

Municipal Financing for Clean Energy Improvements



AB811 and Building Energy
Retrofit Program

Sacramento, California



Mimi Frusha

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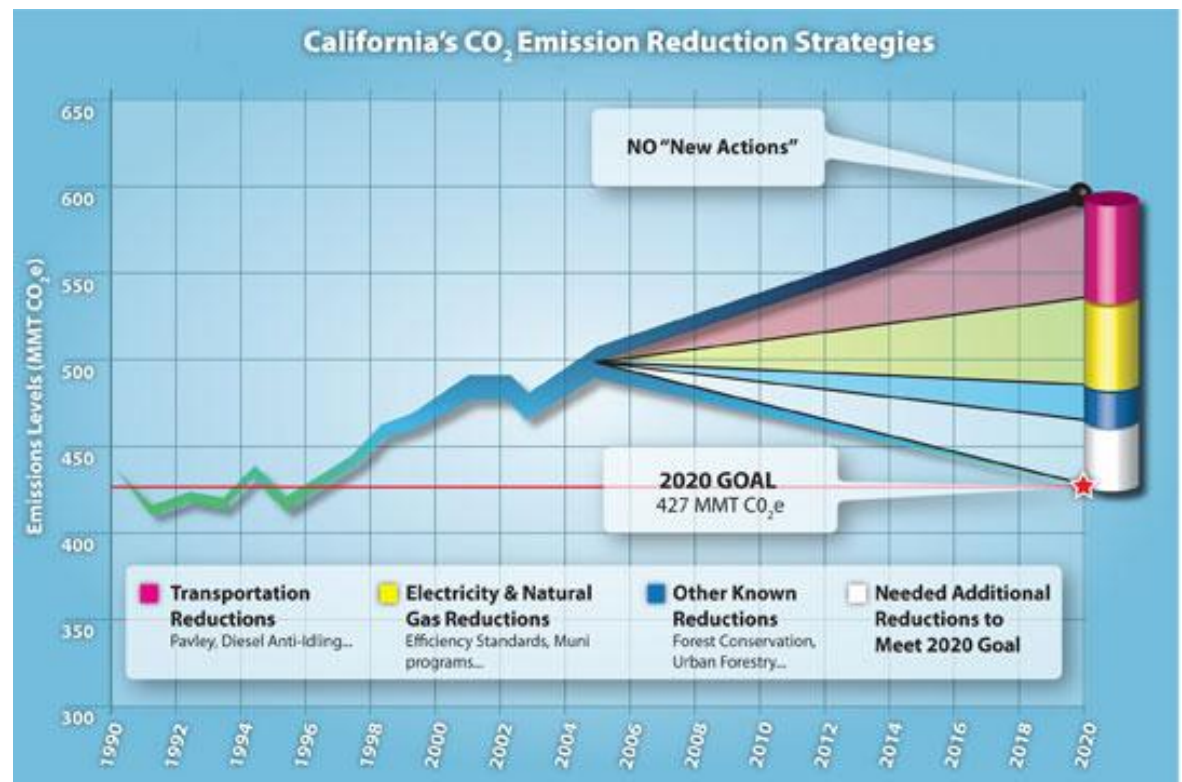
RENEWABLE  FUNDING

Outline

- ▣ The challenge and solution
- ▣ The program
 - ▣ Overview
 - ▣ Legal
 - ▣ Finance
 - ▣ Administration
 - ▣ Cost & Timelines
- ▣ California FIRST
- ▣ Next Steps

The challenge: climate & energy

- AB32 CO₂ reduction goals by 2020 require aggressive action
- Clean energy improvements in existing built environment are paramount



The challenge: adoption & costs

- At current adoption rates of clean energy projects, California will not meet 2020 greenhouse gas goals
 - CPUC Target: 13 million residential retrofits by 2020
- Property owners are accustomed to paying utility bills in monthly increments
- The main barrier to adoption by property owners is the upfront cost

The solution: AB811 law

- Signed by Governor in July 2008
- Allows contractual assessments to finance renewable energy and energy efficiency improvements on private property (“Improvements”)
- Using authority set forth in Chapter 29 of Division 7 of the Health & Safety Code, allowing improvements to be financed by selected parcels on a special benefit basis

