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## PACENation – Statement on HB6036, HB6037, HB6038, HB6039 House Energy Committee Hearing – September 15, 2020

Thank you, Chair Bellino and committee members. My name is Colin Bishopp, I am the Executive Director of PACENation, the national non-profit organization that represents thousands of community stakeholders who support PACE. Our members include state and local governments, equipment manufacturers, small businesses, real estate professionals, environmental organizations and private capital providers.

Today, I urge you to vote yes in support of HB6036, HB6037, HB6038 and HB6039.

**Overview – The Benefits of Property Assessed Financing For Michigan Property Owners**  
Collectively, the bills under your consideration today will expand access to capital for Michigan property owners so they can make voluntary upgrades to their homes and businesses. The eligible upgrades would improve drinking water infrastructure, mitigate the spread of COVID-19, conserve energy and water, and reduce pollution across the state. The economic, environmental and public health benefits are considerable, and they come at no cost to Michigan taxpayers.

For example, if Michigan were to expand its existing property assessed financing programs to include residential properties, PACENation estimates the following cumulative economic benefits for Michigan communities:

- \$14.5 billion of private capital invested
- 600,000 homes made more efficient and strengthened against disasters
- 250,000 job-years created
- \$30 billion economic impact (gross economic output)

This is to say nothing of the thousands of Michigan families who could improve the quality of their drinking water and strengthen their homes against extreme weather. For them, the benefits would be quite personal. Clean drinking water. A warm home in winter. Lower utility bills.

For businesses owners, the benefits are also significant. Lower operating costs. Long-term budget certainty. Resilience to natural disasters and public health emergencies like COVID-19. Expanding Michigan's existing property assessed financing program will make Michigan businesses more competitive in the global economy.

Property assessed financing, sometimes called PACE financing, is not new. This policy tool has been used for decades by local governments to fund voluntary property improvements and other policies that serve a public purpose. One of our nation's founding fathers, Benjamin Franklin, established one of the first property assessment programs to fund a local fire department.



Participation was voluntary. More recently, property assessed financing has been used for a variety of energy, water and resilience-related improvements. Property owners in Anoka County, Minnesota<sup>1</sup> can use property assessed financing to install drinking water wells or to connect to the city water main. Low-income homeowners in Delaware<sup>2</sup> can use property assessed financing to upgrade their septic tanks. Commercial property owners in Florida can use property assessed financing to make upgrades against extreme weather. Today in Michigan, these options aren't available to property owners. As a result, many critical upgrades that would strengthen local economies and improve people's lives aren't happening.

Michigan already allows commercial property owners to access property assessed financing for certain energy-efficiency improvements. The bills under your consideration would expand the existing commercial program to include environmental hazard projects and give residential property owners the same right to access capital that commercial property owners already enjoy. As a matter of property rights, there is no difference between commercial PACE (C-PACE) and residential PACE (R-PACE).

PACE financing is popular because it works. It is a voluntary financing option that connects private property owners with private capital for critical building upgrades. Once a project is completed, the participating property owner is able to pay for the improvement as an assessment on their property tax bill.

As we have seen in recent years, traditional forms of financing have not met the needs of many property owners, especially in underserved communities. In states where it is available, property assessed financing has filled a critical gap. Over the past five years, PACE programs have:

- Expanded access to capital for energy, water, and resiliency upgrades for hundreds of thousands of property owners
- Eliminated unnecessary water waste, saving billions of gallons of water
- Put homeowners on a path to save billions of dollars on their utility bills
- Injected billions of dollars into local economies

#### **Property Assessed Financing for Low-Income Homeowners**

In addition to Commercial PACE (HB6039) and Residential PACE (HB6036), which are entirely market-based programs funded 100% with private capital, two bills under your consideration (HB6037 and HB6038) would enable Michigan municipalities to establish a low-income financing program similar to the one Delaware offers for septic tank upgrades. In Delaware, the state's Clean Water State Revolving Fund (CWSRF) sets aside \$500,000 per year to fund septic

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<sup>1</sup> See: <https://www.anokacounty.us/2023/Well-Septic-Loans>

<sup>2</sup> See: <https://dnrec.alpha.delaware.gov/environmental-finance/septic-rehabilitation/>



upgrades for low-income families. These funds aren't grants. Eligible homeowners pay for the upgrades over a maximum of 20 years with no prepayment penalty. Financing is available at interest rates of 3 or 6 percent depending on income.

