

# Mello Roos Municipal Financing for Clean Energy Improvements



Solar Energy Financing

California Debt & Investment  
Advisory Commission

Oakland, California

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# Outline

- Goals of Mello-Roos Municipal Financing
- Availability of Mello-Roos Financing
- Why Mello-Roos Financing?
- City of Berkeley Pilot Program
- Program Design Issues
- Financing Challenges
- Outstanding Issues
- Program Timeline

# Goals of Mello-Roos Municipal Financing

- Special tax obligation that transfers with property
- Benefited property serves as security (land-secured)
- Financing cost administered through property tax bill
- Access to public finance market

# Availability of Mello-Roos Financing

## Special Taxes

- SB 279 Pending
- Charter Cities

# Why Mello-Roos Financing?

- Availability to all local agencies
- Proposition 218
- New development
- Third-party ownership
- Lien issues
- Flexibility

# City of Berkeley Berkeley FIRST Pilot Program

Adopted Special Tax Financing Law - Municipal Code  
Chapter 7.98

## Special Tax Procedure

- Resolution of Intention to form Financing District
- Public Hearing
- Resolution of Formation of District
- Unanimous Approval
- Notice of Special Tax Lien
- Bonded Indebtedness

# Pilot Timeline

- District Formation (3-6 months)
- Program Design (6-12 months)
- Validation
- Education & Marketing (3 weeks)
- Application & Contract (2 weeks)
- Installation & Funding (9 months)

# Pilot Program Financing Process

- Financing occurs after installation completed
- City records special tax lien on property
- Individual bonds are sold to investor for each solar project and city issues payment to property owner
- City establishes Reserve Fund to cover late tax payments
- Investors receive bond payments each March and September from special tax collected on property tax bill
- County can foreclose after five-year tax delinquency

# Pilot Program Staff Resources

## **Program Staff**

Management and oversight program functions, contractors and consultants; Program development, policies and procedures, coordination of local requirements, recording tax liens, bond issuance website and program marketing

## **Finance Department**

Prepare Property Tax roll, Issue Payments to Property Owners, Debt Service Management

## **Third Party Administrator**

Applications, screening, customer service, verifications and final document preparation and scheduling bond closing

