

# Financing the Green

## Recent developments in financing solar and energy efficiency projects

By Tim Seufert, NBS, Managing Director

The “green revolution” has come to public finance. This article reviews a number of options for your City, District, or local agency to pursue to foster investment in renewable energy (solar) and energy efficiency projects. Some of the tools are familiar, but there have been recent changes and new developments. This evolution will surely continue.

The primary tools in this discussion, in no particular order, are as follows:

- Assessment Districts
- Community Facilities Districts
- Rebate programs (local, plus State and Federal incentives)
- Voluntary donation programs
- Grants and other sources

### **Assessment Districts and Community Facilities Districts:**

Assembly Bill 811, effective July 21, 2008 as an urgency bill, amended the 1911 Act, Chapter 29, to allow for contractual assessments that will finance renewable energy source and energy efficiency improvements for already-developed residential, commercial, industrial, or other real property. Contractual assessments are basically special assessments levied by contract between a local agency and a property owner. Under this model, a local agency forms an assessment district (which may be limited or jurisdiction-wide in scope) and, with a property owner’s consent, levies assessments on a property to finance improvements made to that property. To get started, the local agency shall pass a Resolution of Intention that states that this assessment program is for the public good and benefit. This Resolution shall specify, among other things, the boundaries of the area in question, the types of improvements allowed, and the financing program. The financing program may include the issuance of 1911 or 1915 Act bonds, or use of some other financing tools.

Public finance professionals in California are promoting an alternative legal approach through Assembly Bill 1709. This Bill was vetoed by the Governor in the “veto flurry” in the Fall of 2008, but efforts are being made to re-introduce AB 1709 in January 2009 as an urgency measure. The successor to AB 1709 would amend the Mello-Roos Community Facilities Act of 1982 to allow Community Facilities Districts (“CFDs”) to levy special taxes to finance renewable energy and energy efficiency improvements to private property. This will add additional capability to the existing and already-flexible CFD law. Note that the City of Berkeley pioneered the CFD solar model by using its status as a charter city to adopt a special tax ordinance based on the CFD law. AB 1709 is modeled on Berkeley’s special tax ordinance.

There are a few significant differences between AB 811 (contractual assessments) and AB 1709 (CFD special taxes). First, AB 811 is limited to developed property, while AB 1709 would also allow financing of renewable energy and energy efficiency improvements for new development. Second, AB 811 is only available to cities and counties, while AB 1709 would be available to all local agencies. Third, the CFD law (AB 1709) has proven to be a more flexible financing tool than the 1911 Act (AB 811), which may be important as local agencies, public finance professionals and the lending community begin to explore the rapidly-changing area of renewable energy financing. Finally, AB 1709 (which would allow the annual levy of a special tax to pay bonded indebtedness issued to finance renewable energy and energy efficiency improvements) may be less problematic with respect to existing home mortgages than AB 811 (which levies the entire principal amount of the assessment at the time the contractual assessment is established).

Both the CFD (AB 1709) and Assessment (AB 811) routes offer two primary benefits because:

- The obligation to repay the cost of the renewable energy and energy efficiency improvements will be on the property tax bill. It will not be “due on sale” of the benefited property (which is the case with traditional equity lines of credit) and the lender will have a “super lien” on the benefited property that is equal to the lien of general *ad valorem* property taxes; and
- Renewable energy and energy efficiency improvements may be financed without a significant down-payment.

Chris Lynch, of the bond counsel firm Jones Hall, who authored Berkeley’s special tax ordinance and helped Assemblyperson Loni Hancock write AB 1709, believes the biggest hurdle to public financing of renewable energy and energy efficiency improvements to private property is not legal but financial: “Because bonds issued for this purpose will not be tax-exempt, it remains to be seen whether local government will be able to offer a financing program that is economically superior to financial products available from the private sector.”

### **Rebates and Incentives:**

As part of the Governor’s \$3.3 billion Million Solar Roofs Program, the State of California has a rebate program, known as the California Solar Initiative (“CSI”). A typical residential solar installation can currently receive a rebate of up to \$4,750 for the installation of 2.5 kW system. For more information, please see <http://www.gosolarcalifornia.ca.gov>. Note that the Federal government also has a tax credit program of 30% of the system cost to incent such investment. As part of the Economic Stabilization Act of 2008, this federal tax credit was extended until 2016 and the previous residential cap of \$2,000 was eliminated effective January 1, 2009.

To leverage private investment, the City and County of San Francisco implemented an incentive program on July 1, 2008 for residential, non-profit, and commercial solar installations. A homeowner can apply and receive between \$3000 and \$6000 for a 1.5kW or larger system. The initial funding in the amount of \$3 million is being provided by the San Francisco Public Utilities Commission’s Sustainable Energy Account. For further information, go to <http://sfwater.org/home.cfm> and click on the GoSolarSF links.

### **Grants and Voluntary Programs:**

Some cities are providing for voluntary contributions, via their utility bills for example. Residents may donate any amount to fund solar and energy efficiency programs within their communities, particularly for schools, low-income applications, and non-profit organizations.

Grant funding can come from a plethora of sources. PG&E, for example, has given significant grants to fund solar installations at schools and non-profit housing facilities. Further information is available at <http://www.pge.com/giving/>.

These avenues and others will surely evolve over time. The good news is that you can start now and foster investment that will save money, reduce pollution and our environmental footprint, and help diversify our sources of energy. Those three goals are certainly worthy of our time and efforts.

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