The same model used in Delaware to fund septic tank upgrades for low-income families could be used in Michigan for drinking water infrastructure and basic efficiency improvements. It is worth noting that Delaware's program faces zero opposition from the banking community and other organizations you may hear from today.

The reason the Delaware model faces no opposition is that it's simply good policy. Low-income homeowners need access to financing for critical upgrades. In many cases, their health and well-being depend on it. Here in Michigan, the Department of Environment, Great Lakes and Energy (EGLE) would have complete discretion over the amount of funds made available for this purpose. A budget of just \$500,000 could help up to 1000 families have access to clean drinking water. That's worth doing.

### **Comprehensive Consumer Protections**

The bills under your consideration that expand access to capital for residential property owners include comprehensive consumer protections and reflect industry best practices. In addition to the national "ability-to-pay" standard being developed by the Consumer Financial Protection Bureau (which will apply to Michigan's program), the residential PACE bill (HB6036) includes the following key protections, among others:

#### Responsible Underwriting Standards

- Property owners must be current on their mortgage debt payments
- Applicants cannot be party to a current bankruptcy proceeding
- The property must not be subject to a reverse mortgage
- The assessment amount will not exceed 20% of the value of the property
- The aggregate amount of the assessment, including all existing mortgage debt, does not exceed 100% of the value of the property

#### Proven Consumer Protections

- Fixed Interest Rates & Fully Amortizing Payments
- Clear Financing Estimate & Disclosure Forms
- 100% Confirmation of Terms Live Phone Call
- Quality Project Standards
- Project Completion Certificate Requirement

HB6037, which would enable the creation of a financing program to serve low-income homeowners specifically, includes additional protections:



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### Additional Protections for Low-Income Homeowners

- For energy-related projects, a baseline energy audit or baseline energy modeling to establish future energy savings
- A requirement that homeowners be made aware of any grants, rebates, or utility program funds that may be available to them through their utility
- A principal forgiveness or forbearance program
- Ability-to-pay methodology based on third party information

For the low-income program, these additional protections were included based on feedback from national consumer advocacy organizations.

### **Understanding the Opposition to Property Assessed Financing**

Despite the extraordinary economic, environmental and public health benefits offered by property assessed financing and the bills being considered today, a few organizations may express opposition. In some instances, the opposition may be motivated by the financial interests of those who view property assessed financing as a competitive product. In other instances, the opposition may be rooted in a well-intentioned misunderstanding about how residential property assessed programs would operate in Michigan. This is especially true of the two bills that would make possible a financing program for low-income families. I will briefly address each of the likely concerns.

### Lien Position

Some stakeholders in the banking community may express opposition because property assessed financing, by definition, is secured by a lien on the property. What's important to note, however, is that a PACE assessment is a special assessment just like the many other special assessments that the banking community does not object to. A PACE assessment does not accelerate like a conventional loan, a fact that specifically benefits the mortgage holder. Only the amount due in a certain tax year is senior to the mortgage, not the entire assessment as is sometimes implied. This is how all special assessments work.

The fact is that PACE assessments benefit mortgage holders because the improvements increase the value of the property, which is the mortgage company's underlying collateral. PACE also prevents damage to that underlying collateral (e.g., flood damage), which is a separate sort of value increase.

