NASEO State Financing Committee Call Notes

Thursday, October 4, 3:00-4:00pm ET

Attendees:

Alabama Department of Economic and Community Affairs
Arizona Governor's Office of Energy Policy
Cadmus Group
Energy Programs Consortium
Florida Department of Agriculture and Consumer Services
Kansas Corporation Commission
Michigan Energy Office
Missouri Division of Energy
NASEO
Rhode Island Office of Energy Resources
SAIC-Florida PACE Program
Washington Department of Commerce, State Energy Office
West Virginia Division of Energy

Welcome and Announcements

In the absence of Jeff Pitkin, NYSERDA Treasurer and NASEO Financing Committee Chair, Sandy Fazeli of NASEO opened the call. She announced that the next monthly committee call will take place on Thursday, November 1, at 3:00pm ET. It will feature a presentation from Pat McGuckin of the Cadmus Group on the "Pay-it-Forward" energy efficiency fund model.

NASEO, Member, and Partner Updates

QECB update: Elizabeth Bellis of the Energy Programs Consortium (EPC) provided an update on Qualified Energy Conservation Bonds (QECBs). EPC issued a memorandum in September that provides an update on recent guidance released by the U.S. Treasury as well as new QECB issuances in states and localities. She noted in particular the first transit-related issuance in Spotsylvania, VA. This memo is available through NASEO's State Energy Financing Resources page: http://www.naseo.org/resources/financing/qecb/index.html

Elizabeth also noted a recent report issued by the White House Office of Management and the Budget, which explains potential program cuts in the event of a budget sequestration. This would result in up to $2 million of cuts to QECBs, which would affect existing bond holders. NASEO and EPC are available to states who seek more guidance or detail on this issue.

SEEAction Update: Sandy and Elizabeth also provided an update of a recent meeting held by the Financing Data subgroup of the State and Local Energy Efficiency Action (SEEAction) Network. This meeting explored the issue of how investors can fain more confidence in energy efficiency loan performance data in order to create more access to capital for energy efficiency upgrades and investments. In the coming months, SEEAction may be requesting that states provide information about their efficiency and loan data collection, formatting, and storing methods.

Comments on PACE and RUS rulemaking: Sandy noted that NASEO submitted comments to the Federal Housing and Finance Authority earlier in October expressing its support of residential property assessed clean energy (PACE). NASEO also signed on to a coalition letter developed by the Environmental and energy Study Institute (EESI) to provide comments on the Rural Utility Service (RUS) Energy Efficiency and Conservation Loan Program. For the details of either of these comment letters, please contact Sandy Fazeli (sfazeli@naseo.org).

Fannie Mae loan portfolio: Elizabeth noted that at least one state has received correspondence from Fannie Mae indicating that it is selling its unsecured energy loan portfolio. This will affect state energy offices that currently offer its loan products through their programs, as well as those that sell their loans to Fannie Mae.

Member updates: Members of the Financing committee did not have announcements or updates to share on this call.

Presentation: "Florida PACE Funding Agency"

Sandy introduced the presenter of the day's call, Hamilton McLean, Business Operations Manager of SAIC. Ham has been serving on the SAIC team administering the Florida PACE Funding Agency (the "Agency"), an independent special purpose entity created in June 2011 to implement a statewide PACE program in Florida. It possesses the authority to issue up to $2 billion in taxable revenue bonds for eligible improvements throughout the state. Counties and cities must agree invite the Agency to manage PACE in their jurisdictions; the Agency will not operate anywhere where it does not have express permission from local government participants (called "subscribers").

Ham noted special characteristics about the enabling legislation authorizing PACE in Florida. It provides that special tax assessments are "non-ad valorem assessments," which means that in the event of default, the PACE assessment is paid first along with the property taxes *before* the mortgage. The legislation also does not allow a mortgagee to accelerate a property owner's payment of the mortgage simply because the owner has entered into a financing agreement. Finally, it includes stringent statutory financing underwriting criteria.

The Agency has received judicial validation to administer its program. This gives the Agency judicial approval for its bonding authority, charter agreement, financing agreements, and the assessments imposed.

Ham explained the benefits of PACE and how the Agency can deliver these benefits. As a single provider with one set of underwriting procedures, contractor/vendor review processes, and uniform payment, this program brings efficiencies of scale to an otherwise diverse statewide commercial buildings market. It is estimated that this model can generate $5 billion in economic activity and 30,000 jobs for the state, at little expense to the state, county, or municipality. Additionally, the fact that wind-resistant improvements are qualified for PACE financing gives a large portion of Floridians access to capital to make their homes not only more efficient, but also safer in Florida's hurricane-prone environment. There is no legal or financial obligation that state or local governments assume; the Agency absorbs these risks entirely.

The following properties are eligible to participate: residential "jumbo" mortgages (which have greater than $417,000 mortgages, and which Fannie Mae and Freddie Mac do not buy), multifamily rental, common ownership (expected), commercial, industrial, private healthcare, private education, agricultural, and taxable governmental facilities.

Contractors are eligible to be part of the program provided that they are certified at the state level or registered at the local level. For a fee, the Agency provides contractors with program training, promotional materials, and access to the stream of proposals.

Q&A/Discussion

Q: Does the Agency's model look at the property owner's FICA score?
A: No. There is one type of PACE model, the open-market model, where the property owner needs to apply for a loan with the bank—in these instances, the FICA score is a factor. In the Florida PACE Funding Agency model, it is Florida's rigorous property tax system that allows the Agency to bypass the FICA score and still have enough confidence that the tax assessment will not be defaulted on.

Q: How many projects has the Agency completed?
A: The Agency has not yet closed a deal. Most of the financial services providers that the Agency has courted allow the mortgagee to accelerate the mortgage of a property owner if s/he adds debt to the property. For this reason, the mortgage lender has to give permission to go against this dynamic, even though the state of Florida makes it unenforceable to accelerate the mortgage in such instances.

Q: Michigan is experiencing a similar problem. PACE legislation is not as comprehensive as in Florida and does not make mortgage acceleration unenforceable. What are options to circumvent the need to get mortgagee's approval?
A: One potential solution is to secure financing without the mortgagee's sign-off. The FHFA is willing to consider insurance products that would pay off the PACE loan in the event of a mortgage default. SAIC is working with title and insurance companies to see how this can become a reality.