



# 2015 Energy Efficiency Finance Forum

## Experimentation & Progress in the Golden State

*June 1, 2015*

# Agenda

- Overview of CA Energy Goals
- Introduction to California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA)
- Property Assessed Clean Energy (PACE) Loss Reserve Program
- California Hub for Energy Efficiency Financing Pilots

# CA's Aggressive Energy Reduction Goals

- Assembly Bill 32 requires California to **reduce its GHG emissions** to 1990 levels by 2020 — a reduction of approximately 15 percent below emissions expected under a “business as usual” scenario.
- Assembly Bill 758 recognizes the need for California to address climate change through **reduced energy consumption in existing buildings** (residential, commercial, and public).
- Governor Brown's 50/50/50 Plan will **increase renewable energy procurement, reduce petroleum use, and increase existing building efficiency**

**Private capital investment** will be crucial to meeting energy reduction goals... and the **market need of over \$4 billion per year.**

# California Partners

- Reaching CA's energy and environmental goals through policies, planning, direct regulations, market approaches, incentives and voluntary efforts.



# Meet CAEATFA

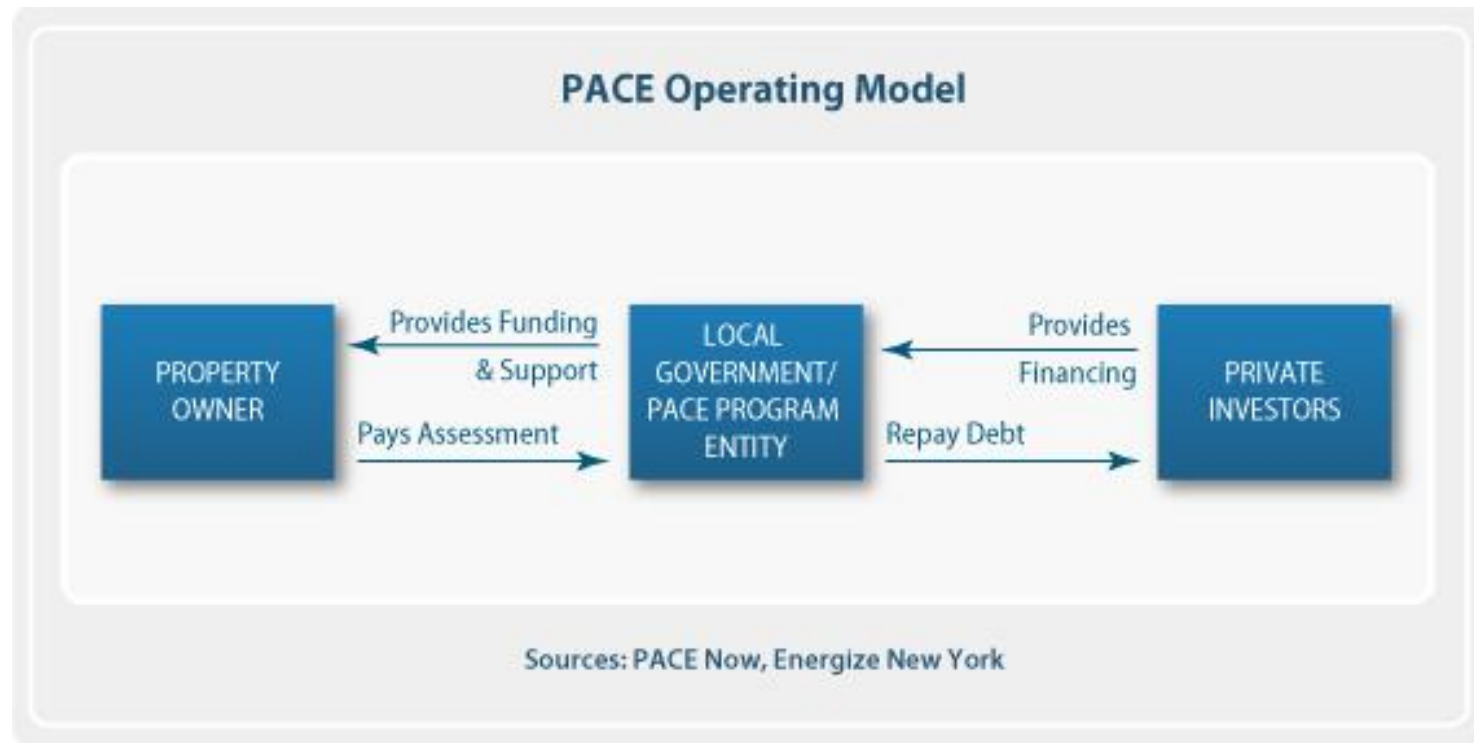


- Housed within the State Treasurer's Office
- Board of five:
  - State Treasurer
  - State Controller
  - Director of Department of Finance
  - President of the CA Public Utilities Commission
  - Chair of the CA Energy Commission
- Uniquely positioned at the intersection of state energy and finance policy since the 1980s.
- Develops market-driven financial assistance programs to support the State's energy and environmental policy goals.

# Existing Programs

- **Residential PACE Loss Reserve - \$10 Million**
  - Currently supporting over \$500 MM in residential PACE Financings
- **California Hub for Energy Efficiency Financing - \$65 million**
  - Unique collaboration on open market platform between CPUC, IOUs, CAEATFA, CSE, Lenders & Contractors
- **Sales and Use Tax Exclusion - \$100 million annually**
  - Tax benefit on manufacturing equipment for advanced manufacturers, and manufacturers of alternative source and advanced transportation products (EE, biogas, electric vehicles, storage etc).
  - \$297 million leveraged \$3.2 billion in project financing, over program lifetime.
  - Creation/Retention of over 12,320 total jobs, estimate over 1,031 directly associated with program.
  - Projects are estimated to result in over \$360 million in fiscal benefits and nearly \$80 million in environmental benefits, creating a net benefit of over \$141 million to the state.
- **Main State Issuer for Energy Related Bonds - \$212 million** in outstanding bonds (QECSs, CREBS, District Heating and Cooling)