The solution: AB811 program

AB811 allows all cities and counties to provide this service to property owners



- Creates financing district
- Provides complete admin
- Provides upfront capital through bond sales

\$\$ Upfront



**\$\$ Repaid
on tax bill**



- Identifies work & chooses contractor
- Applies for financing, no personal credit required, property serves as security
- Repays financing over 20 years as a line item on the property tax bill
- **Repayment obligation transfers with ownership**

Legal Process

AB 811 Procedure

- Resolution of Intention
- Report and Public Hearing
- Resolution Approving Report/Authorizing Contracts and Bonds
- Validation Proceedings
- Contract
- Notice of Assessment

Other Legal Options

Special Taxes

- Based on Mello-Roos Community Facilities Act
- Levy of special taxes to finance renewable energy/energy efficiency improvements
- Berkeley used Charter Power Special Tax Financing Code
- SB 279 Pending

Legal Considerations

- Chapter 29: Not available to parcels under development
- Prop 218 compliance?
- Exercise of taxing powers
- Senior lien to existing mortgages
- Prevailing wages?
- Validation judgments

Available Financing Options

- General Fund loans
 - ***Palm Desert, CA***
- General Fund bond financing (Lease Revenue Bonds)
- Land-Secured bond financing (no General Fund)
 - ***Boulder County, CO***
- Commercial Banks
- Private Funding
 - ***Berkeley, CA***

Program Financing Terms

Location	Interest Rate	Max Loan	Repayment Term	Project Types	Total Amount
Berkeley	7.75%	Max \$37.5 K	20 years	Solar	\$80 M, ~\$1.5 M
Boulder County	Not to exceed 8.75%	Max \$50 K	15 and 20 years	Solar & EE	\$21 M, ~\$9.5 M
Palm Desert	7.0%	>\$60 K or approval	5, 10, 15 or 20 years	Solar & EE	\$2.5 M, expanded to \$7.5 M
Sonoma County	7.0%	>\$60 K or approval	5, 10 or 20 years	Solar & EE	\$45 M

Financing Option Issues

- General Fund loans - not seen as permanent solution and often not an option
- Bond Financing - Do you “pool” all applications or fund individually?
- Interest Rate Risk – Fixed or Market
- Credit Markets
 - Difficult times for introducing new financing concept
 - Local retail banks are no longer major players
 - Traditional investors limited liquidity

Administration

- Align expectations/ requirements/ timelines of various stakeholders:
 - property owners
 - local agency elected officials & staff
 - financial markets
 - installers/contractors
- Requirements to execute AB811 Program:
 - Effective administration/application process
 - Reliable regulatory scheme
 - Guaranteed on-demand funding for projects
 - Limited liability to participating local governments

Costs

- Administrative Infrastructure
- District Formation Process & Validation
- Bond Issuance
- Application Processing and Customer Service
- Project Verification and Quality Assurance
- Debt Service Reserve Fund

Scaling Up

- Should programs be run at City, County-wide, regional or State-wide level?
- Emerging Models
 - County-wide (Boulder, Sonoma)
 - California Communities JPA – California FIRST

CaliforniaFIRST

- CSCDA (California Communities) statewide JPA sponsoring the first statewide program - California FIRST
- Renewable Funding and Royal Bank of Canada Capital Markets selected as administrative and financing team through RFP process
- Statewide program benefits include:
 - Reducing the legal, administrative, and financing burden on the city
 - Allowing the program to achieve economies of scale and reduce overall cost to city and property owner
 - Creating standard program design which leads to easier marketing and replication

CaliforniaFIRST



City or County
“opts-in”



\$\$ Upfront



**\$\$ Repaid
on tax bill**



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- Provides complete admin
- Provides upfront capital through bond sales

California FIRST: Timeline

June 2, 2009	Program Packet and "Resolution of Intention" Released to Cities and Counties
June-July	Meetings with Interested Cities and Counties
July 6, 2009	Program Manual and "Resolution to Join CaliforniaFIRST" Provided to all Interested Cities and Counties
August 1, 2009	Deadline for Cities and Counties to Pass Resolutions to be Eligible for the Pilot Phase (Phase 1)
November 2009	Pilot (Phase 1) Programs Launch
November 1, 2009	Deadline for Cities and Counties to Pass Resolutions to be Eligible for Phase 2
February 1, 2009	Phase 2 Programs Launch

