



CADMUS



# Keys to Successful PACE

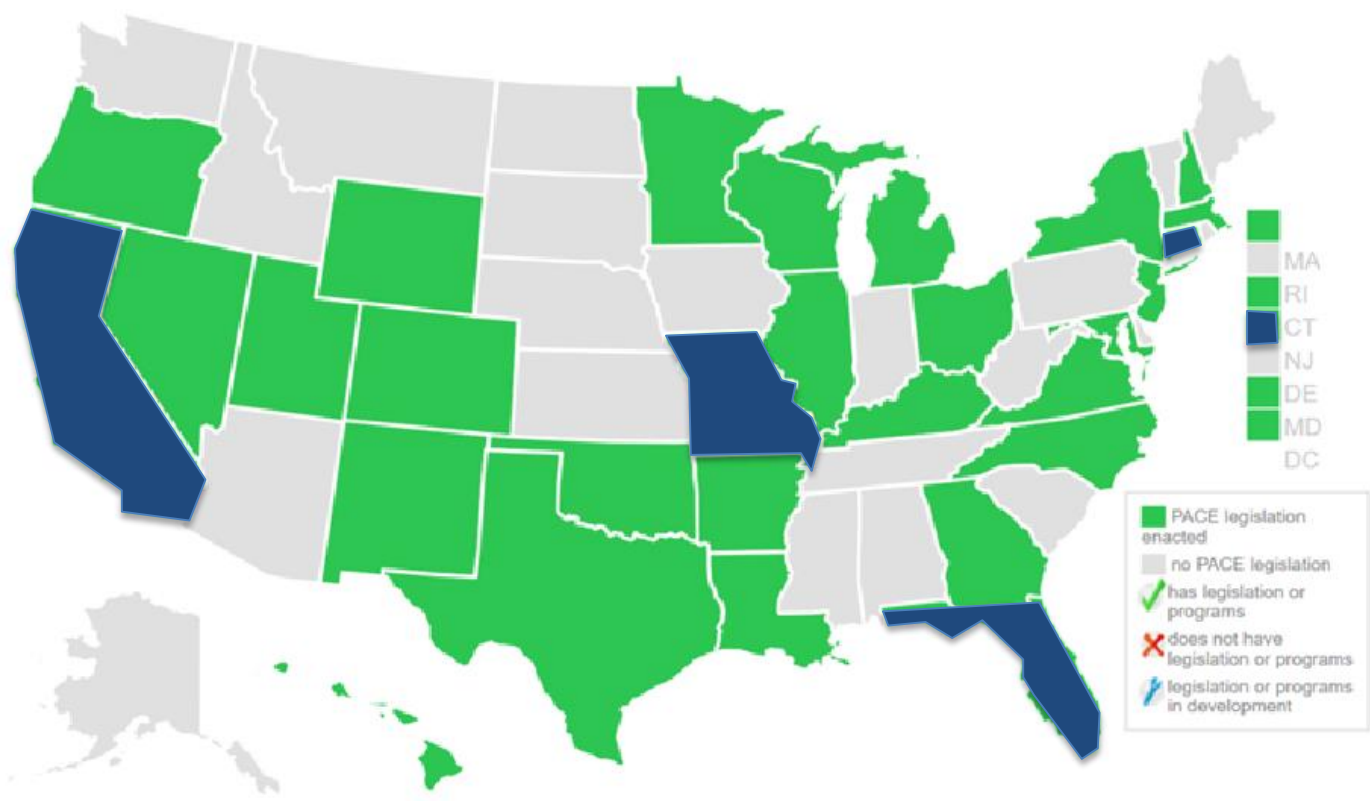
## Lessons Learned from a Case Study of HERO PACE

*ACEEE Finance Forum*

*May 23, 2016*



# States with Enabling Legislation



Source: PACENation.com



# California Residential PACE

What factors led to PACE's success?

