



Property Assessed Clean Energy Policy

Scope: CITYWIDE

Policy Contact

Jennifer Venema

Sustainability Manager

Public Works

(916) 808-1859

JVenema@cityofsacramento.org

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Effective Date: December 6, 2016

I. PURPOSE AND INTENT

The purpose of this policy is to provide the City of Sacramento's expectations regarding the operation of property assessed clean energy (PACE) programs within city limits. This policy sets forth standards for consumer protections and responsible lending practices. The City intends that this policy will support the following primary objectives:

- a. Foster consumer protection practices;
- b. Encourage cost-effective improvements that result in real reductions in energy and water use; and
- c. Provide guidance to City staff for the oversight of PACE programs in the City of Sacramento.

PACE programs offer an alternative means to finance energy, water, and seismic improvements that are permanently affixed to existing properties. Eligible improvements may vary by PACE program, but generally include improvements for energy and water efficiency, distributed generation renewable energy facilities such as solar photovoltaics, and vehicle charging. Property owners participate by entering into a voluntary contract, which allows for placement of an assessment lien on the property for full project costs. Upfront costs are paid directly to the contractor completing improvements. Property owners then repay the costs of improvements, fees, and interest as a special assessment on property tax bills, typically over a five- to twenty-year period. PACE is a property-secured form of financing, which can remain with the property if sold or transferred.

2. DEFINED TERMS

For purposes of this policy, the following terms are defined and used hereinafter.

- a. "City" refers to the City of Sacramento.
- b. "Consumer" refers to the owner of property within the City's official boundaries that is considering or applying for PACE financing, or has executed an agreement for a PACE assessment on said property.
- c. "PACE program" refers to a PACE provider's distinct property-secured offering for the financing of energy, water, or seismic improvements on properties in city limits, or other improvements as deemed eligible by the California legislature that will be permanently affixed to real property, whereby the funds for improvements are repaid through contractual assessments. PACE programs are generally characterized by a unique program administrator, in addition to customized program branding, underwriting criteria, and approved participating contractors. Several PACE programs may operate under a single PACE provider. For example, PACE providers may offer separate programs for residential and nonresidential properties, with different program names and branding.

- d. “PACE provider” refers to the joint powers authority authorized by resolution of the City Council to conduct PACE-related proceedings for property within the City’s official boundaries. PACE providers may delegate certain responsibilities and operations to entities that administer, manage, or assist with PACE program implementation, such as the review and approval of applications, securitization of financing, preparation and submission of annual levies, management of assessment repayments, and the administration of requirements for participating contractors. PACE providers may offer one or more PACE programs within City limits, with each program typically managed by a unique administrator working on behalf of the PACE provider. This definition includes PACE administrators, in instances where certain PACE provider responsibilities are delegated thereto.
- e. “Participating contractor” is any contractor that sells, installs, or completes improvements to real property for consumers pursuant to a PACE assessment in city limits. This definition includes any subcontractors working on behalf of a participating contractor as defined herein.

3. MINIMUM STANDARDS

The City expects PACE programs to meet the following minimum standards. Each PACE program should maintain PACE-related documentation, which may be necessary for demonstrating procedures, disclosures, and operations pursuant to the expectations in this policy.

- a. Consumer Disclosure
 - i. Each PACE provider should offer a three-day right to cancel the contractual assessment at any time prior to midnight on the 3rd business day after financial disclosure is provided to the property owner, with no penalty or obligation.
 - ii. Each PACE provider should provide information to consumers online, in written materials, or in video or another digital format, which encourages the completion of efficiency measures before generation installation such as solar photovoltaics.
 - iii. For residential properties:
 - a) Prior to assessment agreement execution, each PACE provider should require written applicant acknowledgment of the Federal Housing Finance Authority position on PACE financing on a signature acknowledgement page.
 - b) PACE providers should verify terms of financings live by telephone for homeowners age 64 years or older to verify that applicants understand financing terms and proposed project improvements prior to agreement execution, and maintain a written record of such acknowledgements, in addition to phone verification for any other special categories of homeowners. Voicemail messages do not satisfy this guidance for financing term confirmation.

