

Massive Mello-Roos planned

By Mountain Democrat

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“Chief Administrative Office requesting Board direction regarding a Property Assessed Clean Energy (PACE) program in conjunction with Ygrene Energy Fund.” That was the May 14 agenda item for the El Dorado County Board of Supervisors. With the support of the Builders Exchange and big-name contractor Carter-Kelly, it’s no wonder the CAO is pushing this scheme before the county Bond Screening Committee has met and made a carefully studied recommendation.

Property Assessed Clean Energy is a fancy name for having home improvements financed through a third party contracting with the county and then put the loan on the county’s property tax rolls. The primary improvements to be financed are solar installations, but it would include other energy efficiency improvements such as new window, furnaces and insulation.

PACE is a reference to AB 811-based programs. The proposed Clean Energy El Dorado program is based on California Senate Bill 555 from 2011. SB 555 amended the Mello-Roos Act of 1982 to allow cities and counties to create CFDs for energy efficiency, water efficiency, and renewable energy generation projects. Financeable improvements are strictly limited to measures that are permanently affixed to real property and reduce utility bills.

The program is completely VOLUNTARY and property owners that choose not to annex their properties into the CFD will not be affected. Property owners that choose to make utility bill decreasing improvements to their property will only pay for the benefits they receive on their property. Project costs are repaid through a Special Tax on property tax bills with terms of up to 20 years.

The District will consist of zero properties to start and will have zero properties until a property owner VOLUNTARILY chooses to join the District.

The District accumulates properties one-by-one as property owners enter into financing agreements with the County. The proposed program administrator Ygrene Energy Fund will market the program, train contractors (free for contractors), provide project capital, administer the tax roll management, and handle reporting requirements to the State Controller at NO COST TO THE COUNTY or taxpayers.

It is a worthy goal, getting more solar installations, et cetera. That is something that is already happening, however. In 2012, the county issued solar electrical and plumbing permits for a total value of \$6.95 million. In the first quarter of 2013, permits totaled \$2.65 million. The total for five quarters is \$9.6 million. That's a lot of solar installation without the benefit of a complicated county program.

The vast majority of solar permits in El Dorado County today are for solar leases and power purchase agreements. These arrangements prohibit the property owner from owning the panels on their property, capturing any utility rebates, and capturing the 30% tax credit associated with the solar project. The property owner pays a fixed price to lease the panels or agrees to purchase power from the solar company for 20 years. Clean Energy Finance Districts allows the property owner to own the improvements on their property and keep ALL financial benefits associated with the project.

What's complicated about it? Two words: Mello-Roos. Bonds for the PACE program would be financed through a Mello-Roos Community Facilities District. There would be hearings. There would be Proposition 218 hearings in which a majority could file formal protests and scuttle it. Good luck with that, especially with a countywide Mellos-Roos that includes South Lake Tahoe.

The County would not issue bonds for the program. Project capital is 100% private capital and does affect the County's balance sheet or credit rating.

The real problem with putting home improvements on the tax roll comes when some homeowner can't afford the higher taxes and the county sells the home at a tax auction.

The program has strict underwriting standards including: at least 15% equity in the property, current on mortgages and property taxes for the last three years, and not currently in bankruptcy. Projects must also show to save more in energy costs than the payment over the life of the project.

Projects are limited to 10% of fair market value. For example, the bi-annual outstanding tax liability for a \$30,000 project on a \$300,000 property roughly equates to 0.746% of property value. The monthly liability equates to 0.0621% of property value.

The Institute For Market Transformation and the UNC Center for Community Capital's 2013 indicates that "default risks are on average 32 percent lower in energy efficient homes, controlling for other determinants." Moreover, the study recommends lenders and secondary market investors should take into

account the energy efficiency of the home used as collateral for the loan in an underwriting decision.¹

Don't think it won't happen, and bet on it that the Board of Supervisors will get blamed for the Mello-Roos district. Smart home buyers already ask if a home has Mello-Roos bonds. Mello-Roos taxes on top of property taxes and home owners association dues can be a deal breaker. If this PACE program goes, Realtors will have to disclose the 20-year loan added to the tax bill. It will not add much resale value to a house as homebuyers are going to be reluctant to take on that higher tax bill.

UCLA and UC Berkeley recently conducted a study that shows energy efficient homes sell for 9% more than conventional homes.²

What's more, any home financed by Fannie Mae or Freddie Mac, whether directly or by a mortgage-backed security after the bank sold the loan to one of these two, cannot receive a loan that goes on the tax rolls. Sonoma County already lost that case in the U.S. Ninth Circuit Court of Appeals March 19. The Federal Housing Finance Authority will not allow a property assessed financing program. Putting home improvement costs on the property tax bills makes them senior to the government-backed loans. The government-sponsored enterprises will not allow that.

The FHFA does not have the authority to allow or disallow PACE programs. The authority derives from the State of California. Sonoma County did not lose their case. The Ninth District Court of Appeals dismissed Sonoma County's case on March 19th due to a lack of standing. The Ninth District Court did not rule on the merits of the case.

More than 3,000 residential PACE projects have taken place since 2009. Some property owners have had to pay off the remaining assessment at time of refinance or sale as a condition from the new buyer.

The Board of Supervisors will ultimately control the inclusion or exclusion of residential in the program.

Fannie and Freddie control half of the mortgages in Sonoma County, according to the Santa Rosa Press Democrat. Figure El Dorado County has a similar percentage.

And finally, the county administrator is seeking a sole-source deal with one outfit. We call that crony capitalism. There are other companies that do the same thing.

¹ http://www.imt.org/uploads/resources/files/IMT_UNC_HomeEEMortgageRisksfinal.pdf

² <http://www.environment.ucla.edu/news/article.asp?parentid=15325>

No other companies offer clean energy financing districts based on SB 555. The Board has taken a position in the past that they are not interested in an AB 811 program.

Further, PG&E has a list of incentives and financial resources for solar photovoltaic programs, including the California Solar Initiative program. None of these PG&E-listed programs go on the tax rolls or mess with the Federal Housing Finance Authority.

The property owner does not get to take advantage of utility rebate or tax incentives associated with solar projects under solar lease or power purchase agreements.

We don't need another Mello-Roos district, especially a massive one like this. And putting home improvement loans on the tax roll is asking for trouble.