

The California Climate Policy Summit 2022 Budget and Financial Innovation for Accelerated climate action

the climate center

#### **Governor Newsom's Climate Investments**



#### ONE ScalEPA California Environmental Protection Agency

### California Climate Budgets: 2021-2022 Enacted and 2022-2023 Proposed

#### $\bigcirc$ $\cap$ $\bigcirc$ California Environmental Protection Agency









ZE off-road equipment by 2035\*

\*where feasible











#### ONE ScalePA California Environmental Protection Agency









California Department of Pesticide Regulation



# ZEV Market Strategy













California Department of Pesticide Regulation



### **Advanced Clean Cars 2 Regulation**

- Sets a legally binding path to 100% ZEVs for new sales by 2035
- Proposal:
  - 35% new ZEV sales in 2035
  - 68% in 2030















# 21-22 and 22-23 Zero Emission Mobility Packages

- \$10 billion over 6 years for Zero Emission Mobility, including:
  - Over \$5 billion for heavy duty vehicles and associated charging / fueling infrastructure
  - Over \$1 billion for passenger vehicle rebates and low-income ZEV access.
  - Over \$1 billion for passenger vehicle charging / fueling infrastructure
  - \$400 million for ports electrification















### **ZEV** incentive programs

- CVRP Clean Vehicle Rebate Project
  - o 430,000 rebates issued
- CC4A Clean Cars 4 All
  - Over 10,000 participants
- HVIP Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project
  - Over 9,000 vehicles funded, 60% in pollution-burdened communities
- SORE Small Off-Road Engines
- California Clean Fuel Reward
- CAP Consumer Assistance Program Vehicle Retirement











California Department of Pesticide Regulation



# \$400 million for community-based transportation equity projects

• Increase access to clean mobility in low-income communities



#### ONE S CalEPA California Environmental Protection Agency













### 66 ZEV models available in California

- BMW i3
- Chevrolet Bolt EV
- Fiat 500e
- Ford Mustang Mach-E
- Honda Clarity Electric
- Hyundai Ioniq Electric
- Kia Soul EV
- Nissan LEAF
- Mazda MX-30-EV
- Tesla Model 3

















### California Business Comeback Guide



#### CALIFORNIA BUSINESS COMEBACK GUIDE

**JANUARY, 2022** 

GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT (GO-BIZ)

GAVIN NEWSOM, GOVERNOR

DEE DEE MYERS, DIRECTOR



# Funding and Financing a Climate-Safe Future

California Climate Policy Summit 2022

April 18, 2022 Emily Schwimmer

Delivering a better world



#### Climate Safe California & the Pathway to Net Negative Emissions by 2030

#### To stay below 1.5 degrees C of warming, California should accelerate its net zero carbon goals from 2045 to

The Climate Center's Climate-Safe California net zero target



2022



**CARBON SEQUESTRATION** Removal of remaining emissions (103 MT CO<sub>2</sub>e per year)

- Achieving this target could cost to \$20 billion annually in public investment
- To meet this goal, all sectors of the economy need to shift to olimate-smart practices and will require an unprecedented scale of public and private funding to do so

2045

#### Funding and Financing a Climate-Safe Future: Three Pathways to 2030



Residential Building Decarbonization

**Goal**: Electrify 70% of Low- to Medium-Income (LMI) units

**Funding and financing tool**: On-Bill Tariffed Financing (OBTF)



#### **Drayage Truck Electrification**

**Goal**: Electrify 100% of drayage trucks servicing California's three major ports

**Funding and financing tool**: Port feebate



### Natural Carbon Sequestration on Working Lands

**Goal**: Apply compost to 100% of pasture and croplands; stop fertilizer use

#### Funding and financing tools:

Audit state tax policies, increase grants, and investment in monetization data



#### Why Low- to Medium-Income Building Decarbonization?



#### Impact

Residential buildings contribute 13% of the state's total carbon emissions



### Equity

LMI households are least likely to access electrification improvements.



### Momentum

\$920 million to Equitable Building Decarbonization over the next two years The California Public Utilities Commission (CPUC) is focused on Clean Energy Financing

### **Challenges to Funding and Financing**

- High upfront capital costs
- Electric appliances do not always result in savings
- LMI households may not be able to afford investments in electric appliances

#### HVAC & Water Heater Heat Pump Replacement





### Funding Gap Analysis for HVAC Heat Pump Replacement

4 million housing units occupied by LMI households and currently have non-electric heat

of these need to be decarbonized by 2030 units per year

Costs of upgrading HVAC heat pump (including labor)



### \$32B

Total cost estimate for HVAC heat pump replacement alone

### **On-Bill Tariffed Financing**

#### • How it works:

Utilities make an upfront investment in upgrades and recover their costs through a tariff charge attached to customers' monthly bills.