# Property Assessed Clean Energy (PACE) Loss Reserve Program



# Policy Context and Origins

- In 2010, the Federal Housing Finance Agency (FHFA) raised concerns regarding the effect of residential PACE lien priority on mortgages backed by federal mortgage enterprises.
  - Because PACE assessments are collected through property taxes, they have priority over other property-based debts, including a first mortgage.
- FHFA instructed federal mortgage enterprises to stop purchasing mortgages for homes with first-priority PACE obligations, leading most PACE programs to suspend their residential financing programs.
- In response to FHFA's concerns, Senate Bill 96 (Committee on Budget and Fiscal Review, Chapter 356, Statutes of 2013) authorized CAEATFA to create:
  - “a PACE risk mitigation program for PACE financing to increase their acceptance in the marketplace and protect against the risk of default and foreclosure.”



# Program Structure

- The Budget Act of 2013 allocated \$10 million for the Loss Reserve.
- Puts First Mortgage Lenders in the same position they would be in without a PACE Assessment.
- The Loss Reserve covers:
  - PACE payments made during a foreclosure (while the first mortgage lender is in possession of the property), and
  - Any losses to a first mortgage lender, up to the amount of outstanding PACE payments, when a county conducts a forced sale on a home for unpaid taxes.
- PACE administrators can participate in the Program by applying to CAEATFA and demonstrating that they meet the Program's minimum underwriting criteria.
- Once a PACE program is enrolled, the Loss Reserve will cover assessments issued by that program for their full terms, or until funds are exhausted or are replenished by the State. Initially estimated to last 8 – 12 years.

# Enrolled PACE Programs

- The Program launched in March 2014, and initially enrolled 8 PACE programs in June 2014:

PACE Program	Areas Served	Administrator
<b>mPOWER Placer</b>	Placer County	County of Placer, Treasurer-Tax Collector
<b>mPOWER Folsom</b>	City of Folsom	County of Placer, Treasurer-Tax Collector
<b>Berkeley Financing Initiative for Renewable and Solar Technology (FIRST)</b>	City of Berkeley	Renewable Funding
<b>Sonoma County Energy Independence Program (SCEIP)</b>	Sonoma County	County of Sonoma, Auditor-Controller Treasurer-Tax Collector
<b>CaliforniaFIRST</b>	State of California	Renewable Funding
<b>Western Riverside Council of Governments (WRCOG) Home Energy Renovation Opportunity (HERO)</b>	Western Riverside County	WRCOG with Renovate America
<b>San Bernardino Associated Governments (SANBAG) HERO</b>	San Bernardino County	SANBAG and Renovate America
<b>California HERO</b>	State of California	WRCOG and Renovate America