Next Steps

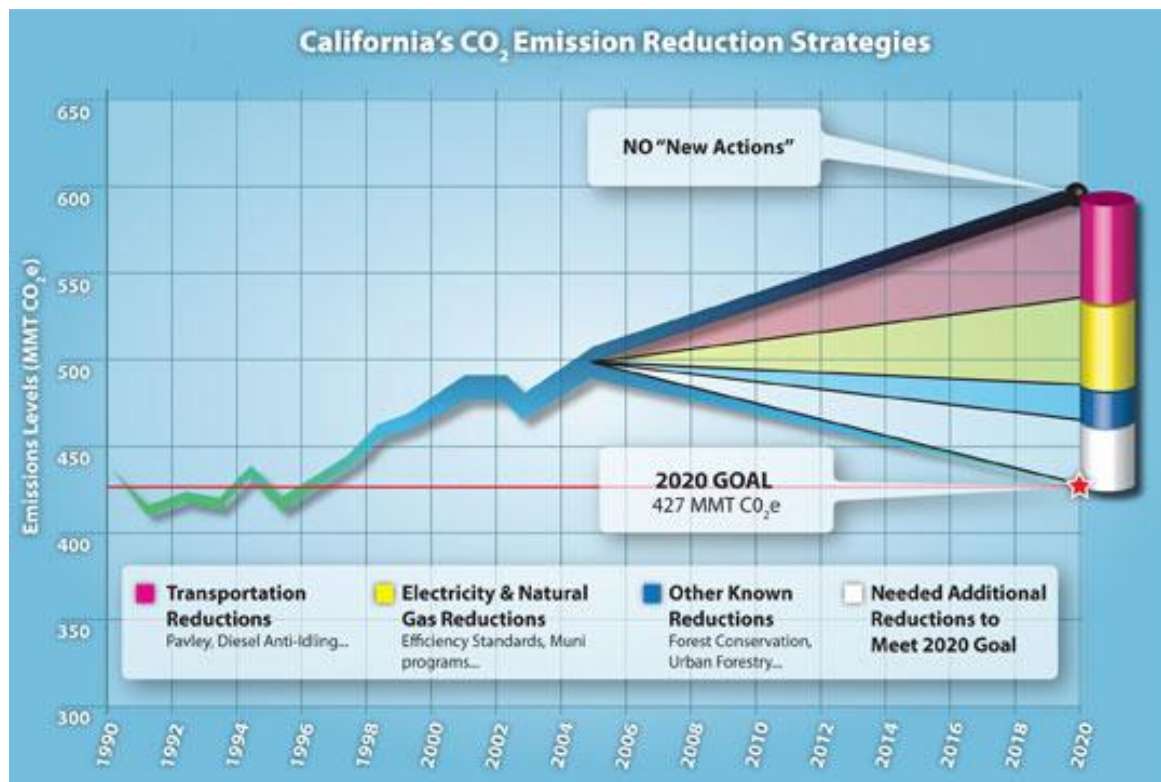
- Decide on program structure
- Program Design – Legal, Finance, Administration
- District Formation & Validation Process
- Program Implementation
 - Education & Marketing (6-12 weeks)
 - Application & Contract (4-6 weeks)
 - Installation & Funding (3-6 months)

Property Owner Example

Solar Examples - 7.5% Program Interest Rate

Location	Oakland	Walnut Creek	Fresno
Monthly Electric Bill	\$100	\$150	\$250
Solar System Size	2 kw	3.0 kw	4 kw
Percent of Home Electricity Use	49%	51%	48%
Solar System Cost	\$21,000	\$30,000	\$40,000
Rebates and Incentives	\$8,470	\$9,804	\$16,340
Total Financed Amount	\$12,530	\$17,745	\$23,660
First Year Energy Savings	\$778	\$1,195	\$1,882
First Year Loan Repayment (after interest tax deduction)	\$888	\$1,258	\$1,429
First Year Energy Savings NPV	(\$110) \$2,493	(\$63) \$5,039	\$453 \$7,193

Parting Words



■ Mimi Frusha. mimi@renewfund.com