

**Statement of Ari Matusiak, Executive Vice President for Market Development and External Affairs of Renovate America, Inc., Supporting House Bill 5563**

**AN ACT CONCERNING RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY**

**Banking Committee Public Hearing**

**March 8, 2016**

Chairman Winfield, Chairman Lesser, Ranking Member Martin, Ranking Member Simanski, Members of the Banking Committee:

Thank you for the opportunity to testify in support of HB 5563.

My name is Ari Matusiak. I am the Executive Vice President for Market Development and External Affairs at Renovate America, the leading residential Property Assessed Clean Energy (PACE) financing company in the country, with 90% market share. Renovate America is pleased to provide its support for HB 5563, which would create the platform for a robust residential PACE program in Connecticut.

The Connecticut Green Bank will testify to the specific workings of HB 5563. I associate myself with those remarks, and will focus my testimony on Renovate America's experience and translating it to the opportunity before you today.

This legislation creates the necessary framework and structure to enable a viable and robust residential PACE program in Connecticut. Establishing the Connecticut Green Bank as the entity responsible for establishing and ensuring the residential PACE program's implementation furthers this goal. In less than two years, as the administrator for the state's commercial PACE program, the Green Bank has approved financing for 130 projects with a project value of \$83 million, making Connecticut's commercial PACE program one of the most successful in the county. The Connecticut Green Bank is understood nationally as a leader in delivering innovative energy efficiency and renewable energy policy to the residents and communities of your state.

Our analysis of the Connecticut market, modeled off of our experience providing residential PACE in California, demonstrates the significant positive impact HB 5563 could have. Assuming conservatively, that PACE applications are generated from 1% of eligible Connecticut homes, your state could see over 900 net new private sector jobs created annually and more than \$100 million of annual economic stimulus.

We admire the leadership that Connecticut has already shown with respect to renewable energy and emission reductions targets. HB 5563 will be a further catalyst to your efforts. In its first full year of operation, and annually thereafter, PACE projects can reduce CO<sub>2</sub> emissions by more than 100,000 tons. Over the course of their useful lifetimes, these projects can save homeowners close to \$125 million on their energy bills. And all of that would be the result of a 100% voluntary program offered in communities that have authorized it. All without requiring a single taxpayer dollar.

## **The PACE Model Renovate America Can Bring to Connecticut**

Renovate America's PACE offering, the HERO Program, is the fastest-growing energy efficiency financing solution in the country.

In four years, we have helped homeowners install 63,000 projects in 56,000 homes with \$1.3 billion of private financing. This financing has created \$2.3 billion in economic stimulus, resulting in over 11,000 new clean energy jobs being created. Of note, considering Connecticut's continued leadership to promote clean energy solutions, our HERO program has generated \$2.3 billion in projected energy bill savings for homeowners. It has reduced CO<sub>2</sub> emissions in California by a projected 2.3 million tons over the life of the products – the equivalent of taking 439,000 SUVs off the road for a full year. That's like taking one in five of all the automobiles registered in Connecticut off the road for a year.

In addition to these benefits, HERO/PACE projects have also increased home values even after the cost of financing is factored in. A recent study, published in the Journal of Structured Finance, compared data on homes with HERO assessments that sold with prices predicted by housing price indices and a random sample of comparable homes. Homes with HERO assessments surpassed projected appreciation rates and increased the sale value of foreclosed homes as well. It was determined that homes with HERO upgrades have higher net resale values ranging from \$199-\$8,882 compared to homes without HERO upgrades. A homeowner doing a HERO/PACE project typically recovered more than 100% of their investment. By comparison, typical home renovations, such as bathroom and kitchen remodeling and roof and siding replacements, recover only 58-66% of their full costs at the time of sale. An executive summary of this study is attached to this testimony.