| Program   | Properties Currently Enrolled as of March 2016 | No. of Counties Participating |
|---|--|-------------------------------|
| HERO  | 48,716   | 44                            |
| CaliforniaFIRST (OpenPACE)                        | 3,708  | 43                            |
| Sonoma County Energy Independence Program (SCEIP) | 1,521  | 1                             |
| mPOWER  | 1,239  | 2                             |
| YGRENE  | 911  | 41                            |
| Berkeley FIRST                                    | 12   | 1                             |
| Alliance NRG (OpenPACE)                           | 1  | 30                            |



## Background: HERO Program Case Study

- Funded by California IOUs
- Interviews
  - Local government sponsors
  - Renovate America senior management
  - Participating contractors
- Resident surveys ongoing (results anticipated August 2016)
- Analysis: program design & operations; “attribution” (relative influence) analysis with utility rebates
  - No impact analysis



## Key Tentative Findings...

- PACE financing has demonstrated its appeal
- Key selling points (according to contractors)
  - No FICO requirement
  - Debt-to-income not a factor
  - Tax deduction for interest offsets some of the fees and interest
  - Can transfer, or can be paid off
  - Low payments for larger loans (relative to contractor financing, unsecured products)

Doesn't have  
to be the  
cheapest  
option!



## Key Tentative Findings...

- The financing is only partly responsible for PACE success
  - Sponsor as champion
  - Streamlined program
    - Easy approval and application, compelling for customers
    - Fast processing and payment for contractors (within 48 hours)
  - Strong consumer protection/anti-fraud to protect positive public perception



## Key Tentative Findings...

- Sponsor needs to take the lead, initially
  - Complex program requires a champion
  - Identify goals of local stakeholders (economic stimulus, conservation, etc.)
- Significant labor effort from at least one community
  - State or regional programs achieve economies of scale







## Key Tentative Findings...

- Program structure is important
  - Third party administrators operate the most active programs
    - More expensive, but offer more resources
    - Less intensive local programs can offer lower fees
  - “Marketplace” approach to PACE – with multiple competing programs – appears to be successful
  - Local operation is not necessary for local control





|  |  |   |  |
|--|--|---|--|
|   |   |   |   |
| <p>Authorized by the Sonoma County Board of Supervisors, SCEIP Financing was established in March 2009 as a key strategy to reach community climate action plans. SCEIP is available to all geographic areas of Sonoma County, allowing residential and commercial property owners the ability to finance energy efficiency, water conservation, and solar improvements.</p> | <p>CaliforniaFIRST launched in summer 2014 and operates under the auspices of the California Statewide Communities Development Authority (CSCDA). Through CaliforniaFIRST, property owners can make improvements that save energy or water such as solar panels, new windows, drip irrigation, artificial turf or an energy efficient roof.<br/><a href="http://www.californiafirst.org">www.californiafirst.org</a></p> | <p>HERO Program began operations in December 2011 with a partnership between the Western Riverside Council of Governments and Renovate America, Inc. With over 1 million eligible products available for financing, property owners can save energy and water now.<br/><a href="http://www.heroprogram.com">www.heroprogram.com</a></p> | <p>Figtree Financing is a San Diego-based clean energy financing company providing innovative programs to enable capital for environmentally friendly products and services.</p> |
| <p><b>Interest rate:</b><br/>10-yr: 7.0%<br/>20-yr: 7.0%</p>   | <p><b>Interest rate:</b><br/>5-yr: 6.75%<br/>10-yr: 7.59%<br/>15-yr: 7.99%<br/>20-yr: 8.29%<br/>25-yr: 8.39%</p>   | <p><b>Interest rate:</b><br/>5-yr: 6.75%<br/>10-yr: 7.69%<br/>15-yr: 8.15%<br/>20-yr: 8.35%</p>   | <p><b>Interest rate:</b><br/>coming soon</p>   |
| <p><b>Fees:</b><br/>\$44 annual fee; \$12 valuation fee, \$125 title search fee, \$66 recording fee</p>  | <p><b>Fees:</b><br/>\$30 annual fee; one-time fee not to exceed 6.5% of project</p>  | <p><b>Fees:</b><br/>\$35 annual fee; one-time fee of 4.99% of project, \$95 recording fee</p>   | <p><b>Fees:</b> coming soon</p>  |

**A PACE Marketplace...**  
 Programs compete on terms, rates and fees, eligible measures...  
 and the options for borrowers are increasing.



