

WORKSHOP ITEM SUMMARY SHEET
VILLAGE COUNCIL MEETING
October 3, 2018

Agenda Item:

Follow up presentation on request for a Property Assessed Clean Energy (PACE) program

Description:

In order to address concerns raised at the September 5, 2018 Workshop, staff asked the representatives of one of the PACE administrators to provide a response to Council.

Staff has not evaluated the program or explored steps required to adopt a PACE program.

It is our understanding that both Fort Myers and Cape Coral have approved the creation of a PACE program.

Based upon preliminary discussion with the Lee County Tax Collector, the program will not be added to the tax roll until the 2019 tax year; therefore, required documentation needs to be finalized by December 2018. If it is Council's direction to consider creation of the PACE program, Village staff and attorney would begin to research and develop the required documentation.

Financial Impact:

Based upon information provided by the Lee County Tax Collector, no fees would be assessed to the Village. However, if directed to proceed, staff and legal counsel would research and confirm the financial impact and legal exposure, if any, to the Village.

Attachments:

1. PowerPoint presentation

PACE PROVIDER FOLLOW-UP

Village of Estero PACE Discussion Part II:
October 3, 2018

PACE'S DIFFERENTIATED VALUE PROPOSITION

Every \$1M in PACE Projects
Financed should result in 15
new jobs created—*verified
in Charlotte County*

- ▶ PACE helps to satisfy a **compelling public purpose** by **effectively directing private capital** to high-performance **wind mitigation** and **energy savings** property improvements
 - ▶ Early 2000's **FAILED property insurance market** that we are still recovering from
 - ▶ There was **NO Energy Code for buildings prior to 1992** in the state and energy efficiency incentives over the past 10-15 years have diminished significantly all while the **energy/building code continues to ratchet up**
 - ▶ When properties are **not able to effectively weather wind storms** or make necessary improvements after a storm they **become a burden to the larger community and municipalities**
- ▶ PACE provides for a level of **comprehensive consumer protection** that is **NOT available** with **other types of property improvement financing**
- ▶ PACE is **voluntary** and enables **financing terms that are tied to the useful life** of pre-qualified high-performance products/services to **enable property owners to afford improvements** that typically have a high upfront cost yet may significantly reduce operating costs
- ▶ There is no **risk, liability or cost** to the local government
- ▶ Economic Development Benefits: **Job Creation** and more **resilient** and **efficient building stock**

POTENTIAL INCREASED BURDEN ON HOAs DUE TO SENIOR LIEN POSITION:

- ▶ The data is proving out that homes with PACE projects have **very low delinquency rates (< 1%)** and **default rates that are far lower than** homes with **prime mortgages (<< 1%)**. “**PACE delinquency metrics are lower than general aggregate property tax** and single-family residential only property **tax delinquency levels.**” (DBRS PACE Delinquency Trends Report 2018)
- ▶ **PACE lien does not accelerate:** In a default situation only the current annual PACE assessments and those that are in arrears (at most 2 years worth) are required to be paid off in a tax deed sale.
- ▶ **CONCLUSION:** Industry does not see how homes with PACE assessments represent a new and significant burden to HOAs given both the performance history of PACE assessments in the marketplace and the way the PACE assessment is treated in a default situation.



PACE does not target any particular demographic or income group, rather what the evidence suggest is that PACE seems to be chosen by property owners that tend to want to **invest in, protect and reduce the operating costs** of their home. We can **only offer PACE financing to homeowners that have not been late on any mortgage or tax payments over the past 3 years**. In the Morningstar study the group of borrowers analyzed demonstrated an **average FICO score of 700** (Clearing the Air—Addressing Three Misconceptions of PACE 2017)



Property Owners implementing **wind mitigation improvements** through PACE are seeing **insurance premium reductions between 25% to 50% or more** depending on the wind zone their property is located in



CONCLUSION: PACE is regulated in a way to **prevent over-leveraging of a property or property owner and contributes to operating cost savings** that offset some or most of the annual or monthly PACE assessment payment



Other Underwriting Criteria: Owner needs to have **at least 10% equity** in the property and we **cannot finance a project amount that exceeds 20% of the existing just value** of the property



