



Land Secured Financing for Energy
Conservation and Solar Systems for Property
Owners in California

An overview for The Marin Energy Authority

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What Programs Exist Today?

Assessment vs. Special Tax Programs

- ❑ Special Tax Financing District
 - City of Berkeley (Berkeley FIRST)
 - City and County of San Francisco
- ❑ Assessment Financing District
 - City of Palm Desert
 - County of Sonoma
- ❑ What is the Difference?
 - Special Tax requires annual tax levy (not entire project amount)
 - Assessment records entire lien against property

Land Secured Characteristics

- ❑ California law provides for two forms of land-secured financing for property owners:
 - Mello-Roos (also known as Special Tax Bonds)
 - Assessment Bonds
- ❑ Both share the following characteristics:
 - Consent of property owner is required
 - A lien very similar to property tax is placed on the parcel
 - This lien can be used to secure bonds or other forms of debt financing
 - The lien is in first position ahead of any private mortgage lien
 - The lien is non-recourse to the property owner
 - In the event of failure to pay, foreclosure on the property begins (no personal or other asset recourse)



What can public financing do for residential and commercial energy conservation and photovoltaic installations?

How Can You Finance Solar or Energy Efficiency Improvements?

- ❑ A lien for land secured financing can be placed on a parcel equal to the cost of the project
 - The parcel owner must consent to the lien
 - The lien stays with the parcel until paid (may extend across multiple owners of the same property)
- ❑ The Public Agency authorizing the program can pledge assessment or special tax revenues secured by the lien for debt service on a bond
- ❑ The bonds can be sold to investors
- ❑ Bond proceeds are used for improvements and program costs

What Makes The Financing Program Work?

- ❑ Property owners and system installers ideally want 100% financing
 - In California, 100% financing at rates of about 7% or lower will most likely to result in both immediate and long term cash flow savings to homeowners
 - Annual Tax Payments are most likely to be less than the reduction in the homeowner's electric bill
 - The amount of the financing typically needs to be net of California Solar Initiative (CSI) rebates
 - Because of the timing of Federal income tax payments, the Federal tax credit will not offset the financing, but go to the system purchaser after installation

What Other Financing Options Are Out There?

- Cash or savings
- Traditional home equity line (second mortgage)
- Refinance existing mortgage and take additional cash out
- In the past, there were lenders that would do a third mortgage

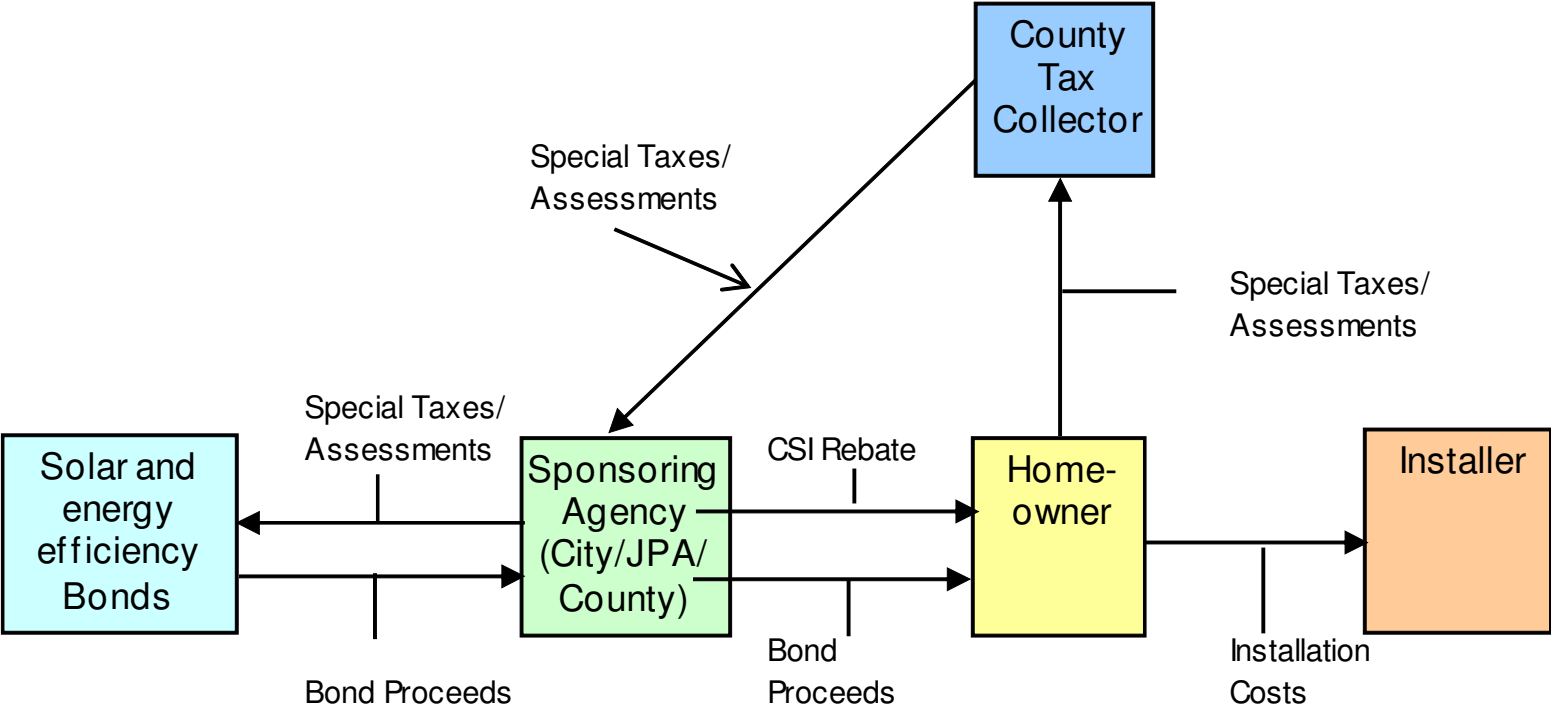
- Residential mortgage lenders have significantly curtailed their lending activities in the last year:
 - Existing holders of home equity lines are having their line amounts reduced
 - Many lenders will not do second mortgages now
 - Lenders are very conservative in valuing residential property – reducing the amount that can be financed through a first mortgage

