



Solarize Pendleton City Sponsored Loan Program

January 12th, 2011

Solarize Pendleton Overview:

Solarize Pendleton is a program spearheaded by the City of Pendleton in collaboration with Solar Oregon and the Energy Trust of Oregon to help the residents of Pendleton, Oregon overcome the logistical and financial obstacles of going solar.

It is our vision for Pendleton to be a vibrant solar community and be a living example of the opportunities that exist for rural communities. We are making the resources available that allow residents to make informed decisions while pursuing solar.

This model of a community approach to going solar was replicated from the Solarize Portland projects. This approach entailed educating residents about the basics of solar, the “nuts and bolts, “ or how a solar system would actually function in their home, the incentives and tax credits that are available for residential solar, and how net metering with the local utility, Pacific Power, works. These workshops were organized by the City of Pendleton with guidance from Solar Oregon and the Energy Trust of Oregon in order to allow residents to make be confident in their choice to install solar on their homes.

Through a competitive bidding process in which a Request for Proposals was sent out, a contractor was selected to oversee and install the Solarize Pendleton installations. Through a bulk purchase of the panels, the contractor was able to offer a significantly lower price to Solarize Pendleton participants. Removing the logistical hurdles of finding a contractor and being able to offer prices below the market average for installing solar are very noteworthy advantages of the Solarize model.

The first phase of Solarize Pendleton was completed in December, 2010. 55 photovoltaic (PV/solar electric) arrays and 1 solar hot water system were installed on homes in Pendleton, Oregon.

Loan Program Overview:

As part of the Solarize Pendleton program, the City of Pendleton created an interest-free solar loan program. This program was open to all participants to apply for and loans were awarded through a lottery system. 50 \$9,000 loans were approved by the City Council to be issued from the Waste Water Rate Stabilization Fund and be paid back over four years as participants received their Federal and State tax credits. 39 of these loans were used by Solarize Pendleton participants to finance their installations.

The final cost of a solar installation has finally reached a level of affordability for a larger portion of the population (with incentives and tax credits), however since the tax credits come back over a series of four years, a sizeable, initial out of pocket payment is needed. When the City of Pendleton first started thinking about spearheading a solar program in the fall of 2009, one question kept arising: How will homeowners finance their installations? As a program that was meant to help residents “overcome the logistical and financial hurdles to going solar,” the program needed to address this issue in some fashion.

Initial Financing Considerations:

There are many financing models that exist for renewable energy and energy efficiency improvements to homes. However, this document will only address those that the City put in depth consideration into.

Standard bank financing was one of the options that were looked into to help homeowners finance solar installations. The City started discussions with local banks to see if they would participate in the program and provide loans to participants individually. This would have eliminated the complexities of financing program from the City’s hands and relieve the City of the burden of overseeing a lending program. However, this scenario would add the extra step of going to a bank and applying for a loan and may have discouraged some people from participating. The fact that it is a difficult time to lend money was also taken into consideration since some people may not qualify for loans at this time. Lastly, the return on investment would be lengthened due to the fact that it would not be a zero-interest loan.

A City financing program, where the City would borrow money from a lender to then loan out to Solarize Pendleton participants was also considered. The City would then co-issue the payment with the homeowner to the contractor for installation. A voluntary lien would be placed on the property. In this scenario, the re-payment could be front-loaded to account for tax rebates. This would simplify the program, giving participants a set loan option that was designed specifically for the program, from a reputable lending source—The City. While this would save the residents money by giving them a zero-interest loan, it would cost the City a large amount of money while it was carrying the burden of the loans’ interest.

To overcome the interest rate that the City would have to pay a financial institution if it were the borrower, the City of Pendleton decided to find funds within the City

budget that could be used instead. In this scenario the only money that the City is losing is foregone interest on the funds that would be loaned out. With the current interest rate being at about one percent per year, the City would pay less interest lending out its own money than borrowing from an outside institution. Challenges with a program structured in this way will be discussed below.

Finding the Funds for the Solarize Pendleton City Loan Program:

The City Manager of Pendleton, Larry Lehman, was then tasked with finding potential funds that the City already had in its possession. While in many circumstances this can be a daunting task, it is important to remember that the loans can be front-loaded to coincide with tax credits. It is also important to keep in mind that the funds will be returning, in full, to the City.

