties in Sonoma County, recorded documents show only 16 properties having completed the default process, an average of 1.1%. During the same timeframe (2009 through 2011), the average mortgage default rate in Sonoma County varied from 8% to over 10%. Thus, the default rate of properties with a PACE assessment is much lower than the rate for properties county-wide. This appears to refute the FHFA contention that PACE assessments cause higher risk for mortgage lenders.

MORTGAGE LENDERS

Q: Does House bill HR2599 require consent from the mortgage holder?

A: For non-residential properties, the current version of the bill in the House of Representatives requires authorization from the property's existing mortgage lender. On the residential side, all that is required is notice to the lender.

Q: Have any commercial lenders given authorization to allow PACE financing?

A: Yes, twenty different lenders have provided lender acknowledgement for projects funded by SCEIP alone, in addition to lenders working with other PACE programs throughout California such as the City and County of San Francisco, Placer County and Los Angeles County.

Q: Is PACE financing senior to bank financing?

A: PACE financing is not a loan; it is a voluntary contractual assessment. Under California law, a contractual assessment lien has the same superior lien priority as property taxes and other assessments and is senior to bank liens; however, in the event of a default, only the delinquent portion, not the entire PACE assessment, would need to be paid at the time of the foreclosure. The remainder of the assessment remains a lien on the property, assumed by the purchaser. There are some different models in some states, such as Vermont and Maine, where pursuant to state statute the PACE lien is subordinated to the first mortgage. One would need to review the specifics of the authorizing statutes on the extent of the subordination.

Q: How receptive have existing lenders been to accommodate the PACE- based financing that has a superior lien priority?

A: A mix of national, regional, and local commercial real estate (CRE) lenders have provided acknowledgement or consent for over 40 of the approximately 70 non-residential PACE projects completed to date. That evidence, and discussions with CRE lending officers, demonstrates that lender acknowledgement need not be an obstacle to non-residential PACE programs.

Furthermore, there is an opportunity for the existing lender to either purchase the bond itself, or to co-invest alongside a qualified 3rd party PACE investor.

MARKETING, OUTREACH AND EDUCATION

Q: What outreach materials and strategies has SCEIP used successfully to spread the word about its program?

A: SCEIP has developed many avenues to promote our program. Among them are: establishing and maintaining relationships from day one with our stakeholders: contractors, building officials, local utilities, partnering agencies, lenders, and community organizations, like realtors and environmental groups; staffing booths at local events like the county fair, spring and fall home shows, conservation/sustainability events; submitting ads in the local/regional newspapers and magazines, on local TV and radio stations; sponsoring contractor forums/training to inform and update local contractors of program information and changes.

SCEIP has also created brochures, provided PowerPoint presentations, webinars, composed monthly newsletters, included an informative flyer with the semi-annual tax bill, and implemented social media.

All of these have been important, but according to a recent survey of our residential customers, the most effective means of spreading the word have been through the contractors (word of mouth), print media, and referrals.

Q: What outreach strategies and materials have other PACE programs used that have had the most impact?

A: In Los Angeles, meetings organized by Business Improvement Districts and local advocacy groups have proven worthwhile, especially as a means to reach Class B/C property owners. San Francisco is now conducting similar activities, and is also seeking to actively bring together PACE investors and contractors/energy service providers to facilitate the project development process.

ENERGY ANALYSIS, LOADING ORDER AND SAVINGS

Q: Has Sonoma County had a mandatory loading order requirement for projects from the initiation of the program?

A: SCEIP has always required non-residential applicants to submit the results of an ASHRAE level 1 – equivalent energy analysis with their SCEIP application, and has advised, but not required, that the energy analysis-recommended improvements be completed prior to

financing renewable energy generation projects. Between July 1, 2011 and March 31, 2012, SCEIP operated a loading order pilot program for residential properties that required a 10% efficiency improvement prior to renewable project funding (see question below).

Q: What is meant by "10% efficiency for renewables"?

A: On July 1, 2011, SCEIP began requiring that applicants requesting PACE financing for renewable energy generation projects (i.e. solar pv) demonstrate at least a 10% increase in energy efficiency on their property prior to SCEIP funding the renewable project. This requirement was waived for residential properties testing in with a Home Energy Rating System (HERS) rating of 85 or better. SCEIP financed the 10% efficiency improvements, if desired by the applicant.

Q: Does SCEIP use energy audits to examine paybacks?

A: SCEIP does not require post-project reporting by the applicant. However, SCEIP does look at three years' worth of utility data – one year prior to project disbursement and two years after- in order to quantify the energy and GHG savings attributable to our financing.

Q: Does SCEIP have any metrics on: 1) Energy savings realized v. initial projections? 2) Payback periods on various types of improvements? 3) Impact of program on property cash flows: are realized energy savings greater or equal to additional assessment?

A: These important metrics are in the process of being quantified by SCEIP staff and consultants. Until recently, there has not been enough statistically valid before/after utility data to make supportable conclusions. Now that the program has been operating for almost three years with over 1600 participants (primarily residential), there is a sufficient sample size with which to work. These results will be made publicly available when work is complete.

QUESTIONS AND ANSWERS FROM [WEBINAR PRESENTATIONS](#)

PACE and Open Market Financing (December 14, 2011)

Marketing PACE to Commercial Real Estate Owners (January 18, 2012)

Sonoma County's Commercial PACE Program (February 15, 2012)

Implementing a Residential PACE Program (March 21, 2012)

RESOURCES

All the documents listed below are located on the Sonoma County Energy Independence Program website, "[Resources for Local Governments](#)" web page.

