



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Gina Gonzalez, Director of Economic Development and Legislative Affairs

Date: January 14, 2025

Subject: California Enterprise Development Authority (CEDA) and CleanFund Property Assessed Clean Energy Program (PACE) for Commercial Properties

Recommendation

1. Adopt a Resolution to become an Associate Member of the California Enterprise Development Authority (CEDA), and to authorize CEDA, through CleanFund (Commercial Program Administrator), to offer its Commercial Pace (C-PACE) program and levy assessments within the City of Lake Elsinore commercial properties; and
2. Approve and authorize the City Manager, or his designee, to execute the Associate Membership Agreement with CEDA in substantially the form attached and in such final form as approved by the City Attorney; and
3. Approve and authorize the City Manager, or his designee, to execute the Indemnification Agreement with CleanFund, the commercial program administrator through CEDA in substantially the form attached and in such final form as approved by the City Attorney.

Background

Under Assembly Bill (AB) 811, California property owners in special assessment districts may enter voluntary contractual assessments to finance a range of authorized energy and water efficiency products and improvements. The primary goals of the bill are environmental – to lower greenhouse gas levels and to reduce energy and water consumption. Additionally, this mechanism, called Property Assessed Clean Energy (PACE) financing, is viewed by cities and counties as a stimulus program that spurs economic growth and creates new local jobs.

In accordance with Senate Bill (SB) 100, the 100 Percent Clean Energy Act of 2018, requires that California power be carbon neutral (i.e. Zero Net Energy) by 2045, and PACE assists commercial

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property owners with these requirements. AB 802, passed October 2015, authorized the California Utilities Commission to collect energy usage data on 50,000+ square foot commercial and multifamily properties, providing a public comparative dashboard of buildings' energy efficiency relative to their peers. The premise is that more energy efficient buildings will have lower operating expenses and be more attractive to businesses looking to occupy commercial space within a specified jurisdiction. PACE financing can be the capital source for building owners to improve their properties to peak efficiency levels.

Discussion

The City of Lake Elsinore is a member of the Western Riverside Council of Government (WRCOG) Joint Powers Authority (JPA). The City is currently a part of the WRCOG's Residential PACE program (R[1]PACE) and the WRCOG Commercial PACE program, but not part of CEDA's. WRCOG currently provides its Commercial PACE Program to certain jurisdictions, the majority of which are from outside of the WRCOG Subregion as shown in the attached WRCOG Commercial Jurisdictions attachment.

Commercial Pace (C-PACE) Program Benefits

C-PACE programs offer benefits to commercial property owners such as:

- Funding for up to 20% of the construction costs;
- Financing tied to the property;
- Applicable measures are eligible for up to 30-year financing terms at a fixed interest rate;
- Refinancing look back option;
- ACE can be used to refinance previously installed eligible products, going back three years;
- On average, lower interest rate than other mezzanine financing;
- No upfront costs;
- Frees up equity for working capital reinvestment.

Property owners completing PACE-qualifying projects benefit from higher real estate values, potentially large tax incentives from credits and accelerated depreciation, state cash rebates, diminished monthly energy costs, and hedging against escalating energy prices. PACE imposes no encumbrance on personal or business credit since financing is based on assessed property values. And PACE assessments freely transfer to subsequent property owners.

C-PACE Eligible Projects:

- Clean energy, through the installation of solar PV panels and other non-fossil-fuel consuming mechanisms;
- Building energy efficiency;
- Water conservation and efficiency;
- Seismic strengthening; Electric Vehicle (EV) charging infrastructure;
- Wildfire suppression and safety improvements.

The California Association for Local Economic Development (CALED) established CEDA- JPA. Over 250 municipalities and counties throughout California have already joined the CEDA,

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including five Riverside County cities: City of Beaumont, City of Indian Wells, City of Moreno Valley, City of Menifee, and the City of Riverside. CEDA offers a complete turn-key PACE solution without cost to the city and indemnifies the City for its participation in the program. Cities and counties can enter multiple JPA's to provide multiple options for customers who are interested in the benefits of the PACE program- giving them opportunities for the best cost and rates possible. The program enables property owners to amortize payments for eligible improvements for up to 30 years for Commercial PACE, providing long term, low interest rate funds with no money down, repaid as a line-item on property owners' annual tax bill. Property owners in over 250 California jurisdictions can reduce their carbon footprints by investing in clean energy improvements with PACE funding.