The fund that Pendleton used to finance the City Loan Program for Solarize Pendleton came from the Waste Water Rate Stabilization Fund. This fund was created as part of bond issuance in January 2008 for Waste Water Treatment Plant improvements. The funds that were borrowed as part of the program had been placed in a debt service fund in case the City couldn't make a payment on one of the bonds. The money could be borrowed but it couldn't be transferred for another use or cause where it wouldn't be returned.

The only cost to the City to use these funds is the foregone interest which was approximately one percent of the outstanding balance. This would be \$4,500 for the first year in which all of the \$450,000 is outstanding, then declining each year after that.

Terms of Loan:

The next step was determining how the loans would be structured and how they would be repaid. It had already been decided that they would be interest-free and repayment would be determined by tax credits.

The schedule that was established is a reflection of the average tax credits that will be received over the course of four years for a homeowner with the available tax liability. If the full \$9,000 were not needed, the last payment would be adjusted down. The schedule was fixed, meaning that it would not be altered for individual tax circumstances. This was done to cut down on the need to create multiple applications and contracts and to cut down on staff time.

The maximum loan amount available to any one household is \$9,000, regardless of system size. \$9,000 was found to be the amount that a 2,000 Watt system, which would make use of the maximum amount a homeowner could receive in tax credits from the State of Oregon in 2010, would need to finance the gap between the last payment to contractor and when one would be receiving their tax credits. The cap was set to make loans available to more households.

The payment schedule is as follows:

Payment Due	Payment Amount	Payment Due	Payment Amount
May 25, 2011	\$4,500	May 25, 2013	\$1,500
May 25, 2012	\$1,500	May 25, 2014	\$1,500

The repayments are front-loaded, requiring homeowners to make a large initial payment, coinciding with Federal tax return in the first year, which returns 30% of the system cost, and the Oregon returns spread over 4 years.

To guarantee the repayment of the loans to the City a lien was placed on the house and late fees will be charged. The lien is to secure the loan payment should the homeowner decide to sell their property. If any portion of the loan is to become more than 60 days delinquent, an interest rate of eight percent per annum will be imposed. This interest would accumulate until the loan is paid in full. If the loan is to be delinquent by an amount equal to 6 months payments, the City shall have the right to turn the entire unpaid amount over to a collection agency for collection. An additional charge of 20% of the principal amount may be added to cover collection costs.

This loan was structured to not be transferable. When the property changes ownership, the outstanding balance including interest of late fees shall be due and payable.

Please see the appendix for the loan application and lien agreement that were used.

City Council Approval:

The next step for the City of Pendleton in creating this loan program was to get City Council approval to use the Waste Water Stabilization Rate Funds to fund the Solarize Pendleton loans.

The Council approved 50 \$9,000 loans under the terms listed above.

Participant Application Process:

Solarize Pendleton participants who were interested in acquiring a City loan were asked to submit an application to City Hall no later than May 19, 2010.

An in-house credit check was done based on payments to the City to assure that applicants had a good history of making City payments on time.

Awarding Loans through Lottery Drawing:

The loans were issued in a lottery fashion. All applications that were submitted to the City by May 19th were entered into the loan drawing. The drawing was held at the Pendleton Farmer’s Market on Friday, May 21st, 2010 at 5pm, to award the loans.

Ninety-five people had applied for loans. All 95 names were drawn to create the order in which the loans would be granted. In case some of the first 50 decided not to accept the loans. The first 50 people were given time to consider accepting the loan. If a loan was passed up, the opportunity was passed on to the next person on the list. Applicants were given until 10 days to decide if they wanted to accept the loan.

Eventually, as enough loans opened up, the opportunity to receive a City loan was opened up to anyone who had applied for one. Of the 50 loans that were available, 39 were used to finance Solarize Pendleton installations.

Lien agreements were then signed.

Issuing Loan Checks

Once the homeowner signed the contract with LiveLight Energy and the lien agreement was signed, the City of Pendleton Finance Department cut the \$9,000 check to both the homeowner and LiveLight Energy. The \$9,000 went towards the homeowners' initial fifty percent deposit for the installation. The remaining was applied towards the final payment to LiveLight which occurred after the installation was complete and passed all inspections. The homeowner was then responsible for the remaining balance of their system.

Appendix:

Loan Application

Lien Agreement

