MEMORANDUM

TO: Senator Shapleigh
CC: Eduardo Hagert
FROM: Sushma Jasti
DATE: October 9, 2009
RE: House Bill 1937 (Villarreal)

H.B. 1937 gives cities a new tool for helping homeowners to make their homes more energy efficient or to install renewable energy devices on their homes. This legislation has been modeled after similar municipal financing programs in other cities around the country (e.g., Berkeley, San Diego).

H.B. 1937 authorizes a municipality to create a district within which property owners and authorized municipal officials may enter into contracts to assess properties to finance the energy efficiency improvements. The program allows municipal governments to sell bonds and use the proceeds to make a loan to a homeowner or business that can cover the up-front cost of energy efficiency improvements and/or a solar array. H.B. 1937 allows a municipality to impose an assessment **only with the consent of the owner** of the assessed property at the time of the assessment. Property owners then pay back the loan through a voluntary line item on their property bills at a low fixed interest rate (in some cases, a zero percent interest rate) over a 20-year period. The loan is tied to the property, which means that payment is tied to the property itself if the owner moves away.

Rep. Villarreal's staff indicated that the City of San Antonio is the only municipality that is actively pursuing this program today. Based on a review of how other jurisdictions have implemented the "Berkeley Plan," the municipalities choosing to implement H.B. 1937 will have to make a series of decisions. Herein below are at least some of those decisions and the options available.

Implementing H.B. 1937

1. Financing Administration
    a) Finance through interest rate spread between cost of borrowing and interest charged to loan Recipient (non-subsidy)
    b) Finance through general revenue (subsidy)

Discussion: Financing administration through a spread in the interest rate will remove this program from competing with any other programs for general revenues.

Financing administration through general revenue would allow the municipality to make loans at the bond interest rate, which would increase the attractiveness to the loan application pool.

We have a community with a large low income population. In deciding whether to fund the administration of the bond/loan plan from general revenue or from a spread between the interest paid on the bonds and the interest paid by the person receiving the loan, it would be helpful to know whether there is a suppression effect caused by higher interest. For example, assuming the bond interest is 3%, should we expect a significant decrease in applications for loans if the interest is 7% versus a straight pass through of the 3%? Are there cities that have adopted a sliding scale of interest charged to the borrowers based on income?

2. When would the check be issued to the property owner?

   a) Homeowner receives the loan before any installation has started in order to cover the upfront cost.
   b) Homeowner has to pay the upfront cost via a loan through the bank and after installation is complete, they will receive the bond money.

Discussion: Some solar installers require a $1000 down payment or even a pre-payment for equipment on any solar install making it difficult for a lot of people to get started.

If the loans from the bonds were distributed to the homeowners before installation, this would allow a lot more participants and low income families, and provide the solar at little or no upfront cost to the property owner.

If the homeowner is required to get a loan from the bank, the typical loans for home improvements are very short terms. This results in monthly payments that are higher than the energy savings that the improvements bring deterring many homeowners. This brings up the question; how high can the cost of entry be without creating a barrier to participation?

3. Should the homeowner be issued the check?

   a) The homeowner is issued the money for the loan and then is responsible for paying the solar company.
   b) The homeowner never even sees the money; it just goes straight from the city to the solar installer eliminating any hassles for the homeowner and risk of the solar installer not being paid in full.

Discussion: Having the money directed from the bond to the solar installer would make this process easier for the homeowner making this program more inviting. However, this would create a need for more manpower from the city to deal with paying the solar installer.

4. Bank Approval

   a) The bank needs to approve the property owner to be in this program. Property-based tax/assessment not directly based on the credit of the individual home owner
   b) Everyone is approved as long as they have a home and pay the property tax.

Discussion: If there is no personal credit check, this will help the program grow in the lower income areas. You have to be careful about who is applying to make sure they are paying their property taxes and they will be able to afford the addition on their property taxes.

