APPROVE PARTICIPATION IN THE YGRENE ENERGY PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM

RECOMMENDATION

It is recommended that the City Council adopt two resolutions related to the City's participation in the Ygrene Energy PACE Program:

1. Authorizing the inclusion of properties within the City’s incorporated area in the California Home Finance Authority Community Facilities District No. 2014-1 (Clean Energy) to finance renewable energy generation, energy efficiency, water conservation and electric vehicle charging infrastructure improvements, and approving associate membership in the California Home Finance Authority (Joint Powers) (Exhibit 1 to Resolution 1);

2. Authorizing the inclusion of properties within the City's incorporated area in the California Home Finance Authority PACE Program to finance renewable energy generation, energy and water efficiency improvements, and electric vehicle charging infrastructure improvements and approving associate membership in California Home Finance Authority (Joint Powers) (Exhibit 1 to Resolution 2); and

3. Authorizing the City Manager, or his designee, to execute all documents and take any actions necessary and appropriate to carry out the intent of this resolution.

Summary

This agenda item requests authorization for the City to participate in the Ygrene Energy PACE program (“Ygrene”). The Ygrene program provides a mechanism for property owners to finance the purchase and installation of renewable energy, energy and water efficiency improvements, and electric vehicle charging infrastructure improvements to their properties with no up-front costs. Ygrene offers two distinct PACE programs for property owners to ensure that they remain flexible, innovative, and able to meet market demands should one program better suit one client over another. Since these programs are authorized under separate State statutes, two separate resolutions are required for approval by the Council.

In August 2013, the City Council authorized the City to join the Figtree PACE program, a similar program focused on commercial properties. In May 2014, in order to offer financing options for energy efficiency improvements to residential properties, the Council authorized the City to participate in the California Home Energy Renovation Opportunity (HERO) Program, and in January 2015, the Council approved participation in the CaliforniaFIRST program. The Ygrene program will be the fourth program approved by Council and will provide an additional option to residential, industrial, and agricultural property owners in financing energy efficiency improvements.
Background

In July 2008, the Governor signed Assembly Bill (AB) 811 into law, which took effect immediately. AB 811 authorizes cities and counties to establish programs to enter into contractual assessment agreements with property owners to finance the installation of distributed generation renewable energy sources or energy efficiency improvements that are permanently fixed to real property. An AB 811 program allows municipalities to make assessment financing available to property owners for the purchase and installation of such improvements. In order for a PACE business to offer such a program and to provide funding within a jurisdiction, it must first receive approval from the respective city or county to conduct assessment proceedings and levy assessments on properties within that jurisdiction. The city or county must pass a resolution providing such authorization. There is no cost to the City in providing this authorization. Property owners repay the financing through an assessment on their property. The assessments are recorded as a lien against the subject property, entered in the county tax roll, and are collected on the property owner’s tax bills at the same time and in the same manner as property taxes.

In April 2015, the Governor signed an amendment to Assembly Bill (AB) 555, amending the Mello-Roos Community Facilities Act of 1982 and authorizing a jurisdiction to form a voluntary, special-use community facilities district (CFD) to finance (or re-finance) the acquisition, installation, and improvement of energy efficiency, water conservation, renewable energy and other improvements to or on real property and in buildings, whether the real property or buildings are privately or publicly owned. Property owners within the proposed CFD, by executing program financing agreements, vote to annex their properties into the CFD, authorize the levy of a special tax, and approve recordation of a special tax lien. Financing is repaid through special tax levies occurring twice each year on the improved property for terms not to exceed the useful life of the improvements or 40 years. The benefits of a PACE CFD include: minimum waiting period between placement of lien and bond issuance is shortened from 30 to 15 days; lien amount placed on a property is only for annual repayment obligation, rather than all amortized future payments; and payments may be billed off of the tax roll in all situations rather than only in some situations.

PACE programs provide a means for property owners to finance energy efficiency improvements they might not otherwise be able to afford. For example, a homeowner may wish to install solar panels or dual pane windows to save on utility expenses, but may not have the ability to pay for such improvements up front. PACE programs provide a financing mechanism through the property assessment process.