BEST PRACTICES, GUIDES AND GUIDELINES

Best Practices for Energy Retrofit Program Design: Best Practices White Paper (Home Performance Resource Center, March 2010)

Guide to Energy Efficiency and Renewable Energy Financing Districts for Local Governments. (Renewable and Appropriate Energy Laboratory for the City of Berkeley, California, September, 2009)

Guidelines for Pilot PACE Financing Programs (U.S. Department of Energy, May 7, 2010)

Manual for Establishing Renewable Energy Financing Districts (New Mexico Energy, Mineral and Natural Resources Department, June 3, 2010)

Policy Framework for PACE Financing Programs (U.S. Department of Energy, October 18, 2009)

Recommendations for Clean Energy Municipal Projects (CHERRC, June 2009)

PACE LEGISLATION

Assembly Bill 811 (State of California, 2008)

Senate Bill 555 (State of California, 2011)

Protection of PACE Act HR 2599 (pending in the U.S. Congress)

[State Legal Authority for PACE Programs](#) (Database of State Incentives for Renewables and Efficiency (DSIRE))

FHFA AND RELATED DOCUMENTS

FannieMae Lender Letter (May 5, 2010)

FreddieMac Industry Letter (May 5, 2010)

FHFA Statement on Certain Energy Retrofit Programs (Federal Housing Finance Agency, July 6, 2010)

Statement of FHFA Acting Director Edward J. Demarco on PACE Programs (Federal Housing Finance Agency, July 14, 2010)

Clean Energy Financing Policy Brief (Lawrence Berkeley National Laboratory, August 11, 2010)

FannieMae Announcement (August 31, 2010)

FreddieMac Bulletin (August 31, 2010)

SAMPLE PROGRAM DEVELOPMENT DOCUMENTS

Sonoma County Energy Independence Strategic Plan (SCEIP, July 13, 2010)

Sonoma County Energy & Sustainability Division Strategic Plan (January 23, 2012)

Sonoma County Energy & Sustainability Division Strategic Plan (January 23, 2012)

Sample Budget

SCEIP Marketing Plan (SCEIP, April 1, 2009)

SCEIP Marketing Plan - Residential (May, 2011)

SCEIP Marketing Plan – Non-Residential (July, 2011)

SCEIP Steering Committee Charter (Enterprise Project Management Office, March 8, 2012)

PACE PROGRAMS

Links to other PACE program websites

[List of Third Party PACE Service Providers](#)

GreenFinanceSF Program Handbook (City and County of San Francisco, November 17, 2011)

Los Angeles County Commercial Property Assessed Clean Energy (PACE) Program Reservation Form and Guidelines (Los Angeles County, 2011)

MPowerPlacer Program Report and Administrative Guidelines (Placer County, June 7, 2011)

SCEIP Program Report and Administrative Guidelines (revised) (Sonoma County, March 16 2012)

NATIONAL REPORTS

Accelerating Commercial PACE (David Gabrielson, PACENow, December 6, 2011)

Economic Impact Analysis of Property Assessed Clean Energy Programs (PACE) (ECONorthwest for PACENow, April, 2011)

Jobs and Economic Growth via Clean Energy Programs (Alan Strachan, 2011)

Property-Assessed Clean Energy (PACE) Financing of Renewables and Efficiency Programs Policy Brief (National Renewable Energy Laboratory, July 2010)

Property Assessed Clean Energy (PACE) Financing: Update on Commercial Programs Policy Brief (Lawrence Berkeley National Laboratory, March 23, 2011)

The Constitutionality of Property Assessed Clean Energy (PACE) Programs Under Federal and California Law (Ranchod, S., Yung, J., and Hart, G., Paul, Hastings, Janofsky & Walker LLP, May 28, 2010)

APPENDICES: CALIFORNIA PILOT PROGRAM DOCUMENT LIBRARIES

This Document Library is intended to give local governments a jump start in establishing a PACE program by providing sample documents to establish a PACE program, to set PACE program policies, to contract for related services and to establish ongoing PACE program operations.

Only Appendix A is directly linked to documents; all other appendices are linked to the home page of that jurisdiction's website where the program documents are available.

APPENDIX A: SONOMA COUNTY

Self-Funded, Residential and Non-Residential PACE model

[POLICY DOCUMENTS](#)

[FORMATION DOCUMENTS](#)

[BOND FINANCING DOCUMENTS](#)

[SERVICE AGREEMENTS](#)

[FORMS AND TEMPLATES](#)

[FEASIBILITY STUDIES](#)

[SAMPLE MARKETING AND OUTREACH MATERIALS](#)

[SAMPLE REPORTS](#)

APPENDIX B: LOS ANGELES COUNTY

Private Placement-Funded, Non-Residential PACE model

APPENDIX C: PLACER COUNTY

Self-Funded, Residential and Non-Residential PACE model

APPENDIX D: SAN FRANCISCO CITY AND COUNTY

Private Placement-Funded, Non-Residential PACE model

Disclaimer:

The information contained within these materials is offered only for general informational purposes. It does not constitute either general or specific legal advice and should not be substituted for legal, financial or other professional advice. These materials were created for an energy independence program individualized for the County of Sonoma and may not be suitable for all public agencies. These materials are not promised or guaranteed to be current, complete, or up-to-date. Different factual situations and evolving case law may require substantial modifications to these materials. As such, the authors make no representations or warranties with respect to the accuracy or completeness of the contents of these materials.