# PACE - Program Activity

Program	Initial Application (June 2014)		July 1–December 31, 2014		Total Enrolled	
	Count	Amount	Count	Amount	Count	Amount
mPOWER Placer	464	\$10,502,382.62	312	\$9,540,534.04	776	\$20,042,916.66
mPOWER Folsom	3	\$54,181.18	4	\$86,847.90	7	\$141,029.08
Berkeley FIRST	13	\$299,233.74	-	\$0.00	13	\$299,233.74
SCEIP	1,550	\$43,702,974.25	65	\$1,524,472.34	1,615	\$45,227,446.59
CaliforniaFIRST	-	\$0.00	151	\$3,435,462.04	151	\$3,435,462.04
WRCOG HERO	9,911	\$189,339,784.00	1,757	\$34,971,957.65	11,668	\$224,311,741.65
SANBAG HERO	4,286	\$80,398,364.90	1,763	\$32,056,560.00	6,049	\$112,454,924.90
California HERO	1,174	\$25,974,938.48	2,970	\$67,054,570.85	4,144	\$93,029,509.33
<b>Portfolio Totals:</b>	<b>17,401</b>	<b>\$350,271,859.17</b>	<b>7,022</b>	<b>\$148,670,404.82</b>	<b>24,423</b>	<b>\$498,942,263.99</b>

# PACE – Next Steps

- Strengthen the type of data that the State currently collects and provide to public & policy makers
- HUD – CA – MacArthur Foundation Partnership
  - HUD Guidance on PACE Multifamily (Jan 2015)
  - Credit Enhancement for Multifamily PACE
  - Data efforts with DOE & HUD on CA experience

# California Hub for Energy Efficiency Financing (CHEEF) Pilot Programs



CALIFORNIA HUB FOR  
ENERGY EFFICIENCY  
FINANCING

# What is the CHEEF?

- A **public-private partnership** among state agencies, utilities, lenders, contractors, and borrowers.
- A **streamlined, statewide open market platform** for lenders and contractors to encourage an uptake of energy efficiency projects through increased access to financing.
  - \$10 million for marketing, education, outreach and training for contractors and lenders.
  - Over \$30 million in credit enhancements to lenders to offer improved financing terms across the residential and commercial sectors.
  - Leverages existing IOU infrastructure and tests On-Bill Repayment.
  - A centralized network of participating contractors; project quality assurance and quality control requirements; minimum underwriting criteria for financial product development
- A **data repository** for energy use, project, and financial data to inform future investment in energy efficiency projects.

# CHEEF Pilot Program Goals

- Incentivize customers to engage in energy efficient improvements that conserve energy, reduce pollution, and save money
- Assist lenders in providing broader access to more attractive financing for energy efficiency projects by reducing perceived risk
- Help contractors offer more comprehensive projects with easy-access to financing
- Establish a centralized, statewide database of energy efficiency project and financing data to spur future investments



# Key Program Design Elements

- **Credit enhancements (CEs)**: Minimize risk of capital losses for third-party lenders, thereby resulting in increased consumer access to enhanced financing terms. Up to 20% of principal value, reserve available if loan/lease is charged-off
- **On-bill repayment (OBR)**: Test the hypothesis that payment on the utility bill will increase debt service performance across market sectors.
- **Project quality assurance and quality control**: Increase the quality of financed projects by establishing minimum thresholds that support the proper installation of equipment resulting in energy savings (e.g. requirements for eligible contractors, safety testing, post-project inspections)