Renovate America's success is due to our partnerships with state and local governments, home improvement contractors and private capital providers. We further leverage our technology platform to deliver a seamless experience to homeowners with unparalleled consumer protections. Our PACE program is defined by the following core elements:

- A database updated daily of over 1,200,000 energy-efficient, water-efficient and renewable energy products across 57 product types which are either certified by the U.S. Environmental Protection Agency, U.S. Department of Energy or a state or regional regulatory body.
- Local contractors who are screened, trained and certified by the HERO Program.
- Unparalleled consumer protections (which are elaborated on further below).
- The HERO Gov software portal, which provides real-time data and reporting to our state and local government partners regarding projects funded in their communities as well as the resulting economic impact, jobs created, and estimated kWh of energy saved, emissions reduced, and gallons of water saved.

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- The HERO Pro software portal, which provides contractors data on HERO-eligible homes, training curriculum and guidelines for program operation, and project estimation tools.
- Proprietary software which allows Renovate America to stringently evaluate and underwrite applications within less than one minute.

Though private sector in its funding and delivery, PACE is a true public-private partnership. Entities like Renovate America cannot participate in the marketplace without municipalities' express permission. In California, for example, over 380 cities and towns have authorized us to offer our financing to their residents. We are accountable to each local government for our performance and service, and we partner with them to deliver value to their residents. I am proud to say that, since we began offering HERO in 2011, we have had 100% community retention.

At the individual consumer level, our results are strong and, I hope, compelling to you in your decision-making. Our HERO underwriting criteria, which are based primarily on home equity and a proven track record of mortgage and tax payment, have resulted in our property owners having a 99.6% on-time payment rate. There have been no property tax foreclosures and \$0 in losses to mortgage lenders due to HERO.

The above statistics demonstrate the stability of our program and the potential for PACE overall. They are rooted in our commitment to consumer protection. We take our public-private partnership seriously and think of ourselves as a company working in the public trust. To that end, we offer consumer protections unparalleled in home improvement finance:

### Contractor Requirements:

- HERO-registered contractors must be licensed, bonded and insured. We require all individuals affiliated with contractors to register and pass identity verification. Contractors must comply with a comprehensive schedule of "Contractor Business Practices" ranging from thorough disclosure requirements and ethical practices to equitable dispute resolution. We have a compliance escalation and re-education process for contractors with compliance issues and have terminated both individuals and companies from the HERO program in rare cases when non-compliance is irremediable.
- Projects are subject to Maximum Financing Amount ("MFA") standards across all major product types. Projects quoted beyond the MFA ranges are flagged in the system and unable to move forward without approval.

### Workmanship Requirements:

- HERO does not pay the contractor until the homeowner signs a certificate assuring satisfactory project completion. Our compliance department performs spot checks after project completion.
- Permits are mandated for all projects for which they are required

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- Ongoing dispute resolution is provided for consumers if there are workmanship or product issues during the life of the product to protect consumers post-installation.

### Product Certification:

- Eligible products are limited to those certified to be energy or water efficient by the U.S. Department of Energy, the U.S. Environmental Protection Agency, a state government, or by a regional body.

### Terms:

- All assessments are fixed rate and fully amortizing; interest-only or negative amortization structures are prohibited, ensuring a borrower's payment will never unexpectedly increase.
- The term of the HERO assessment is limited to the useful life of the improvements.
- Clear disclosures on terms and fees that mirror the Consumer Financial Protection Bureau's Know Before You Owe disclosures for mortgages are being implemented market-wide.

### Underwriting:

- All mortgage-related debt on the property may not exceed 90% of the property's fair market value ("FMV"). The total mortgage-related debt on the underlying property plus HERO financing may not exceed the FMV of the property.
- Homeowners must have no more than one late property tax payment in the last 36 months and one late mortgage payment in the last 12 months, have had no bankruptcy filing within the last seven years, and no involuntary liens (*i.e.*, judgment or mechanics liens) may exist on the property.

### Proactive Customer Outreach:

- Our call center verifies property owner identity.
- Our call center makes contact with property owners over 64 years old to confirm they understand the financing terms.

As a result, our consumer surveys show that 93% of our property owners would recommend their contractor to a friend or relative and 95% would recommend HERO to friends or family.