## **Other Consultants**

Bond Counsel, Financial Adviser, Fiscal Agent

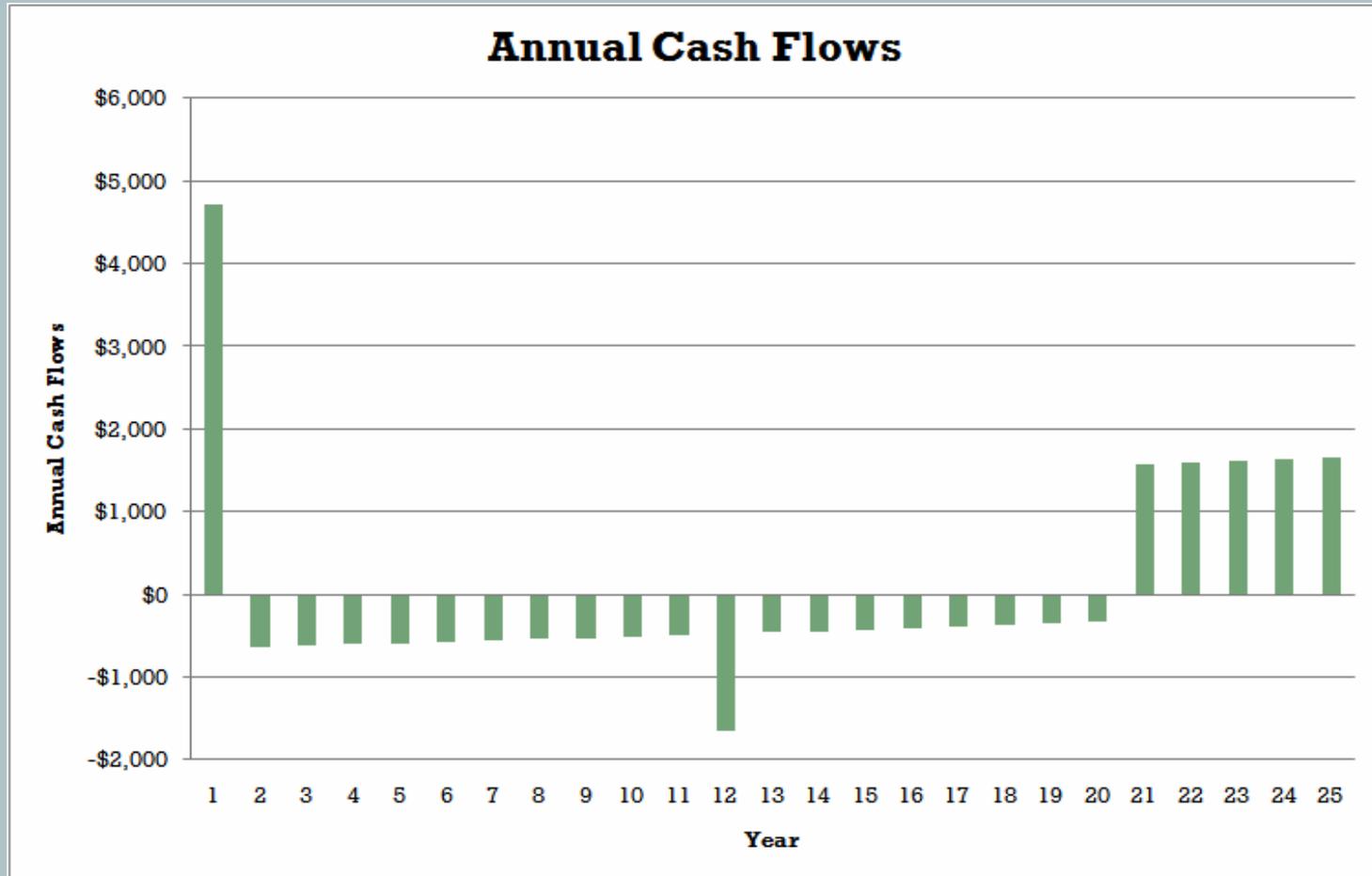
# Berkeley Pilot Program Outcomes

Applicants	77
Participants enrolled	38
Projects Financed	13
Total District Financing	\$337,800
Avg. annual tax payment	\$2,030

# Program Design Issues

- Loading administrative costs - consider payback period
- Competitive interest rates
- Scale
- Participation - avoiding drop outs
- Assess the local market and need for financing

# System Payback Period



# Costs

- Administrative Infrastructure
- District Formation Process
- Bond Issuance
- Application Processing and Customer Service
- Project Verification and Quality Assurance
- “Risk”

# Interest Rates

- Rates may need to be competitive with home equity loan rates of 4-6%
- Use CEC funds to buy down interest rates

# Program Financing Terms

<u>Location</u>	<u>Interest Rate</u>	<u>Max Loan</u>	<u>Repayment Term</u>	<u>Program Cap</u>	<u>Funding Source</u>
Berkeley	7.75%	\$37,500	20 years	\$1,500,000	Private Equity
Boulder County, Colorado	Not to exceed 8.75%	\$50,000	15 and 20 years	~\$9,500,000	Public Offering
Palm Desert	7.0%	>\$60K requires approval	5, 10, 15 or 20 years	\$7,500,000 (2 Rounds)	City/RDA Funds
Sonoma County	7.0%	>\$60K requires approval	5, 10, 15 or 20 years	\$115,000,000	County Treasury

# Scaling Up

- Should programs be run at City, County-wide, regional or State-wide level?
  - Economies of scale
  - Reduce administrative burden on participating cities
- Emerging Models
  - County-wide (Boulder, Sonoma)
  - California Communities JPA – California FIRST

# Participation

- Secure higher fee for participation in program
- Require application to State rebate program
- Provide longer application period

# Market Analysis

- Property Owner need for financing
- Financial markets
- Installers/contractors

# Bond Investor Security

- How do you handle delinquent taxes?
  - Reserve Fund covers initial shortfalls in tax payments
  - City deposits funds into Reserve Fund at time of individual bond funding
- When does foreclosure proceedings start?
  - County will start at 5<sup>th</sup> year
  - Who covers in interim period?
- Can not be “partially” delinquent
  - Property owner does not have option to only pay portions of property tax bill

# Financing Options

- Internal Purchase – Public agencies “buy” bonds as investments in their reserves
- Private Equity – Financing company purchases all bonds directly from public agency
- Public Offering – Total project financing amount aggregated *prior* to issuing special tax bonds

# Financing Issues

- Internal Purchase - Not seen as permanent solution and often not an option if public agencies do not have sufficient reserves that can be invested long-term (5-20 years)
- Private Financing – Market does not exist today for banks or other funding sources to purchase special tax bonds
- Public Offering - Do you “pool” all applications and then issue bonds? (Colorado model)
- Interest Rate Risk – Fixed or Market
- What are comparable types of securities?

# Outstanding Issues

- Legal
  - SB 279
  - Exercise of taxing powers
  - Senior lien
  - Validation judgments
  - Federal legislation and regulatory buy-in
- Financial
  - Reliable and low-cost funding source
  - Consistent methodology and program structure
- Program
  - Relationship between property owner and installer
  - Solar vs. energy efficiency to residential vs. commercial
  - Regional solutions

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