



## **CITY OF BELLE ISLE, FLORIDA CITY COUNCIL AGENDA ITEM COVER SHEET**

**Meeting Date:** November 16, 2021

**To:** Honorable Mayor and City Council Members

**From:** B. Francis, City Manager

**Subject:** Discussion on the Property Assessed Clean Energy (PACE) Program

**Background:** The City has had a few calls from residents who are interested in the Property Assessed Clean Energy (PACE) Program to fund renovations in their homes. The City currently does not have a PACE program but the City should consider it. Over 200 cities and towns in Florida have a PACE Program. In Orange County, Orlando, Apopka, Winter Garden and Winter Park have PACE Programs. PACE is NOT a City Program and PACE programs are not subsidized with City funds.

### **What is PACE**

PACE is a long term, fixed rate source of financing that allows homeowners to do energy conservation and hurricane hardening improvements to their property. Property owners can use PACE financing to cover 100% of the costs involved in installing eligible projects, including all related equipment, materials and labor. Eligible improvements include energy efficiency, water conservation, renewable energy generation, and resiliency upgrades. A few examples include: air conditioners, roofs, windows/doors, water heaters, solar panels, pool heaters, hurricane shutters, and generators.

There are two types of PACE programs, "Residential PACE" (sometimes referred to as "R-PACE"), which covers residential properties (1 to 4 family homes), and "Commercial PACE" (sometimes referred to "C-PACE"), which covers multifamily (5+ family homes), retail, hotels, industrial, and other types of commercial properties. For now, the focus will be on R-PACE.

Property owners pay back the financing for PACE improvements through a special (non-ad valorem) assessment that is added to their property tax bill each year. Property owners repay the special assessment for an agreed upon term (usually the useful life of the improvements) and the interest rates are fixed. There are no adjustments to interest rates and no balloon payments.

PACE assessments can be prepaid at any time and R-PACE does not have any prepayment fees. Because the assessment is attached to the property, rather than the owner of the property, if the property owner sells the property before the assessment is paid off, the balance

of the assessment remains with the property. The assessment can transfer to the new owner without any need to approve the purchaser of the property.

PACE, therefore, makes it easy for property owners to make improvements to their home by eliminating upfront cash payments, providing competitive interest rates spread out over time, and allowing property owners to transfer repayment obligations to a new owner upon sale.

However, with respect to R-PACE, on December 22, 2014, the Federal Housing Finance Agency ("FHFA") which oversees the eleven Federal Home Loan Banks ("FHLBanks") and Fannie Mae and Freddie Mac issued a statement (which has been confirmed by subsequent statements and remarks) in which it made clear that Fannie Mae and Freddie Mac's policies prohibit them from purchasing a residential mortgage where the property is subject to a first lien PACE assessment. FHFA has made it clear that Fannie Mae and Freddie Mac should neither purchase nor refinance mortgages which are encumbered by PACE assessments.

As a consequence of the FHFA position on PACE assessments, a homeowner may have difficulty selling its home or refinancing its mortgage if the home is subject to a PACE assessment. Specifically, some mortgage lenders or secondary mortgage market purchasers may either (1) refuse to refinance an existing mortgage, (2) refuse to finance the purchase of any property or (3) refuse to purchase mortgages in the secondary mortgage market with respect to a home subject to a PACE assessment. This may mean that if a homeowner desires to sell its home or refinance its mortgage after the homeowner obtains PACE financing, the homeowner may be required to prepay the PACE assessment before the homeowner can close such a transaction.

### **What are some improvements that can be made with PACE financing?**

PACE can be used to fund energy efficiency improvements, wind resistance measures and renewable electricity generation including, but not limited to, solar water heating systems; air sealing and ventilation systems; efficient doors and windows; insulation; "cool" roofs; water heaters; pool pumps; lighting fixtures and controls; storm shutters; wind resistant shingles; high impact windows and doors; photovoltaic systems; EV charging stations; and small wind turbines.

### **Are PACE Programs Risky?**

They could be. For example, Many lenders will not provide loans to subsequent buyers of homes that have a PACE property tax liability. They will be harder to sell unless the current owner pays off the entire PACE loan before listing their home for sale. If the homeowner loses income, they cannot use bankruptcy laws to avoid PACE liabilities. PACE tax liabilities increase the annual property tax bills and STAY with the property. Owners could lose significant home equity in this process just to pay overdue property taxes and PACE payments. But as for all loan programs and home projects, the homeowner has to do their homework and research.

**Staff Recommendation:** Council should do additional research prior to the meeting to determine whether or not to consider implementing a PACE Program.

**Suggested Motion:** I move we start the process to establish a PACE Program.

**Alternatives:** Do not establish a PACE Program.

**Fiscal Impact:** None to the City as this is not a City program

**Attachments:** None