- Current market conditions have eliminated many of these options



The Program Details

The Flow of Funds



Typical Application (Berkeley)

Bond Sizing for One Parcel:		Tax Levy Assumptions	
Total installation cost:	\$ 32,000	20	Year Amortization
CSI Rebate:	\$ (6,961)	2.50%	10-Year Treasury
City Administration Fee:	-	6.75%	Loan Interest Rate
Application Administration:	25	2.00%	Annual County Administration
Other Program Fees : 2.55%	638	3.00%	Annual City Administration of Special Tax Collection
Total Program Costs	\$ 25,702		
Application Fee Paid in Cash		12.61	Average Life of Financing (years)
	\$ 25	7.52%	APR Interest Rate
Amortized Loan Amount	\$ 25,677	\$ 210.96	/month special tax
		\$ 1,265.75	Semi-annual property tax installment

Annual Property Tax Payment

Tax Year	Total Annual Tax	County Fee	City Fee	Bond Payment
1	2,503	51	76	2,405
2	2,488	51	76	2,405
3	2,476	51	76	2,405
4	2,466	51	76	2,405
5	2,459	51	76	2,405
6	2,452	51	76	2,405
7	2,447	51	76	2,405
8	2,443	51	76	2,405
9	2,444	51	76	2,405
10	2,444	51	76	2,405
11	2,445	51	76	2,405
12	2,445	51	76	2,405
13	2,446	51	76	2,405
14	2,446	51	76	2,405
15	2,447	51	76	2,405
16	2,448	51	76	2,405
17	2,448	51	76	2,405
18	2,449	51	76	2,405
19	2,450	51	76	2,405
20	2,450	51	76	2,405
Total	49,098	1,013	1,519	48,099



Next Steps

Next Steps for MEA

- ❑ Evaluate risks and benefits to members
- ❑ If MEA decides to proceed, decide whether to use existing assessment law (AB 811) or wait for Mello Roos law amendment (SB 279)
- ❑ If MEA decides to proceed, develop an appropriate “front end” or customer interface for the program
- ❑ Develop plan to mitigate operational risks associated with program
 - Coordinating City, homeowner and installer during installation
 - CSI rebates
 - Interim funding for delinquencies
 - Time of day pricing
 - Pre-qualify installers
- ❑ Develop long term source of take out financing for solar and energy conservation bonds



Background Information

Legal Authority for Financing Program

- ❑ AB 811 authorizes the uses of assessment bonds for solar and energy efficiency improvements to privately owned property:
 - “Distributed generation renewable energy sources” are authorized
 - All energy efficiency improvements financed must be “permanently fixed” to the real estate
- ❑ Additional legislation authorizing the use of Mello-Roos bonds for the same improvements is anticipated to be signed by the Governor in 2009 (SB 279)
- ❑ Charter cities can use the Mello Roos law now
- ❑ The Cities of Berkeley and Palm Desert both implemented solar residential financing programs in 2008
- ❑ Joint powers authorities, such as MEA, can form districts using SB 279, but not AB 811
 - The County of Marin can form an AB 811 district