#### **Benefits:**

- Provides an opportunity to deploy significant private capital at a relatively low cost
- Does not require large-scale taxpayer funding
- Expands access to renters and borrowers
- Alleviates the "split incentive" problem (e.g., landlord pays, while renters benefit)



#### **Recommendations & Next Steps**

- Establish new platforms and programs to make OBTF available to more households
- Reduce upfront costs of electrification with targeted incentives
- Lower the cost of operating electric appliances through electricity rate reform
- Consider additional incentives or requirements to encourage households to retire their appliances before they break/need to be replaced

#### U.S. Average Retail Price per Kilowatt Hour is 10.59



Source: https://www.eia.gov/electricity/state/

# **AECOM** Delivering a better world



### California Climate Policy Summit Budget & Financial Panel April 18, 2022



Imagine what we can do.





### **1.** Framework

States pass enabling laws that allow local governments to offer PACE financing to building owners. PACE is completely voluntary.



**2.** Project

Qualified PACE service providers help building owners select cost-effective projects that make good business sense.



### **3.** Financing

PACE programs process applications, qualify projects and provide or arrange financing. An assessment or charge is added to the property's tax roll once the funds are disbursed.

# PACE impact

Projected impact<sup>1</sup> of \$5.7 billion in over 231,000 PACE industry funded energy efficiency, renewable energy, water conservation, seismic safety, wildfire hardening and climate resiliency home improvement projects across California.



<sup>1</sup>Data based on University of Southern California Schwarzenegger Institute research, "Impacts of the Property Assessed Clean Energy (PACE) Program on the Economies of California and Florida." This represents estimated lifetime impacts of PACE projects completed by the PACE Industry since inception. The research report can be accessed here: <u>http://schwarzengger.usc.edu/research</u>

## PACE advances California's public policy

#### **PACE Advances Public Policy**

Advancing Landmark Legislation	Supported by PACE
AB 32 – The Global Warming Solutions Act of 2006	1
<u>SB 100</u> – Mandates 100% fossil-free electricity by the year 2045	1
<u>SB 350</u> – The Clean Energy and Pollution Reduction Act of 2015	1
<u>SB 606</u> – Water Management Planning	1
AB 38 – Fire Safety and Wildfire Mitigation	1

### PACE will help achieve California's ambitious decarbonization goals



- California's goal of reducing greenhouse gas emissions requires approx 5% reductions in GHG emissions every year until 2050.
- California's 9 million single-family homes are responsible for 28 million metric tons of CO2 emissions annually.
- A grant-only approach to LMI building decarbonization investments would require a cumulative 25-year public and ratepayer capital commitment on the order of \$72–150 billion.

In order for California to win the climate change battle we must provide low- and moderate- income homeowners a highly regulated form of financing that is safe, equitable, easy to navigate and inexpensive.

## PACE is highly regulated

Clear Consumer Disclosures Confirm Terms Recorded Phone Call Property Owner Certificate of Completion "Know Before You Owe" Disclosure First Payment Notification Letter Consumer Protection Guide Language Access & Services Underwriting Enhancements Scheduled Series of Communications re Escrow Accounts

Customer Service Escalation Customer Service Team Available for All Consumer Inquiries Dedicated Escalation Team Homeowner Complaint Response & Resolution Processes Financing Safeguards Ability to Pay Analysis Property-Based Underwriting Standards Exclusion of Properties with Reverse Mortgages Exclusion of Properties Gifted to Homeowners by Nonprofits Prohibition of Balloon Payments, Pre-Payment Fees Right to Cancel Foreclosure Avoidance Protections

Anti-Fraud Measures R-PACE Lien Registry Homeowner Identification and Verification Contractor Background Checks Contractor Compliance Monitoring

**Contractor Integrity** Validation of Credentials (Insurance/License) Reputation Review (Social Media/BBB) Financial Strength Review of Company & Owner **Formal Contractor Training** Contractor Participation Agreement / **Code of Conduct** Monitor Contractor Credentials Monitor Contractor Behavior Terminate Poor Performers & Joint "Do Not Hire" Registry **Pricing Controls** Work Completion Certification prior to **Contractor Payment** Change Order Confirmation Call

### PACE's consumer protections exceed other financing options

	PACE	HEL/HELOC	Unsecured Debt
Minimum level of equity in property	1	1	Х
Not delinquent on property related debt	1	1	X
Not in bankruptcy	1	Х	Х
Loan to value limit	1	1	X
Term tied to useful life improvement	1	Х	х
Pre/post-funding customer support	1	X	X
Fixed rate and fully amortized	1	X	Х
Improvement pricing review	1	Х	X
Certificate of completion	✓	Х	Х
Rigorous contractor training and oversight	1	Х	Х
Complaint Tracking & Resolution	1	Х	Х

## PACE consumer protection policy

Comprehensive consumer protection policies developed with input from a broad coalition including PACE administrators, regulators, consumer protections stakeholders, civil rights groups and others, to create a national standard of consumer protections in all PACE markets.