For many years, stakeholders in the banking community have claimed that residential PACE puts them at risk. This position is not supported by the data. In the largest residential PACE market in America, 219,000 R-PACE projects were completed prior to January 1, 2020. At the outset of the program, a \$10 million lien-loss reserve fund was established to make mortgage-holders whole in the case of any foreclosures on a PACE-enabled home where the mortgage-holder loses money. To date, that reserve fund hasn't spent a single dollar. Not one.



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Encumbrance of the Title – PACE Assessments, Mortgages and HELOCs are the Same  
PACE works exactly the same way as a mortgage and a home equity line of credit (HELOC).

Like a PACE assessment, mortgages and HELOCs also encumber the title, and at time of sale or refinance, the Federal Housing Finance Agency (FHFA) requires homeowners to pay them off. In Michigan's PACE program, PACE applicants will be provided with disclosures—that are reinforced in a confirmation-of-terms phone call—that they need to be prepared to pay off the PACE assessment at the time of sale or refinance. In this way, expectations are accurately and appropriately set with all parties involved. In a sale or refinance transaction, there is absolutely no difference between a second mortgage, HELOC and a PACE assessment as far as encumbrance is concerned.

It's worth noting that second mortgages and HELOCs, offered by banks, are financial products that compete with PACE. That is the real source of the objections here.

#### The Role of Michigan's Clean Water State Revolving Fund (CWSRF)

Some stakeholders who otherwise support the environmental benefits and objectives of property assessed financing programs may express concern about the use of the Clean Water State Revolving Fund to assist low-income homeowners with drinking water and efficiency upgrades.

Two things are important to note. First, the proposed scope of this program is quite small, and it will only be established if a municipality requests it, and if EGLE approves a portion of its funds to be used for this purpose. As noted previously, the budget for Delaware's program is just \$500,000 per year.

Second, CWSRFs are intended to support projects that improve and protect water quality, not just wastewater facilities and other large projects. The construction grant program that preceded the CWSRFs was dedicated to wastewater facilities only, but in 1987 Congress and President Reagan struck a deal to end the grant program and create a revolving loan program that widened the permissible uses beyond wastewater to the more flexible concept of "water quality." This is one of President Reagan's legacies. States are empowered use their CWSRF's however they wish as long as the project or program relates to water quality and the assistance is a loan that comes back to the fund.

#### Other philosophical objections

One final potential objection to the use of the CWSRF to assist low-income homeowners in Flint and other underserved communities is ideological. Some stakeholders feel strongly that low-income property owners should be provided with taxpayer-funded grants, not financing, to make critical upgrades to their homes. This is a well-intentioned, but impractical position. There are not enough taxpayer or ratepayer funds available to provide free property upgrades to everyone who needs one. And it is extremely unlikely that such funds will be appropriated in the future. A



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practical solution is to replicate Delaware's successful model and provide eligible homeowners with extremely low-cost financing that they can pay back.

**Conclusion**

Thank you so much for the opportunity to speak before you today, and for your consideration of property assessed financing as a critical financing option for Michigan property owners. If enacted, the bills you're considering today would improve drinking water infrastructure, mitigate the spread of COVID-19, conserve energy and water, and reduce pollution across the state. Just as importantly, they would strengthen Michigan's economy and expand access to capital for thousands of property owners who need it.

I would be happy to answer any questions you may have. Thank you again for your time and consideration.

Colin Bishopp  
Executive Director, PACENation

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Testimony in favor of HB 6036, HB 6037, HB6038, and HB 6039 (Michigan House Energy Committee - Sept. 15, 2020)

Thank you to the members of the committee, my name's Byron DeLear and I am Managing Director and Central Regional Executive for Ygrene Energy Fund. I am testifying in support of the four PACE bills before you.

My firm, Ygrene, is the leading national PACE provider and program administrator providing homeowners and businesses with private financing solutions for critical energy and resiliency property improvements. To date, Ygrene has completed more than 83,000 projects and provided \$2 Billion in PACE financing.