# CAEATFA serves as administrator of the CHEEF

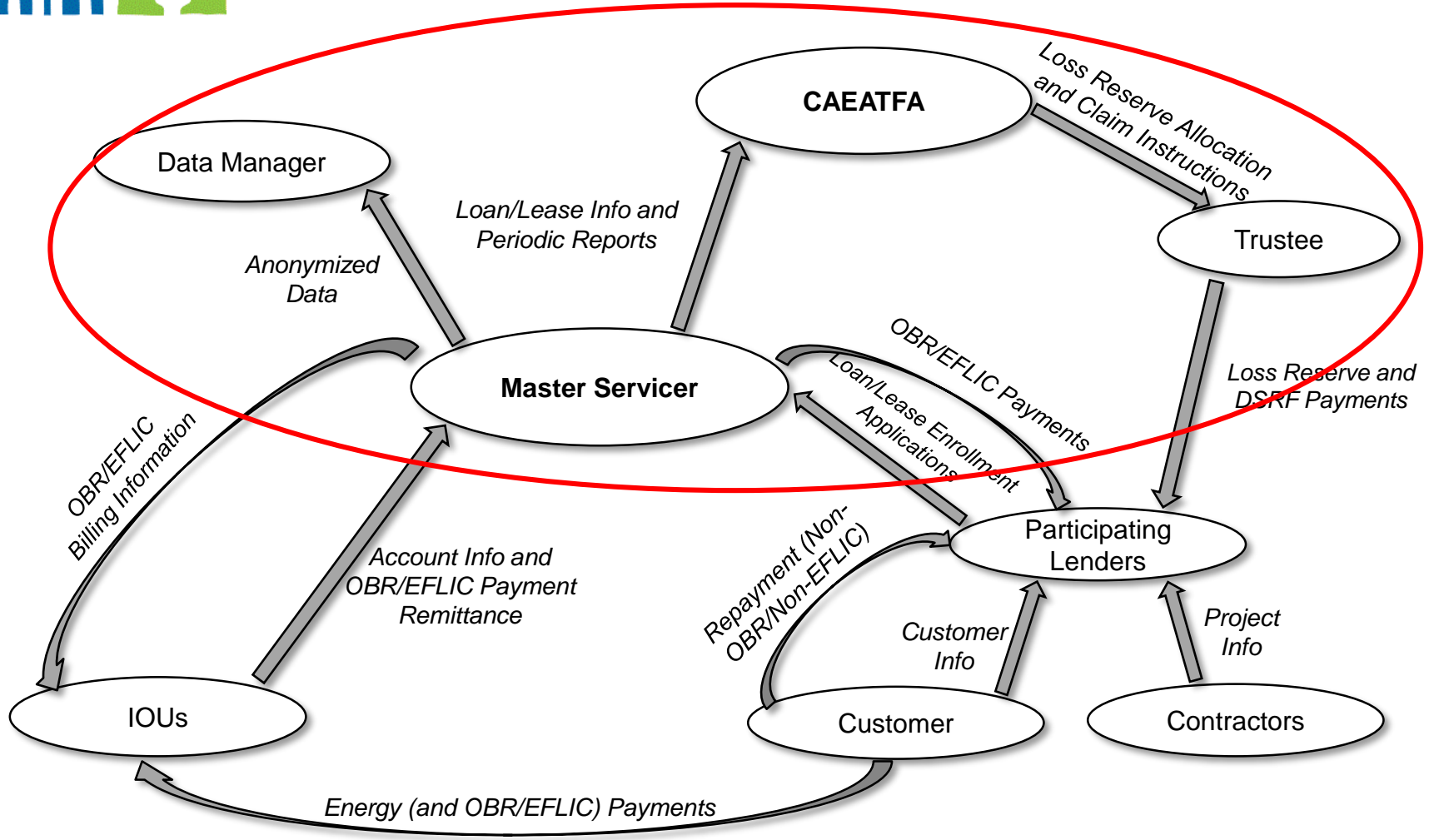
- Develop program regulations including lender requirements, project eligibility criteria, and credit enhancement design
- Coordinate with stakeholders, including the CPUC, IOUs, financial institutions, lease providers, contractors, and end-users
- Establish and Manage Hub Infrastructure
  - Master Servicer – Concord Servicing
  - Trustee Bank – US Bank
  - Contractor Manager – TBD
  - Data manager – TBD



CALIFORNIA HUB FOR  
ENERGY EFFICIENCY  
FINANCING



# CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING



# Overview of Pilot Programs

Sector	Pilot Type	Credit Enhancements	On-Bill Repayment	Disconnection
Residential	Single Family	\$21 million	Optional in PG&E territory	No
	Master Metered Multifamily	\$2 million	Yes	No
Non-Residential	Small Business Loan/Lease	\$10 million	Loans – Yes Leases – Optional	Loans -- Yes OBR Leases -- Yes Off-Bill Leases -- No
	Non-Residential On-Bill Repayment	None	Yes	Yes

# Project Eligibility

- Property must receive gas and/or electric service from an investor-owned utility
- Projects must meet project quality assurance and quality control requirements
  - Safety tests
  - Post-project inspections
- Improvements must be installed by a participating contractor