In August 2013, the City Council authorized the City to join the Figtree PACE program for commercial properties. In order to offer financing options for energy efficiency improvements to residential properties, the Council authorized the City to participate in the California HERO Program in May 2014. The California HERO program officially launched in Stockton last November. The most recent PACE program approved by the Council was CaliforniaFIRST, which took place in January 2015.

A fourth program, Ygrene, is now being presented to the Council for consideration. Offering multiple PACE programs helps to provide options and competition to meet the individual needs of both commercial and residential property owners as the eligibility criteria may differ from one program to the next. Ygrene was established by the California Statewide Communities Development Authority
(California Communities), a joint powers authority sponsored by the League of California Cities and the California State Association of Counties. The member agencies of California Communities include 57 counties and more than 400 other local agencies throughout California, including the City of Stockton.

The Ygrene program guidelines are similar to other PACE programs found throughout the state. Examples of municipalities who have approved the implementation of the Ygrene program include the cities of Fresno, Oakland, Manteca, Tracy, Rancho Cordova, and San Jose.

Present Situation

Ygrene offers two distinct PACE programs under both SB 555 and AB 811 to ensure that they remain flexible, innovative, and able to meet market demands should one program better suit one client over another. Ygrene maximizes the benefits of both programs to provide a wider breadth of services to fit the unique needs of each participant. Since these programs are independent of one another and authority established at different times, two separate resolutions are required for approval by the Council.

The Ygrene programs are being offered to allow property owners within the City to finance renewable energy, energy/water efficiency improvements, or electric vehicle charging infrastructure on their property. If a property owner chooses to participate, the installed improvements will be financed by the issuance of bonds by California Communities. The bonds are secured by a voluntary contractual assessment levied on the owner’s property, with no recourse to the local government or other participating jurisdictions. Meaning that the property owner must contractually agree to the assessment being placed on the property and that there is no financial obligation on the part of the City. Participation in the program is 100% voluntary, although the improvements and properties must meet eligibility criteria in order to qualify for financing. Property owners who wish to participate in these programs agree to repay the amount borrowed, plus accrued interest, through the voluntary contractual assessment collected along with their property taxes. The interest rates vary depending on the term of the loan. For example, a five-year loan averages about 6.75% interest and a longer, twenty-year loan is charged approximately 8.29% interest.

The assessments are paid on the County property tax bill. If the owner sells the property, the repayment obligation remains with the property and does not need to be paid off at the time of escrow closing. However, certain mortgage providers, such as Fannie Mae and Freddie Mac, may require that the assessment be paid off at the time the property is refinanced or sold, because they typically do not purchase properties with PACE liens on them.

The benefits to the property owner include:

- Defer upfront costs while simultaneously lowering energy bills, potentially providing a neutral or net financial gain.

- Provide low-cost, long-term loans for up to 100% of all costs associated with the design and installation of water conservation, energy efficiency, renewable and distributed generation retrofits

- The payment obligation stays with the property. Certain residential conforming mortgage
providers will, however, require the assessment be paid off at the time the property is refinanced or sold.

- The property owner can choose to pay off the assessments at any time, subject to applicable prepayment penalties.

- Regional aggregation provided by the Ygrene programs may produce a lower borrowing cost.

The benefits to the City include:
- Creates energy efficient retrofit, construction, and engineering jobs.

- Potential increase in property values, as energy efficient homes and businesses are typically worth more money.

- A potential increase in sales and property tax revenues.

- As in conventional assessment financing, the City is not obligated to repay the bonds or to pay any delinquent assessments levied on the participating properties.

- All Ygrene programs and assessment administration, bond issuance, and bond administration functions are handled by California Communities. Minimal City staff time is needed to participate in the program.

- By leveraging the already successful Ygrene programs, the City can offer financing to property owners more quickly, easily, and much less expensively than with the establishment of a new local program.

The indebtedness will be issued by California Communities and secured solely by the assessment revenues from the property liens so the City’s revenues and funds will not be pledged to the repayment of the bonds. All ongoing administration and coordination will be managed by California Communities. The City can assist in marketing the Ygrene program to property owners, though it is not required.

The Ygrene programs are not an exclusive obligation, therefore the City retains the ability to participate in any future PACE programs that may be developed. The City can withdraw from the Ygrene programs at any time by passing a resolution rescinding its authorization.

**FINANCIAL SUMMARY**

There is no negative financial impact to the City of Stockton associated with the participation in the Ygrene program.