Since 2008, some 300,000 property owners in the U.S. have taken advantage of Property Assessed Clean Energy (PACE) financing to perform energy efficiency, renewable energy, water conservation, and disaster resiliency improvements on their properties. Due to this activity, PACE programs have demonstrated success in enabling communities to address and meet a broad range of challenges and goals which can be framed in economic and environmental terms. PACE programs have created tens of thousands of good-paying jobs without increases in public spending, abated millions of tons of pollution, and saved property owners millions in utility and energy costs as well as insurance premium reductions.

Perhaps most importantly, PACE programs have enabled communities to adopt broad-based, energy modernization strategies by leveraging private investment to improve buildings and homes to higher levels of efficiency, safety, and performance.

Although there are numerous other public benefits generated by PACE, I'd like to narrow our focus on two policy impacts that, today, are of a pronounced importance due to Covid-19 — access to capital and economic stimulus.

### **Access to capital**

For many, PACE financing is a more attractive choice over other forms of financing — and for some, it is the only affordable long-term financing solution for necessary upgrades and repairs to ensure safe and resilient homes and businesses. During Covid-19, the need for air quality, safe homes, and efficient energy systems is now more important than ever. For lower- and middle-income families, access to capital is a key driver to maintain and pay for needed improvements — and PACE programs provide fixed terms and rates, regardless of who applies or what zip code they live in. For example, in the City of St. Louis, the geographic distribution of residential PACE projects is diversely represented throughout all city neighborhoods.

## **Economic stimulus**

PACE is a job creator. 126,000 — that is the total number of jobs created by PACE nationally without any increases in public spending. No public tax dollars pay for this program. PACE is private investment on private property, and as good public policy, it unleashes the private sector to address family, business, and community needs. In Michigan, with PACE projects implemented by 7% of the market, private investment toward upgrading buildings and homes would generate 135,000 good-paying jobs — again, without any increases in public spending.

Finally, state-of-the-art residential PACE programs also require robust consumer protections, and HB 6036 includes a full suite of consumer protections for homeowners. Some of the most notable include:

- Applicants cannot be delinquent on taxes, other assessments, or on their mortgage payments;
- A “know before you owe” disclosure form with terms of the transaction is required;
- A recorded oral confirmation-of-terms call with the property owner is required;
- Whatever energy measures are financed through the program must pay for themselves through savings; and
- Disbursement of funds will only occur when the property owner has signed a certificate of completion noting they are completely satisfied with the project.

PACE programs include many more consumer protections and contractor oversight than other forms of home improvement financing which, for example, often have no contractor oversight at all. And I can say that these consumer protections work in the Midwest — since 2017, in the St. Louis region alone, Ygrene has deployed over \$10 million in PACE financing with zero complaints to the program.

As good public policy, I urge you to pass HB 6036, HB 6037, HB6038, and HB 6039.

Thank you for your time and consideration and I would be happy to respond to any questions you might have.

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September 14, 2020

The Honorable Graham Filler  
Anderson House Office Building  
N-1197 House Office Building  
Lansing, MI 48933

The Honorable Rebekah Warren  
Anderson House Office Building  
S-989 House Office Building  
Lansing, MI 48933

Dear Representative Filler and Representative Warren:

The State of Michigan faces significant and ongoing challenges related to clean drinking water, including PFAS, lead, and septic leakage into ground water. Additionally, the recent failure of several dams, followed by damaging winds across the Midwest have served to reinforce the importance of hardening our residential, commercial and industrial infrastructure against natural disasters. The past several months of lockdowns and quarantining have also highlighted the importance of air quality to mitigate the spread of COVID-19 and, for homeowners, the ever-present need to have a secure and efficient home that keeps one's family safe. All of these factors have made many Michigan property owners even more acutely aware of the critical improvements they need to make. Whether it is for clean drinking water, resilience against disasters, mitigating the spread of COVID-19 or increasing energy efficiency, Michigan property owners need access to capital to make their homes and businesses efficient, safe and secure.