CleanFund, the program administrator brought on by CEDA, is one of the largest and leading long-term financing for energy efficiency, water conservation, renewable energy and seismic improvements for commercial, multifamily, and other nonresidential properties in the United States. clean energy finance companies operating in the United States. www.cleanfund.com

Once a city becomes an Associate Member of CEDA (via resolution- no monetary commitment), the City of Lake Elsinore would have access to public financing programs for projects for both city projects and for private development projects, thereby having access to their C-PACE Program, giving commercial property owners the ability to also join CEDA's PACE program and secure funding for projects through the program. This would give commercial property owners an additional option to utilize (either WRCOG's C-PACE program for PACE eligible measures or CEDA's), providing a competitive opportunity to commercial property owners in Lake Elsinore to get the best rates and terms possible for projects. There is no cost or project requirement to join the CEDA JPA as an Associate Member, or cost to join their PACE program.

California Enterprise Development Authorities (CEDA's) C-PACE (Commercial) Program Background:

The CleanFund C-PACE program creates a streamlined and cost-free pathway for cities and counties to authorize a financing program for energy and water efficiency products benefiting property owners within their jurisdiction. Local municipalities that are not currently within CleanFund PACE service area can join by adopting two resolutions: one authorizing the jurisdiction to join CEDA, and the second confirming the jurisdiction's intent to join CleanFund's C-PACE program as well as allowing CEDA to conduct assessment proceedings.

The CleanFund C-PACE program covers only commercial properties and multifamily properties containing five or more units. The program does not cover single-family residences or residences with up to four dwelling units, as the program does not offer ("R-PACE"), or residential PACE. While C-PACE and R-PACE share the same collection mechanism, land-based assessment financing collected by a County Treasurer or Tax Collector, there are critical differences between them: C-PACE requires any existing lienholders to consent to the PACE assessment before financing can close; R-PACE does not require notification or consent, leaving lenders with an unknown exposure. Residential realtors contended that previously undisclosed PACE assessments on homes impeded their scalability, chilling the market. Prior to 2017, consumer protections for homeowners using R-PACE were virtually non-existent. A Wall Street Journal

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investigation of R-PACE financing companies found significant gaps in compliance and monitoring that were subsequently remedied by legislation.

By contrast, legislators acknowledged that commercial property owners are more savvy and sophisticated, with the knowledge and protections in place to preclude their being exploited by contractors and financiers. CleanFund solely offers PACE on commercial properties and is a California licensed lender. By encouraging City real estate and business owners to use energy and water more efficiently, and by developing and supporting renewable energy to power properties, the CEDA program also supports the City's climate action plan goals it might articulate and helps our residents secure a more sustainable future. However, the biggest benefit is for commercial developers to be able to reduce their cash assets requirement for construction loans, and also replace a portion of their construction loan with PACE, thereby reducing overall weighted costs- allowing projects to move forward in a difficult and costly market.

In conclusion, staff recommends that the Lake Elsinore City Council consider becoming an Associate JPA member of CEDA, and adopt the C-PACE Financing Program with CleanFund, in addition to WRCOGs program. This would allow for commercial property owners in the City of Lake Elsinore to have another option, and to voluntarily place assessment liens on their own property for the purpose of installing energy efficiency and conservation, water efficiency and conservation, renewable energy generation upgrades, seismic retrofits, and wildfire suppression in areas of the City that are deemed a Very High Fire Hazard, to provide another available C-PACE program for commercial property owners in the City of Lake Elsinore to consider and as a way to reduce overall costs, and develop efficiencies and innovation in commercial centers.

Fiscal Impact

There is no fiscal impact associated with the recommended actions; participation in the CEDA program would create a voluntary mechanism for Lake Elsinore commercial entities to add energy efficient improvements to their sites or projects thereby reducing overall costs of construction, and provide efficiencies, sustainability and innovation to commercial plaza and centers within the city.

Attachments

Attachment 1 – Resolution CEDA PACE 2024

Attachment 2 – Associate Membership Agreement

Attachment 3 – Indemnification Agreement

Attachment 4 – WRCOG Commercial Jurisdictions

Attachment 5 – C-PACE WRCOG Benefits flyer