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## PROPERTY ASSESSED CLEAN ENERGY PROGRAM

**REQUESTED ACTION:** Support legislation that would prevent federal housing regulators from adopting policies that contravene established state and local property assessed clean energy (PACE) laws. Additionally, urge the Federal Housing Finance Agency (FHFA) to issue a waiver for California to implement its proposed PACE Loss Reserve Program.

**BACKGROUND:** PACE is a cost-effective program that enables local governments to finance renewable energy and energy efficiency projects on privately owned residential and commercial property. Under PACE, property owners can elect to have up to 100 percent of the cost of clean energy improvements added to their property tax bill as an assessment or special tax. The assessment is secured by a lien on the property and is not an obligation of the individual property owner. Rather, the assessment remains with the property until it is paid. It should be noted that participation in these programs is purely voluntary.

PACE programs have been proven to generate tremendous economic benefits without federal tax subsidies, mandates, or expansion of any federal programs. In fact, \$10 million in private capital market spending, on average, creates 150 new jobs, generates \$25 million in gross economic output, and produces \$2.5 million in combined federal, state, and local tax revenue.

Despite the program's clear environmental and economic benefits, FHFA - which oversees Fannie Mae and Freddie Mac - issued orders in 2010 that effectively shut down residential PACE programs across the country. In halting implementation of PACE, FHFA expressed a series of concerns with the program, including that first liens established by PACE assessments pose risk management challenges for existing mortgage lenders.

In an effort to address FHFA's concerns, California Governor Jerry Brown proposed a state-backed reserve fund that could be drawn on to ensure that PACE assessments would be paid off in the event of a mortgage default, thereby eliminating any financial risk to Fannie Mae and Freddie Mac. Pursuant to the Governor's proposal, the loan loss reserve fund would be set up under the California Alternative Energy and Advanced Transportation Financing Authority, an existing agency which is chaired by the state treasurer. The proposal would require PACE programs enrolling in the reserve fund to meet basic structural criteria and comply with certain underwriting standards. The State recently issued preliminary regulations to implement the plan, which may require approval from FHFA.

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