# Key Tentative Findings...

- Contractors are the gateway to customers
  - Open to new products, typically offer several financing options
  - Require no risk to sales or business - easy, fast approvals and processing
  - HERO provides extra benefits as well:
    - Intensive training for sales reps
    - Marketing support - lead generation, materials design (formerly cash incentives)
    - Responsive customer support
    - Sales tools – video, proposal generation tool
    - Active QA/QC keeps other contractors in line



## Key Tentative Findings...

- Successful programs will overcome a few hurdles:
  - Administrators need to ensure consumer protection/prevent fraud
  - Contractors need to be confident they can communicate a complex program, and get paid in a timely manner
  - Transferability not yet proven feature
  - Tax deduction a grey area



ns/2805339-do-i-claim-the-full-amount-in-the-property-tax-bill-or-deduct-hero-portion

City USAJOBS Energy Jobs grad Schools Economics That Really...

**TurboTax** AnswerXchange

Go to TurboTax.com Sign In

Search the community...

**Do I claim the full amount in the property tax bill or deduct Hero portion?**

Asked by tulgae TurboTax Deluxe

**RECOMMENDED ANSWER**  
10 people found this helpful

It would depend on whether you qualify for both. Because loans associated with the property tax bill, the loan is recorded again priority over other loans tied to the property, including a mortgage. *we will help you determine if you qualify for the credit along*

**hero** How HERO Works Home Energy Projects Find a Contractor Learn More

**APPLY NOW**

What interest rates does HERO offer?

Since HERO is part of my property assessment, is it tax-deductible?

The interest on HERO payments may be tax deductible. Please consult a tax advisor regarding potential tax benefits.

Can rebates be used with HERO financing?

**ESQUIRE** REAL ESTATE BROKERAGE, INC.

HOME ABOUT US OUR PEOPLE CLOSED TRANSACTIONS BLOG CONTACT US

**HERO Program Offers Tax Deductible Home Repairs**

FEB 19 2015

By Amir A. Torkamani  
In Tips and Advice  
Comments (0)

**igrene WORKS** Contractor Login Chat Now

Homeowners Commercial Service Areas Improvements Learn More

**CHECK ELIGIBILITY**

3. Why is making payments on my property tax bill a great idea?  
Making payments on your property tax bill is a great idea for many reasons. First, it saves you money. The payment may be tax-deductible, which reduces your effective cost. Additionally, just like property tax, the payments stay with the property when you move. The new owner makes future payments while also enjoying the energy and tax savings benefits. Further, depending on when you install your upgrade, you

estimated value of the ITC.

**Is the interest on the property tax payment tax deductible?**

The interest portion of payments made under the CaliforniaFIRST Assessment Contract may be deductible for income tax purposes. The interest portion will vary from year to year, and any tax savings will depend on your tax bracket and other variables. You should consult with your tax advisor to determine if, and to what

Different programs offer different advice about deducting the assessment.



## Key Tentative Findings...

- PACE is well-suited to many homeowners, projects, and contractors
- PACE may not be right for some
  - Retirees? (can't use the tax benefits)
  - Landlords and renters (still face split incentive)
  - Homeowners without equity
  - Smaller projects (<\$5,000)
  - Very large projects (>10-15% of property value)



# For More Information

Laura James

503.467.7176

[laura.james@cadmusgroup.com](mailto:laura.james@cadmusgroup.com)