5. Loan Terms

a) The loan should be on the property tax for a shorter amount of time in order to make the payback period quicker. (5 or 10 years)
b) The loan should be on the property tax for a long time (15 or 20 years) in order to minimize the payments on each property tax statement.

Discussion: The longer the term for the loan is on the property tax, the lower the bi-annual payments will be, making it more attractive to homeowners. Also, a longer payback period for the loan means energy savings can offset loan payment costs.

If the loan period is shorter, the loans will be paid back faster which would be better for the city. The term of the loan could depend on the amount borrowed (5-10 years for any loan under X dollars, or 15-20 years on any loan over X dollars.) The bonds must be held long enough to accumulate sufficient cash flow to cover administrative and bonding costs.

6. Funding Options
a) "Pool" all applications
b) Fund all homeowners individually.

What are the advantages and disadvantages of loaning from a pool and later issuing a bond for the accumulated loans or issuing a bond for each project?

7. Loan Limit
a) The maximum loan allowed is $XX,XXX / minimum loan $X,XXX. Or, maximum of 20 percent of the total actual property value, up to $50,000.
b) There is no limit on the loan amount allowing large scale projects to participate in this program.

Discussion: With a loan limit there is no need for extremely large bonds and it is easier to pay back via property taxes, however large scale projects would not be able to participate. Also with a loan limit, more projects would be welcome to participate instead of using all the allocated money on one project.

8. Application to program
a) The homeowner applies for participation online.
b) The homeowner has to go somewhere to fill out paperwork for the loan.

Discussion: the more convenient the application is for the homeowner the more willing they will be to participate. This also goes back to whether or not the home owner applies for the loan and then does the solar install or applies for the loan after the install is complete.

9. Who does the homeowner contact?
a) In order to create less confusion with homeowners dealing with the city and the loans, they just go directly to the solar installer and the solar installer has a standard form to fill out.

b) The homeowner has to coordinate the loan with the city and then separately go to the solar installer to follow through with the project.

Discussion: Eliminating the need for the homeowner to contact the city and the solar company could potentially make the program more efficient. If the homeowner just contacts the solar installer, all installers would have to work with the city in order to get the correct forms filled out. There would have to be an accepted standard for all solar companies in the city.

10. Loan Servicing

a) City hires specialized people to deal with the loans in house
b) Loan servicing is outsourced.

11. Division of loan funds

a) There is a cap on the amount of the loans designated to residential verses commercial.
b) The loans are run on a first come first serve basis and anyone, residential or commercial is welcome.

Discussion: If the program gives most of the available funds to businesses that tend to have larger projects, then funds might be scarce for residential properties.

12. Mandatory program orientation

a) Property owners are required to attend a mandatory orientation as the first step in applying for the loan.
b) All that is required for the owners is to read a contract?

Discussion: If the property owners are required to go to an orientation course in order to even apply for the loan, the program would probably run smoother. However this also requires more hours from the city to run these programs and keep track of who has attended and is ready to apply for the loan. Alternatively, the orientation could be web-based, which creates a limitation for those without web access.

13. Bond Market

a) Program will be run on a private bond market
b) Program will be run on a public bond market.

Discussion: What is the difference?

14. Market Demand

To determine the demand for the program:
a) Applications can be taken beforehand to determine program budget
b) Funding can be allocated and then dispersed based on applications received

15. Marketing/PR
    a) Program will be marketed to specific segments of the city's population, including low-income housing developments
    b) Program will be marketed on a wide scale

16. Loan coverage
    a) The program will be for only solar array installations
    b) Program will include loans for weatherization and energy efficiency improvements; appliances included

Discussion: If loan program includes weatherization and energy efficiency out to retrofit level, will there be limitations on what items are included. For example, "Useful life" of the EE and RE measures must be 15-20 years. Short-lived or movable items, such as light bulbs, aren't included.

