CITY OF ANN ARBOR, MICHIGAN

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Office of the City Administrator

March 26, 2012

Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 7th St., N.W.
Washington, DC 20024

RE: RIN 2590-AA53
Mortgage Assets Affected by PACE Programs

Dear Mr. Pollard:

The City of Ann Arbor has a long history of promoting energy efficiency in local businesses and homes. To further support our advance toward energy efficiency in our community, the City thoroughly evaluated the Property Assessed Clean Energy (PACE) concept and PACE programs which had been operating in other states before forming a loose coalition of municipalities, local legislators and industry to impress upon the Michigan legislature the need to pass enabling PACE legislation. After passage of legislation enabling PACE programs for commercial properties, the City of Ann Arbor developed and is implementing the first commercial PACE program in the State of Michigan. We have devoted significant resources to this effort because of our recognition of the economic benefits of PACE to the community and the attractiveness to property owners of a PACE assessment.

PACE is an application of local governments' traditional role of implementing projects which provide benefit to the public by levying assessments on private property. Assessments have a long history of beneficial use. On this continent, assessments can be traced back to a 1691 levy for street and drain construction in New York City. The first special assessment district was established by Benjamin Franklin on December 7, 1736, when he created the Union Fire Company of Philadelphia, a volunteer fire department. Residents in a designated neighborhood paid a fee to receive fire protection services. Any resident not paying the fee had no fire protection services. As one can imagine, using special assessments to secure fire fighting services became very popular among citizens of the day.

Likewise, PACE assessments provide multiple benefits to both the property owner and the general public, including: reducing home owners' utility bills; improved comfort of homes; promotion of national energy security; reduction of the need for additional power generation capacity (saving rate payers money); local job creation; economic development; retention of money within the local community; and, reduction of air pollutants.

PACE financing has several benefits to the property owners over traditional loan products offered by financial institutions. Limitations of these traditional financing programs include: short repayment periods; high or variable interest rates; stringent credit requirements that do not account for savings from improved energy efficiency; and, lack of equity and limited availability. PACE assessments offer low, fixed interest rates, project eligibility determined by property value, longer repayment terms and transfer upon sale; this attractive financing puts the installation of deep energy retrofits, high efficiency equipment and renewable energy systems within the reach of qualified homeowners.

PACE doesn't just help homeowners; lenders receive the benefit of increased property value, lower utility costs decrease the chance of a default, and the created lien is de minimus to the overall value of the property.

The bonds that a city issues to support the energy projects are attractive to investors because: they are secure; liens allow local government to collect any payments in default; PACE programs which are still operating have verified that the default rate is very low; the bonds typically have loan loss reserve funds; projects must meet underwriting criteria; and, the project cost is balanced with the anticipated energy savings. Homeowners whose property is underwater or otherwise stressed don't meet the underwriting criteria and are not eligible for PACE assessments.

The value of the property is increased by the addition of energy efficient and renewable equipment. Home sale values are not diminished by these additions, as postulated by the FHFA, but increased, as supported by sales data. Numerous studies show that energy efficiency and renewable energy improvements increase a home's value. For example, an April 2011 study of 72,000 homes by the Lawrence Berkeley National Laboratory showed that homes with solar PV systems had an average $17,000 sales price premium.[1] Another 2011 study indicated that homes with EnergyStar ratings showed purchase prices to be nearly $9.00 higher per square foot for energy-efficient homes.[2] These studies confirm the work of an earlier study which showed that residential selling prices are positively correlated with lower energy bills, most often attributed to energy efficiency improvements.[3]

Ann Arbor's commercial PACE program has received considerable interest and has generated positive feedback from the community. The majority of inquiries regarding our PACE program are asking when will the program will be available to homeowners and why is it not available to homeowners at this time.

The federal stimulus money, which supported many energy efficiency programs, is depleted and with the desire to decrease federal spending in every arena, including energy efficiency programs, it is becoming urgent that local governments have access to financing tools that allow

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[1] Brian Hoen, Ryan Wiser, Peter Cappers, and Mark Thayer, An Analysis of the Effects of Residential Photovoltaic Energy Systems on Home Sales Prices in California, Lawrence Berkeley National Laboratory, April 2011, available at http://eetd.lbl.gov/ea/emp/reports/lbnl-4476e.pdf, (accessed on February 28, 2012).

[2] Brian Bloom, MaryEllen C. Nobe, and Michael D. Nobe, Valuing Green Home Designs: A Study of Energy Star Homes, Journal of Sustainable Real Estate, JOSRE, Vol. 3 No. 1 (2011). available at http://www.costar.com/uploadedFiles/JOSRE/JournalPdfs/06.109_126.pdf, (accessed on February 28, 2012).

[3] Neven and Watson, Evidence of Rational Market Valuations for Home Energy Efficiency, The Appraisal Journal, October 1998, available at http://pacenow.org/documents/EnergyEfficiency%282%29_appraisal%20J.PDF, (accessed on February 28, 2012).

homeowners to improve their homes; PACE is one of these programs. As mentioned previously, many types of financing traditionally available to homeowners are too short term or have associated interest rates that are too high to be viable for deep home energy efficiency retrofits.

From the tone and content of the advanced notice of proposed rulemaking which we have reviewed, it appears that the Federal Housing Finance Agency remains philosophically biased against PACE programs. We urge you to explore the performance record of residential PACE programs which have operated and those that are still operating. According to a recent independent study, $4 million of total PACE-financed energy project spending, spread evenly across four cities, would generate: $10 million in gross economic output; $1 million in combined Federal, State and Local tax revenue; and 60 jobs.[4] On a broader scale, if just one percent of America's 75 million single-family homeowners were to invest in PACE-financed energy upgrades (with an average project size of $20,000), the economic impact would be $15 billion in gross economic output, $4 billion in combined federal, state, and local tax revenue, and 226,000 jobs.[5] Moreover, a substantial portion of the jobs created would be in the struggling construction sector. In the span of only one year, Boulder, Colorado's PACE program created over 120 jobs, generated more than $20 million in overall economic activity, and reduced consumers' energy costs by more than $125,000.

You will find that these programs have supported local jobs, increased economic activity, decreased homeowner utility costs and have had a positive effect on home values. We urge you to gather the data about energy prices and projections, as well as the economic benefits of residential energy efficiency improvements, and based upon objective data act to allow homeowners access to PACE assessments as one of the options for installing energy projects on their homes.

Sincerely,

Steve Powers
City Administrator
City of Ann Arbor

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[4] ECONorthwest, Economic Impact Analysis of Property Assessed Clean Energy Programs (PACE),April 2011,available at http://pacenow.org/blog/wp-content/uploads/PACE-Econometric-Study-by-ECONorthwest-for-PACENow-5-4-11.pdf, (accessed on February 28, 2012).

[5] Mark Muro and Devashree Saha, Bring Residential PACE Back to Life, Brookings Institution, February 22, 2012), available at http://www.brookings.edu/opinions/2011/0830_clean_energy_muro_saha.aspx, (accessed on February 28, 2012).