- iv. For non-residential properties: Prior to agreement execution, each PACE provider should require written lender affirmative acknowledgement from any senior mortgage lender, acknowledging the assessment under consideration by the property owner. Documentation of acknowledgement should be maintained.
 - v. Under no circumstance should a PACE provider or participating contractor represent a PACE program as a City-endorsed or administered program.
 - vi. Within advertising materials, program websites, and written agreements with consumers, each PACE provider should give written statements to consumers that recommend consultation with a tax professional prior to claiming any tax deductions associated with the project.
- b. PACE Eligibility
- i. Each PACE provider should verify that property owners are current on all property taxes and mortgage debt for the subject property prior to approving a property for an assessment.
 - ii. Each PACE provider should establish maximum assessment amounts by property type that are reasonable in relation to property value, and identify limitations on the total amount of any annual property taxes and assessments.
 - iii. Each PACE provider should deny projects where total mortgage-related debt on the underlying property and total assessment value would exceed the fair market value of the property.
- c. Quality of Work and Customer Service
- i. Each PACE provider and any participating contractors should perform all work hereunder in a manner consistent with the level of competency and standard of care normally observed by an entity delivering PACE-related services, and in accordance with generally accepted professional practices and standards of care.
 - ii. Each PACE program should include a requirement that all participating contractors obtain finalized permit approval, or proof of permit approval, for any applicable permits.
 - iii. Each PACE program should contain minimum training and management systems for participating contractors, including but not limited to standards for allowable improvements, processes to ensure consumer protections, and quality assurance procedures.
 - iv. Each PACE program should contain an eligible products database for use by its participating contractors, which identifies allowable products and specifications with maximum costs. The database should only contain products that are recognized by the U.S. Department of Energy, U.S. Environmental Protection Agency, or California state agencies to provide reductions in energy and water use.
 - v. Each PACE program should include a post-project dispute resolution process, which is summarized online or in written format.

- d. Financial Policies
 - i. Each PACE provider should use fixed interest rates that are not variable.
 - ii. Each PACE provider should provide payment schedules for consumers that fully amortize the total obligation with no balloon payments.
 - iii. Each PACE program with assessment offerings to residential properties should be enrolled in the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) PACE Loan Loss Reserve Program, or a comparable loan loss reserve program that, at a minimum, meets CAEATFA eligibility criteria.
- e. General Processes and Documentation
 - i. Each PACE program should include a standardized financial disclosure form in proposals and provide to consumers for review and signature prior to execution of an assessment agreement. Documentation of said disclosure forms shall be maintained for as long as the assessments remain on consumers' property. The financial disclosure form shall clearly identify a) the amount financed, including capital costs, interest, and fees; b) repayment process and schedule; c) annual payment amounts; d) total to be paid for the life of the loan; e) simple interest rate; f) annual percentage rate, or APR; and g) any prepayment fees.
 - ii. Each PACE provider should notify the City of any delinquencies and foreclosure actions as a result of a default in the payment of an assessment.
 - iii. Each PACE provider should establish guidelines and procedures to remove satisfied assessments and manage delinquencies. The PACE provider should give multiple written notices to any property owner with delinquencies, and offer options for repayment prior to initiating legal action for collections.
 - i. Each PACE provider should give the City program reports upon City request, or access to an online data portal, to show performance metrics such as total number of residential and nonresidential project financings, total financed amount, estimated energy and water savings, and energy capacity of any generation improvements installed. For PACE providers with more than one program, the PACE provider shall be responsible for providing the City with metrics in a standardized format.
 - iv. Each PACE provider should maintain documentation on PACE-related transactions and furnish to the City upon request within thirty calendar days.

5. ADDITIONAL RECOMMENDED GUIDANCE

The City encourages consideration and implementation of the following additional practices.

- a. Within preliminary proposals, each PACE program is encouraged to include documents that disclose estimated cost savings in utility bills, energy reductions, and the payback period for project improvements.
- b. Each PACE provider should encourage participating contractors to recommend cost-effective improvements for PACE financing with payback periods that are within the useful life of the equipment.
- c. Each PACE program should include materials online and in written format that encourage consumers to consider available rebates and incentives for improvements, including but not limited to those offered by the Sacramento Municipal Utility District, Pacific Gas and Electric, the City of Sacramento, and other local, state, or federal rebates, as applicable.

6. POLICY COMPLIANCE

Consistent with the foregoing, the City makes the following general representations:

- a. Should a PACE provider or its PACE programs fail to meet the City's expectations as identified in this policy, the City reserves its right to alter or terminate its relationship or membership with the PACE provider.
- b. This policy constitutes the City's expectations and provides guidance to City staff to conduct oversight of PACE programs; however, notwithstanding the foregoing, this policy should not be relied on by consumers as to the fairness or legitimacy of any specific PACE program.
- c. The Sustainability Manager of Public Works shall be responsible for administering this policy and providing recommendations to City Council accordingly, together with any other staff persons chosen by the City Manager.
- d. Nothing in this policy amends the City's role or responsibilities as identified in the authorizing resolutions for each PACE provider as defined herein, and the City shall not be responsible for the conduct of any assessment proceedings; the levy of assessments; any remedial action in the case of delinquencies; or the issuance, sale or administration of any bonds issued in connection with the PACE programs.