17. Debt Collection
    a) Program will be monitored by debt collection agency
    b) Program will be monitored by city staff
    c) Program will be monitored by third party administrator

18. Financing Limitations
    a) Financing is available only to existing homes that are looking to update or improve the property.
    b) Financing is available to new homes and businesses to add energy efficiency or renewable energy improvements during construction.

19. Obtain Bids
    a) Homeowners are required to obtain at least 2 or 3 bids from different contractors in order to receive the lowest price.
    b) Homeowners are only required to have one bid in order to receive a loan.

Discussion: If the homeowner is required to obtain at least three bids from different contractors, this will help the "loan staff" determine whether the proposed equipment and installation costs are reasonable. While the property owner may choose the contractor, the amount available for financing will be limited to an amount determined reasonable by the staff. This issue may work itself out over time as history of installations develops criteria applicable to future installations.

20. Unable to make payments
    a) Foreclosure will occur if the homeowner is unable to pay the lien on the property tax.
    b) Equipment, e.g. solar panels, are repossessed if the homeowner is unable to make the payments added to the property tax.

Discussion: Unpaid assessments could acquire interest and penalties in the same manner as property taxes. Program needs to be designed and implemented to avoid foreclosures, if at all possible.

21. Foreclosure

Who actually takes action to foreclose? It would seem to be the responsibility of the city. City Attorney's office might need to develop in house expertise or add additional staff to address this possibility. Alternatively, outside counsel could be retained to handle such case as they arose.

22. Ability to lock in a rate

a) The interest rates offered to participants is directly tied to the county treasury interest rates (earnings); if the interest rate increases, so will the participants loan interest rate

b) Option to lock in interest rates.

Discussion: Possible participants could find potential for interest rates to increase to be unacceptable and decide not to take part in the program causing participation rates to decline. Option to lock in interest rates for at least part of the loan period would help reduce concern.

23. Upfront costs

Item 2 above discussed funding of the administrative costs. If the option of having the loan recipient pay those costs is chosen, then there is an option regarding when those costs are paid.

a) The loan recipient pays the administrative fee upfront.

b) The administrative fee is built into the loan interest rate and be paid back over time through the property tax.

Discussion: As much as the homeowner is able or willing to pay upfront would be beneficial to them by causing the loan amount added to the property tax to go down. A standardized fee and deposit for all cases would minimize the work of figuring out who should pay what amount for each case.

24. Funding Priorities

a) The program prioritizes according to most impact reaching energy independent goals or the quickest payback time.

b) The program doesn't prioritize its applicants, and instead runs on a first come first serve basis.

25. Who is responsible for overruns?

a) Payment is for application amount only and homeowner will be responsible for any overruns.

b) If an overrun occurs, the homeowner can turn in a supplemental application to try and increase the loan amount.

Discussion: If overruns occur and they are just of a small percentage, the loan office will probably not see that as an important request therefore it will not have very high priority for funding and those of a more significant amount should be identified as early as possible to avoid jeopardizing the proposed project.

26. EE monitoring
    a) Energy Efficiency pre and post-monitoring is required in order to obtain the loan from the city. If your install does not improve your energy efficiency then you may not get the loan.
    b) There is no monitoring for this program.

Discussion: If monitoring is required, this would require a lot of extra money and time. If monitoring isn't required, we will never know if the money spent on the program was beneficial to the cause.

27. How to handle tax exempt properties.

Obviously, tax exempt properties cannot participate in a program that involves repaying loans through a property tax addition. Some communities have set up separate donation programs to gather the resources to make energy efficiency improvements and install solar installations on tax-exempt properties.

28. Are renters / low and moderate income families left out?

Getting participation of rental units in which the renters pay the utility bill may require more emphasis on the home value increase. Low and moderate income home owners may consider the amount of the loan too high to assume the responsibility.

29. Time required for project completion.

Once loan is approved will there be a set time in which the project must be completed?

Discussion: Without a deadline, the possibility exists that the project will be delayed with no ability of the city to push for completion.

Additional contacts:

Solar San Antonio has been heavily involved in the legislation and the implementation in San Antonio.

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