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"To enrich lives through effective and caring service"

October 8, 2015

To: Mayor Michael D. Antonovich
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

From: Dave Chittenden
Chief Deputy Director

Joseph Kelly
Treasurer and Tax Collector

Subject: **PROGRESS REPORT ON COUNTY RESIDENTIAL PROPERTY
ASSESSED CLEAN ENERGY (PACE) PROGRAM**

Background

On March 3, 2015, your Board authorized ISD and TTC to implement the LA County Residential PACE program using two administrators, HERO and CaliforniaFIRST, selected through ISD's solicitation process. With all administrative, programmatic and legal conditions satisfied, the County officially launched Residential PACE on May 28, 2015. To date, 86 cities within the County have passed resolutions to participate in the LA County Residential PACE program. Discussions are ongoing with the two non-participating cities.

Performance

In the few months since launch, Residential PACE has proved to be very successful across many fronts, including homeowner participation, protection of consumers through robust quality assurance and control protocols, measurable environmental benefits and job growth.

Homeowner Participation

Cumulatively as of September 30, 2015, County homeowners have submitted 15,129 applications to participate in PACE, of which 8,445 (55.8%) have been approved

and 2,623 (31.1%) have been completed. The remainder of 5,822 are either in progress or awaiting final signature from the applicant. Table 1 below provides more detail. Total financing for the completed projects is approximately \$54.2 million. Given HERO's extensive contractor network and longstanding presence in the state and in Southern California, ISD and TTC anticipated it's comparatively higher performance compared to CaliforniaFIRST.

Table 1

Program Administrator	Applications	Approved Applications	% of Approvals	Completed Projects	\$ Amount Completed Projects
HERO	13,914	7,947	57.1%	2,514	\$50,824,206
CaliforniaFIRST	1,215	498	41.0%	109	3,413,996
TOTAL	15,129	8,445	55.8%	2,623	\$54,238,202

Each PACE project must contain one or more eligible measures, as determined prior to launch by the County and the program administrators. Eligible measures include:

- renewable energy generation
- energy efficiency
- water efficiency and water conservation

To date, the six most popular improvements selected by homeowners include central air conditioners, exterior windows, duct replacement, cool wall coatings, attic insulation and solar panels. Energy efficiency measures thus account for the majority of improvements funded to date. ISD and the two PACE providers are designing marketing and outreach programs to emphasize and promote water efficiency and conservation measures to contractors and homeowners.

Consumer Protection

Before Residential PACE launched, both HERO and CaliforniaFIRST were required to develop specific consumer protection measures for the benefit of participating homeowners. ISD and TTC are currently working with the program administrators to refine these measures and ensure that residents remain protected against predatory lending, unscrupulous contractors and unfair pricing. To this effect, a database has been developed to verify that all products meet the US Department of Energy guidelines and a fair pricing assessment is required on all projects that fall outside a specific range of acceptability. In addition, HERO and CaliforniaFirst have each implemented a complaint resolution process to manage any negative feedback from applicants considering the program. To date, only about one percent (1%) of all applicants have expressed dissatisfaction with the residential PACE program, with the most common complaints being related to project workmanship and confusion over financing details.

Such complaints are resolved through a combination of site visits, project verifications, and complaint-resolution investigations.

Post-launch, ISD, in consultation with TTC, has developed and implemented additional quality assurance/quality control procedures that thoroughly evaluate each assessment contract, each recordation document tied to it and each bond package (which contains numerous assessment contracts of varying terms between 5 and 25 years). To manage the anticipated growth in volume discussed in Table 1, ISD is developing software to automate this assessment contract review process and identify the “riskiest” contracts for manual review. ISD will report back to the Board in early 2016 about the progress with this effort.

Environmental Benefits

Every completed PACE project leads to measurable environmental benefits, such as reducing greenhouse gas emissions, electricity demand, and/or water usage. Currently, the program administrators calculate the following environmental benefits (“savings”) based on two different measurements. HERO reports the estimated savings based on the expected lifetime of each measure, whereas CaliforniaFIRST reports on the annual estimated savings of each measure. ISD is working on aligning program administrator reporting metrics.

Based on data from the program administrators, Table 2 estimates the cumulative, lifetime environmental benefits associated with PACE projects completed thus far:

Table 2

TOTAL	Estimated Lifetime Project Savings
Energy Savings (kWh)	300,000,000
Water Savings (gallons)	170,000,000
Emissions Reduced (tons)	80,000

Overall, these environmental benefits comport with the state’s goals delineated in AB 32 - The Global Warming Solutions Act of 2006 - as well as the mandates issued in Governor Brown’s Proclamations and Executive Orders from 2014 and 2015 pertaining to the historic state drought.

Job Growth

Collectively, the program administrators have reported that Residential PACE has created 596 jobs in the County.

Geographic Participation

Residential PACE projects are occurring throughout all Supervisorial Districts at a roughly proportional rate:

Table 3

Supervisorial District	Approved Applications	Completed Projects	Total \$ Amount Completed Projects	Average \$ Amount Completed Projects
First	2,784	462	\$9,071,066	\$19,634
Second	2,836	440	9,807,574	\$22,290
Third	2,151	408	9,530,828	\$23,360
Fourth	3,303	711	13,985,050	\$19,670
Fifth	3,338	602	11,843,684	\$19,674
TOTAL	14,412	2,623	\$54,238,202	\$20,678

Note that the average value of completed projects in each District is fairly close to the countywide average of \$20,678. In addition, ISD has instructed the program administrators to identify the primary reasons why they reject homeowner applications and to then evaluate whether these reasons disproportionately impact certain Districts or neighborhoods within them. ISD will evaluate the findings, determine whether they raise equity concerns, and adjust the program/s as needed.

Anticipated Changes

Based on each program administrators' current pipeline of projects, and detailed growth projections, we expect that Residential PACE will finance more than \$130 million in projects by the end of the first year of operation. This anticipated volume will result in a request to your Board to increase the current financing limit from \$100 million to \$500 million, as Assembly Bill 811 (2008) requires public agencies to establish a maximum amount of contractual assessment bonds for any PACE financing program. We anticipate returning to your Board in November 2015, to request formally the initial increase to \$500 million and approximately every three years thereafter to adjust this limit. As with any contractual assessment bond, there is no recourse to the County for any repayment obligations and no impact to any County debt ratios evaluated by the credit rating agencies.

Residential PACE currently excludes the use of Power Purchase Agreements (PPAs) for the installation of solar panels, whereby homeowners "purchase" power from a third-party owner of solar equipment. Per our request, both program administrators will provide detailed information to our departments regarding the PPA market, its recommended financial structures and its benefits to homeowners. We anticipate

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reporting back to your Board in early 2016, to present our findings and recommendations, including any additional consumer protection measures.

As requested by your Board, the TTC has developed a disclosure specific to the PACE assessment for inclusion in the annual property tax bills. For the 2015-2016 annual property tax bills, the TTC will mail the disclosure to only those homeowners that were a party to PACE bonds issued prior to July 1, 2015. Beginning with the 2016-2017 annual property tax bills, the PACE disclosure will be a component of a comprehensive series of disclosures that will be included with each annual property tax bill. In addition, the TTC has trained its Public Service staff to respond to PACE related inquiries and to track and refer any consumer complaints.

Should you have any questions regarding the Residential PACE Program, please contact Dave Chittenden at (323) 267-2103, via email dchittenden@isd.lacounty.gov. You may also contact Joseph Kelly at (213) 974-2101 or via email at jkelly@ttc.lacounty.gov.

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