Energy savings from energy efficiency improvements can contribute to **10 to 30% reduction in utility costs**

ABILITY TO PAY CONCERN: SUFFICIENT CASH
FLOW TO COVER PAYMENTS

PROTECTION

PACE

Product Performance Requirements



Contractor Performance and Training Requirements



Fair pricing Requirements



Permit and Inspection Requirements



Funding only Provided after Homeowner Signs-off



Dispute Resolution



Confirmed Terms Call for All Customers



Homeowner's 3-Day Right to Cancel



PACE PROVIDES FOR A
COMPREHENSIVE SUITE
OF CONSUMER
PROTECTIONS NOT
AVAILABLE WITH OTHER
FINANCING
MECHANISMS



PACE IS ANOTHER OPTION IN A SUITE OF FINANCING OPTIONS AVAILABLE TO A PROPERTY OWNER

- ▶ All over Florida, we are hearing from property owners about their desire to be able to use PACE
 - ▶ Property owners that **have had roofs damaged in wind storms** now have a way to get their roof fixed to the correct wind mitigation standard **without any money out of pocket** and once they receive their insurance claim can **partially or fully pre-pay their PACE assessment off**
 - ▶ Property owners that face a **broken AC in the middle of summer**, may **not want to use a credit card** or have the time to **go through an application for a HELOC** and PACE can ensure that the high-performance equipment is installed immediately and permitted according to local municipal standards
- ▶ We have seen property owners that **due to some type of damage to their credit**, ex. Medical bill or **because they don't want to impact their credit** find PACE an option they would like to have
 - ▶ One PO looking to replace a broken HVAC system either had the option of a **29% lender of last resort financing** rate from a Contractor or **PACE at ~7%**

- ▶ Particular Property Owners (usually **long-term owner / operators** with fixed annual operating budgets and Tenants with triple net leases) and Classes of Buildings (example: cash poor **Class B and C buildings**) find that PACE allows them to **make necessary and timely energy reduction / cost savings retrofits** that otherwise would have to be deferred to a later date or not implemented until equipment **fails resulting in even greater costs to owners. Tenants and members of the community** that frequent the businesses in a PACE-financed property **also benefit from lower energy costs, increased comfort and decreased burden on the environment**
 - ▶ We are seeing **Class B and C Hotel Owners** finally have a way to finance much needed retrofits off-balance sheet, thereby **immediately reducing operating costs** and helping to **increase occupancy rates** of their property by making the rooms more comfortable and attractive (owner can **use any equity or non-PACE debt** available to **invest into property aesthetics**)
- ▶ **PACE can encourage Property Owners to build more resiliency and efficiency** into their properties which benefits the entire community.
 - ▶ Ex. **Multifamily property with high-efficiency HVAC and LED lights**: enables tenants to have lower operating costs and everyone benefits from the overall environmental value
- ▶ **PACE offers a more attractive alternative to mezzanine financing** in a capital stack
- ▶ **CONCLUSION**: PACE enables **commercial owners to accelerate the resiliency, sustainability, efficiency upgrades** that **benefit owners, tenants and the larger community** and improve the economic value/competitiveness of commercial properties

WHY DO COMMERCIAL PROPERTY NEED THIS PACE OPTION?

OVERVIEW OF COMMERCIAL PACE BENEFITS

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Benefits to the community:

- No financial risk to the community
- Job creation using local companies to build/install the projects
- Increased property tax base
- Increased sales tax revenue
- No credit or general obligation risk
- Reduces the risk of obsolescence of the community's building stock
- Assists with business retention and expansion, without the need for costly incentives, such as tax abatements
- Supports the community's environmental stewardship - buildings account for 40% of green house gases, improving the community's "clean community" reputation

Benefits to the Lenders

- Senior lien status
- Tax assessment base creates a strong recovery mechanism
- Reserve fund to protect against late payment
- Savings to investment ratio greater than 1 to 1
- Repayment obligation transfers to future property owner

Benefits to the Property Owner

- Treated as an expense versus capital expenditure, accelerating energy asset and qualified building upgrades with no ROI threshold to meet
- Preserves capital
- Significantly lowers direct and indirect operating and maintenance costs
- Creates an immediate and meaningful increase in property value