### **The Opportunity for Residential PACE in Connecticut**

The opportunity for residential PACE in Connecticut is significant. Each year, about one in seven Connecticut homes, or roughly 157,000 out of the 1.1 million homes eligible for PACE, will have systems replaced that affect energy or water consumption, such as Heating Ventilation Air Conditioning (HVAC), windows, roofs, and water heaters. In most cases, these replacements are required because existing products are failing. Unfortunately, the majority of homeowners still select the least-efficient solution when making a replacement decision, as evidenced by a recent

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report which found that three out of four HVAC systems purchased did not meet minimum U.S. Department of Energy efficiency standards.<sup>1</sup> Connecticut homeowners also face some of the highest energy prices in the country, with residential energy costs exceeding \$11.4 billion according to the latest data reported by the Energy Information Agency.

Recognizing these concerns, Connecticut has developed a number of both public and private programs to drive adoption of energy efficient and renewable energy improvements. For example, Connecticut has facilitated a wide array of financing options but these are generally capped at \$25,000 and 10-12 year terms and limited to FICO-based underwriting – which excludes certain projects and certain borrowers. These programs are critical pieces of the puzzle, but more can be done and more will be required to meet the state’s renewable portfolio standard, Comprehensive Energy Strategy, Clean Power Plan targets, and goal of weatherizing 80% of the state’s homes by 2030.

PACE financing can complement Connecticut’s existing programs to further advance the state’s aggressive policy objectives.

First, PACE can finance a broader array of projects for a greater swath of homeowners. PACE financing can be tied to home equity which allows PACE to finance larger dollar projects, like solar PV systems or multiple efficiency upgrades. HB 5563 also extends the maximum repayment term up to 25 years. Longer payment terms allow more homeowners to finance larger projects. This provision responds to concerns the Green Bank has heard from many energy efficiency and renewable energy contractors, especially solar PV installers, that financing products with longer repayment terms are necessary. Underwriting not based on FICO broadens the base of homeowners eligible to finance efficiency improvements and distributed renewable energy projects, like small scale solar.

Second, PACE financing will permit Connecticut homeowners to make the most efficient choice when time is of the essence. A homeowner in need of a replacement furnace in the dead of winter can neither wait to schedule an energy audit nor search out a traditional lender and wait days or weeks for that lender’s ultimate underwriting determination. By contrast, PACE underwriting can be accomplished in minutes and that replacement system is guaranteed to be rated as energy-efficient.

In fact, 80% of our non-solar customers are financing a replacement for something that has broken – many never setting out to make their homes more efficient, reduce their carbon footprint, or even lower their utility bills. The powerful PACE platform – that brings hundreds of contractors together with tech-enabled underwriting and product approvals, homeowners seeking a source of financing

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<sup>1</sup> JP Morgan, *2014 HVAC Report* (Mar. 2014).

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they can afford in a time of need, private capital, and government oversight of consumer protection – creates this critical moment of opportunity.

Third, with homeowners changing homes on average once every five to seven years, the potential for the PACE assessment to transfer to a future property owner can help alleviate reticence towards investing in a more efficient, yet possibly more expensive, product when a homeowner's future plans are uncertain. Transferability has been identified as a key hurdle to driving homeowner energy efficiency investment, but there are few Connecticut energy efficiency financing programs that allow for transferability.

Fourth, PACE furthers important public goals, like economic growth, job creation, lower utility bills, and greenhouse gas reductions, without a government subsidy. It does so by bringing in private capital to incentivize homeowner investment in clean energy.

In early 2015, the Connecticut Green Bank commissioned a report by the Clean Energy States Alliance to determine the viability of a residential PACE program in Connecticut. The report concluded that “[a]n R-PACE program in Connecticut could address key residential clean energy financing challenges, even though several other programs and private market clean energy financing tools are already available in the state.” The adoption of HB 5563 is also consistent with the Comprehensive Energy Strategy's call for deeper efficiency gains in HVAC systems, insulation, windows, furnaces, and boilers, and acknowledgement of the importance of leveraging private capital through innovative financing mechanisms such as PACE. HB 5563 follows from these recommendations, builds on your leadership to-date, leverages the strong institutions like the Connecticut Green Bank that you already have in place, and will only further catalyze your efforts to grow your economy, create jobs, and achieve your emissions reduction and overall sustainability goals. On behalf of Renovate America, I strongly urge passage of HB 5563.