# Measure Eligibility

- **Eligible Project Costs**

- At least **70% Eligible Energy Efficiency Measures** (as determined by the IOU(s) servicing the property), other related costs such as installation, permitting, and legally-required improvements, and demand response measures
- Up to **30% other, related home improvements**
- Loans may not fund solar or other distributed generation installations (except in non-residential, non-credit-enhanced program)
- Any measure that is currently rebated or incentivized by an IOU efficiency program (<http://eeems.azurewebsites.net/>)
- Single measures and comprehensive retrofits

# Minimum Underwriting Criteria



- **CAEATFA sets minimum parameters**, but participating lenders may choose to set more stringent requirements.
  - e.g. maximum interest rates, minimum FICO scores , DTI
- **No limit on term of loan/Lease (off-bill)**
  - Enrolled loans will have access to loss reserve funds for up to 15 years from the date they are enrolled
- **Testing Alternative Underwriting Methods**
  - Participating lenders may use a borrower's utility billing and payment history to aid in underwriting

# Credit Enhancement Structure

- Primarily using a **loan loss reserve structure**
  - Details of the structure will vary by program; currently under development
- **Up to 20% of the enrolled principal amount** of a loan may be contributed to a lender's loss reserve account
- If an enrolled loan is charged-off, lender may **recover up to 90% of the outstanding principal balance of the loan/lease**
- Loss reserve account balances will be adjusted quarterly to remain aligned with the outstanding balance of the enrolled loan portfolio

# OBR allows customers to make loan or lease payments on their utility bill

- **One payment** for the customer
- **Repayment mechanism** that can work with
  - conventional loans and leases
  - credit-enhanced loans and leases
  - likely, service agreements
- IOUs collect and remit funds only
- Lender is responsible for underwriting and lending
- **No assignment of security** to the utilities
- **Financing is not “meter secured”**; loan/lease comes off-bill with account termination at the location unless mutually agreed transfer of obligation





# Goals of OBR

- Attract private capital to support energy efficiency investments, by leveraging the additional security created through use of the utility bill to service energy efficiency financing
- Explore if OBR reduces delinquency and charge-offs
- Improve interest rates and other terms under which lenders offer energy efficiency financing to customers
- Enable more customers to qualify for energy efficiency financing than would otherwise be possible in the absence of OBR

# Data Portal

- Will provide anonymized and aggregated energy use, project, and financial data to inform future investment in energy efficiency projects.
- Incorporate CA's other EE financing efforts:
  - IOU On-Bill Financing
  - ARRA Programs
  - PACE Programs



# Marketing, Education, and Outreach

- A **\$10 million** budget is available for marketing, education, outreach, and training for the pilot programs
- Implemented through the Center for Sustainable Energy, CAEATFA, the IOUs, and other strategic partners
- Funds will support:
  - Outreach and training to lenders and contractors on program requirements
  - Training lenders and other partners on how to use EE financing as a selling tool
  - Digital and direct marketing and advertising
  - Marketing and training videos
  - Cooperative marketing campaigns

# Timeline

Milestone	Anticipated Date
<p>Program Infrastructure</p> <ul style="list-style-type: none"> <li>• Received Legislative Budget Authority</li> <li>• Entered into Contract with IOUs</li> <li>• Trustee Solicitation and Contract</li> <li>• Master Servicer Solicitation and Contract</li> <li>• Contractor Manager Solicitation</li> <li>• Data Manager Solicitation</li> </ul>	<ul style="list-style-type: none"> <li>• July 2014</li> <li>• September 2014</li> <li>• Nov – Feb 2014</li> <li>• Oct – April 2015</li> <li>• Under Development</li> <li>• Under Development</li> </ul>
<p>Launch of Off- Bill Residential Energy Efficiency Loan Program</p> <ul style="list-style-type: none"> <li>• Regulations Developed and Approved</li> <li>• Lender Enrollment</li> <li>• Anticipated Launch</li> </ul>	<ul style="list-style-type: none"> <li>• Oct 2014- March 2015</li> <li>• Ongoing</li> <li>• June/July 2015</li> </ul>
<p>Launch of On-Bill Programs</p> <ul style="list-style-type: none"> <li>• Establish OBR Functionality</li> <li>• Program Regulations Development</li> <li>• OBR Program Launch ( EFLIC, Multifamily, Small Business Loan/Lease)</li> </ul>	<ul style="list-style-type: none"> <li>• May 2015 – Q4 2015</li> <li>• April – Q4 2015</li> <li>• Est. Q4 2015</li> </ul>



# Contact Us!

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