



National Association of State Energy Officials

The Honorable Julián Castro
Secretary
Department of Housing and Urban Development
451 7th Street Southwest
Washington, DC 20410

January 28, 2016

Dear Secretary Castro:

On behalf of the National Association of State Energy Officials (NASEO), I would like to congratulate and thank you for the efforts of the U.S. Department of Housing and Urban Development (HUD) and Federal Housing Administration (FHA) in developing guidance for the use of FHA financing on homes with Property Assessed Clean Energy (PACE) liens.

NASEO believes PACE to be one important option for states and localities to advance critical and cost-effective energy efficiency, renewable energy, and water conservation projects, many of which are underserved by private sector financing alone. For this reason, we offer the following considerations in response to President Obama’s August 24, 2015, announcement, “Unlocking Residential PACE Financing,” and your letter to governors describing your readiness to work with states on energy efficiency programs for HUD-assisted and FHA-insured properties.

Most notably, we recommend that you actively engage and communicate your progress on Single Family FHA PACE guidance with the 56 State and Territory Energy Offices (SEOs). According to NASEO’s 2014 membership survey, 80% of SEOs have the status of a cabinet-level agency within their state or territory government, and 40% of SEO directors serve as an energy advisor to their governor. Additionally, the vast majority of SEOs are deeply involved in clean energy financing, collectively overseeing and leveraging billions of dollars of investments nationwide across the residential, multi-family, commercial, and manufacturing sectors. A continued dialogue between HUD and NASEO’s members would not only aid FHA in developing guidance that reflects realities about energy financing and policy at the state and local level, but would also help SEOs and their partners (such as infrastructure and green banks, municipalities, and local and private program administrators) move forward on broad residential PACE programming that is in sync with federal guidelines.

Relatedly, we recommend that your guidance afford governors, state legislators, SEOs, mayors, and local and private program administrators the flexibility they

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need to ensure that residential PACE-enabling statutes and programs serve market needs. NASEO members have supported the expansion of the commercial PACE market by advising on PACE legislation and setting up statewide programs, standards, and educational campaigns that support consistency and ease of participation for local jurisdictions, property owners, and contractors. Successful efforts have catered to state-specific and locally-specific needs, striking the appropriate balance between the desire to create consistent programs, maximize program participation, protect mortgage lenders, and minimize costs with the need to maintain and respect local autonomy over tax infrastructure and processes. We believe a similar balance will need be struck to ensure success for residential PACE financing, whether for HUD-assisted properties or homes with other sources of insurance and underwriting.

Finally, we are ready to facilitate partnerships between FHA and interested SEOs to find creative solutions that address concerns from the home mortgage lender community about the seniority of PACE assessments. Several leading SEOs work to promote market transformation by bringing funds, expertise, partners, or risk mitigation strategies to projects that may otherwise be unpalatable to private investors. In many circumstances, SEOs are able to do so by using creative public-private financing structures and awareness-raising strategies that catalyze private sector action and capital without sacrificing responsible stewardship of public dollars.

States are already providing such risk mitigation strategies for PACE financing. For instance, the Texas State Energy Conservation Office has contributed to the development of technical underwriting standards for local commercial PACE program administrators, and the Virginia Department of Mines, Minerals and Energy has created proposed financial underwriting criteria in partnership with a state-based working group. Furthermore, residential PACE pioneers in California and Vermont have established loan loss reserve programs that provide a high degree of security and safeguards for lenders that have mortgages in properties with PACE liens. These examples show that states have already been responsive to the growth of PACE markets across the country and have worked with stakeholders to help establish solutions and pathways to reduce the risk borne by lenders and consumers alike in PACE transactions.

We hope you will consider the above recommendations regarding why and how to engage State Energy Offices and others state energy and financing entities as you develop program guidelines for Single Family FHA PACE. Through NASEO's Financing Committee, we plan to convene our members and other public and private PACE stakeholders on this topic, and we would like to invite you to work and communicate through this channel as you move forward on these important guidelines. Please do not hesitate to contact me at dterry@naseo.org or 703-299-8800 to discuss in further detail.

Sincerely,



David Terry
Executive Director