#### **Base National Standardization**

- Project/property eligibility standards
- No reverse mortgages or gifted properties
- Pricing guidelines
- Lien Registry
- Consumer friendly financing (e.g. no negative amortization)
- Homeowner ID verification
- Ability to pay/affordability
- Right to cancel
- Know before you owe disclosures
- Confirmation of terms call
- LTV and CLTV limits
- Contractor oversight
- Work completion before payment

#### **Expanded CPPs**

- Foreclosure avoidance protections
- Low-income hardship
  protections
- Language access
- Elderly and low-income enhanced protections
- R-PACE guide
- Notices to servicers and property owners on payments
- Change orders

### PACE Financing is safe

- PACE delinquency and foreclosure rates are comparable or better than other financing options with regard to payment performance.
- Nearly every PACE customer pays on time.
- Majority of late payments are caught up by the following tax roll.
- Uncured delinquencies are exceedingly rare.

	Mortgage	Unsecured	Credit Card	PACE
Delinquency Rate	3.80%	3.63%	2.52%	1.73%
Foreclosure Rate	0.40%	NA	NA	<0.02%

#### 2018-19 Performance

Mortgage, unsecured, and credit card delinquency data is derived from the following sources respectively: CoreLogic "Loan Performance Insights"; LendingTree "Personal Loan Statistics"; Federal Reserve Economic Data "Delinquency Rate on Credit Card Loans, Top 100 Banks Ranked by Assets". Mortgage foreclosure rate data sourced from CoreLogic "Loan Performance Insights". Mortgage delinquency rate is for July 2019 representing +30 days. Unsecured and credit card are for Q4 2018 and Q1 2019 respectively. Unsecured is for +60 days. PACE delinquency rate is reported as of September 2019 for the '18-'19 tax roll.

### PACE provides equitable access to affordable financing

Credit Score	Unsecured Loan	PACE
760+	8.83%	7.99%
720 - 759	12.95%	7.99%
680 - 719	17.54%	7.99%
640 - 679	22.74%	7.99%

At \$20,000 in project cost, the monthly payment on a 20-year PACE assessment at 7.99% interest would be ~\$183 vs. \$264 for a 10-year personal loan at 10.00% interest.

Source: LendingTree June 2021 customer data - https://www.lendingtree.com/personal/personal-loans-statistics/. Unsecured loan data shows APR and PACE data shows interest rate, but the example shown is for illustrative purposes to show the change in interest rate based on credit score.

## PACE complaints are rare

- Ygrene has an open complaint rate of less than .1%
- January 2022 DFPI Annual Report showed an overall industry open complaint rate of less than .12%

#### Exhibit K (continued) Property Assessed Clean Energy (PACE) Program Complaint Information Calendar Year 2020

#### COMPLAINT INFORMATION

In 2020, a total of 169 complaints were received by the DFPI related to PACE program administrators, PACE solicitors, and/or PACE solicitor agents. The tables below summarize issues covered in the complaints.

#### Table 16: PACE Program Related Complaints

	2019	2020
Total number of complaints received	157	169
Total number of complaints awaiting resolution	53	12
Total number of complaints resolved	104	157

#### Table 17: Complaints by Complaint Reason

	2019	2020
Administrative issue	1	1
Advertising issue	0	2
Fraud allegation	4	16
Identity theft allegation	4	1
Investment fraud allegation	2	0
Mishandled transaction	14	7
Omission or misrepresentation of facts in application	4	3
Overcharges	0	3
Payment dispute	36	26
Poor customer service	0	6
Unethical behavior or tactics	70	80
Other*	22	24

# Looking Forward

- Wildfire Safety Finance Legislation (Support AB 2558) that enables more property owners access to PACE for wildfire resiliency measures
- Coordinate with CSLB to identify and act against contractors who demonstrate a lack of integrity
- Residential PACE Consumer Guide
- Communicate with our JPA Partners at RCRC and CSCDA about improvements to the program



## Thank You



### **Glyn Milburn**

Senior Director, Government Affairs Ygrene Energy Fund glyn.milburn@ygrene.com