In times like these, having access to the necessary capital to make an energy, water, resilience or COVID-related improvement can be difficult. There are often large upfront costs. This is where property assessed capital expenditure financing (PACE) really shines through. Property assessed financing offers access to necessary capital at long-term, fixed interest rates. For many property owners, the longer payback time—which results in more affordable payments—is the only thing that makes the project feasible. Without access to property assessed financing, many critical improvement projects simply will not happen.

Property assessed financing programs, like the ones currently proposed to be expanded in Michigan, are completely voluntary. They connect private dollars to private borrowers, and they allow each community to make the decision whether to implement a program or not. This allows the market to drive demand and keeps government from being overly involved in the

The property assessed financing legislation for commercial, residential, and low-income property owners will expand access to capital for thousands of Michigan business owners and homeowners, and increase private investment in our State's infrastructure. This will lead to thousands of new jobs and healthier, more resilient communities. We urge support for these bills.

Thank you for your consideration.

Respectfully,

Colin Bishopp  
Executive Director, PACENation

Bali Kumar  
CEO, Lean & Green Michigan

Robert Mattler, JD LLM LEED AP BD&C  
Manager, Green Portfolio Solutions, LLC

James L. Newman, CEM, LEED AP+, FESD, FASHRAE  
Owner/Managing Partner, Newman Consulting Group, LLC

Mike Shesterkin  
Executive Director, Southeast Michigan Sustainable Business Forum



September 14, 2020

Re:

- HB 6036** (Rep. Filler) Energy; alternative sources; property assessed clean energy program; extend participation to residential energy and environmental hazard projects.
- HB 6037** (Rep. Warren) Energy; alternative sources; property assessment program; authorize to finance residential energy and environmental hazard projects.
- HB 6038** (Rep. Filler) Environmental protection; funding; state water pollution control revolving fund and safe drinking water revolving fund; expand.
- HB 6039** (Rep. Warren) Energy; alternative sources; property assessed clean energy program; include environmental hazard, new construction, and multifamily projects.

To Whom It May Concern:

The State of Michigan faces significant and ongoing challenges related to clean drinking water, including PFAS, lead, and septic leakage into ground water. Additionally, the recent failure of several dams, followed by damaging winds across the Midwest have served to reinforce the importance of hardening our residential, commercial and industrial infrastructure against natural disasters. The past several months of lockdowns and quarantining have also highlighted the importance of air quality to mitigate the spread of COVID-19 and, for homeowners, the ever-present need to have a secure and efficient home that keeps one's family safe. All of these factors have made many Michigan property owners even more acutely aware of the critical improvements they need to make. Whether it is for clean drinking water, resilience against disasters, mitigating the spread of COVID-19 or increasing energy efficiency, Michigan property owners need access to capital to make their homes and businesses efficient, safe and secure.

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Property assessed financing programs, like the ones currently proposed to be expanded in Michigan, are completely voluntary. They connect private dollars to private borrowers, and they allow each community to make the decision whether to implement a program or not. This allows the market to drive demand and keeps government from being overly involved in the administrative process. Many Michigan communities have already adopted property assessed financing for commercial properties. These programs should be expanded. The proposed residential program would give Michigan homeowners the same right to access private capital that commercial property owners already enjoy. The residential program includes robust, comprehensive consumer protections that exceed the protections offered by traditional loan products. There is also an additional "Community PACE" program, specifically designed to benefit low-income homeowners who are so often left behind.

The property assessed financing legislation for commercial, residential, and low-income property owners will expand access to capital for thousands of Michigan business owners and homeowners, and increase private investment in our State's infrastructure. This will lead to thousands of new jobs and healthier, more resilient communities. We urge support for these bills.

Thank you for your consideration.

Respectfully,



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