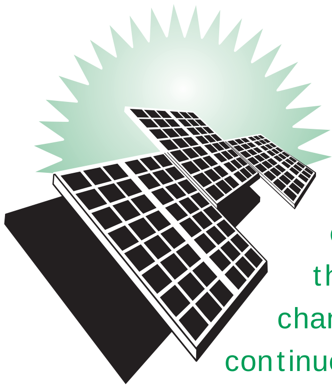
dollars & $ense

California Municipal Treasurers Association www.cmta.org

Financing the green—recent developments in financing solar and energy efficiency projects



– *Tim Seufert, NBS, Managing Director*

The 'green revolution' has come to public finance. This article contains a number of avenues for your City or local agency to follow to foster investment in renewable energy (solar) and energy efficiency projects. Some of the tools are familiar, but there have been recent changes and new developments. This evolution will surely continue.

The primary tools, in no particular order, are as follows:

- Assessment Districts
- Community Facilities Districts
- Rebate programs (local, plus State and Federal incentives)
- Voluntary donation programs
- Grants and other sources

Assessment districts and community facilities districts

Assembly Bill 811, effective July 21, 2008 as an urgency bill, amended the 1911 Act, Chapter 29, to allow for contractual assessments that will finance renewable energy source and energy efficiency improvements for already-developed residential, commercial, industrial, or other real property. Contractual assessments are basically special assessments levied by contract between a local agency and a property owner. Under this model, a local agency forms an assessment district (which may be limited or jurisdiction-wide in scope) and, with a property owner's consent, levies assessments on a property to finance improvements made to that property. Bonds may be issued under the 1911 Act. To get started, the local agency shall pass a Resolution of Intention that states that this assessment program is for the public good and benefit. This Resolution shall specify, among other things, the boundaries of the area in question,

—Continued on page 4

One for the history books

– *Paul Randelman, Wells Fargo Bank*

In years to come, 2008 will be the subject of great analysis in Money and Banking classes worldwide. We have seen the Federal Reserve take unprecedented actions in an attempt to stabilize global financial markets and financial institutions. We have seen the foreign sovereign wealth funds make significant investments in US financial institutions, only to see those same institutions continue to need additional capital investments. One Primary Dealer was forced into an acquisition, another was forced into bankruptcy, and a third ran into arms of a large commercial bank, and two more Primary Dealers became Bank Holding Companies giving them easier access to funding, but at the cost of lower leverage (and presumably lower profitability) and greater regulatory oversight. 2008 has also seen the conservatorship of Fannie Mae and Freddie Mac as well as AIG, the largest insurance company in the United States, protecting

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CMTA 2008-2009 Officers

PRESIDENT
Christine Vuletich, CCMT
South Lake Tahoe, CA
Tel: (530) 542-6064
Fax: (530) 542-6041
cvuletich@cityofslt.us

PRESIDENT-ELECT
Kelley Williams, CCMT
Arcadia, CA
Tel: (626) 574-5465
Fax: (626) 447-6021
kwilliams@ci.arcadia.ca.us

VICE-PRESIDENT
Marc Puckett, CCMT
Costa Mesa, CA
Tel: (714) 574-5243
Fax: (714) 574-5040
mpuckett@ci.costa-mesa.ca.us

SECRETARY
Mary Morris, CCMT
Granite Bay, CA
Tel: (916) 791-6907
Fax: (916) 791-6957
mmorris@sjwd.org

TREASURER
Nathan Hernandez
Visalia, CA
Tel: (559) 730-7534
Fax:(559) 730-7404
nhernandez@visalia.k12.ca.us

PAST-PRESIDENT
Victoria Beatley, CCMT
Costa Mesa, CA
Tel: (949) 574-1022
Fax: (949) 574-1035
vikkib@mesawater.org

PARLIAMENTARIAN
Victoria Beatley, CCMT
Costa Mesa, CA
Tel: (949) 574-1022
Fax: (949) 574-1035
vikkib@mesawater.org

President's message

Welcome back everyone!
I hope you had a great summer.

Christine Vuletich
President

For me this summer was one of extremes. From hiking 14,500 foot Mount Whitney, the highest peak in the continental United States, to watching my father's amazing recovery from a near debilitating stroke, I realize now more than ever that human spirit and determination make all the difference in what we can achieve.

With the will to succeed and hard work we can do anything!

This is something I wanted to share with you because I believe it is especially important today in the challenging times we find ourselves currently in. Whether it is budget cuts, financial market troubles or personal economic difficulties, now is the time to stay strong and do all that we can to work toward better times ahead.

That means we need to stay on top of our games. The best way I know to do that is to be well informed and well prepared. Understanding treasury management and various types of investment securities is key in managing the level of portfolio risk that is appropriate for your organization.

This year CMTA is again offering great educational opportunities. By the time you receive this newsletter many of you will have attended the Essentials of Treasury Management workshop. While this is a beginning workshop, every year many of you keep coming back to learn even more – there is always something new. The Advanced Investment Workshop is scheduled for January 2009 and is a great way to broaden your knowledge. And don't forget your Division Meetings. These meetings are not only educational, but a wonderful way to get to know your fellow Treasury professionals. The Annual Conference will be held April 22-24, 2009, in Palm Springs. We will be celebrating our 50th year and I look forward to seeing you there.

Dollars & $ense
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Direct all correspondence to:
Kelley Williams, CCMT
Revenue Collection Specialist
City of Arcadia
P.O. Box 60021, Arcadia, CA 91066
Tel: (626) 574-5465, Fax: (626) 447-6021
kwilliams@ci.arcadia.ca.us

Design by: Donaghu Graphic Designs (925-937-8283),

Division news…

Division 1

Division 1 held its annual CMTA Day at the Races at Del Mar on Thursday, August 21. Over 50 tickets were sold which raised over $450. It was a beautiful day to mix and mingle with other CMTA members.

Our monthly luncheon was held on Wednesday, September 24, in conjunction with the local chapter of CSMFO. Marty Nohe of Fieldman Rolapp and Associates gave a presentation on “A Decade on Change in the Municipal Bond Market”. The event was very well attended and very relevant in light of today’s volatile markets.

Division II

We held a meeting on August 13, 2008. It was a perfectly beautiful day to admire San Pedro’s Harbor from the Ports O’ Call Restaurant. Mike Whitehead from the City of Rolling Hills Estates assumed the Division II Vice President position. Jose Matamoros, Vice President from the Bank of New York Mellon spoke on “The role of trustee during bond insurer downgrade and failed remarketing”. He led us through a decision tree process for failed remarketing and bank bonds. Our next meeting is scheduled for October 9, 2008 at the Smokehouse in Burbank.

Division IV

Division 4 is an upbeat, welcoming and warm group that provides exceptional networking opportunities and very informative speakers. Our division meetings will be moving to our new location as of October 2008. The City of Watsonville has built a new Civic Center and we will be moving our meetings to the Community Room, located at 275 Main Street, on the fourth floor. This will keep our costs down and give us better acoustics for the meetings.

We kindly invite all of our members to our quarterly meetings. The attendance is generally between 20-30 and includes attendees from 15 active cities in addition to 4 active service districts and several private sector companies. We have merged our meetings with the local CSMFO Chapter and have done well with this arrangement over the past 4 years.

If you would like to be added to our mailing list or have in questions about our Division, please don’t hesitate to contact me at the City of Watsonville Finance Department, PO Box 50000, Watsonville, CA 95077-5000 or mduran@ci.watsonville.ca.us or 831.768.3471.

Division VII

Division 7 collaborates with the Peninsula Chapter of CSMFO for its meetings. The division has had three meetings so far this year. In May, our speaker was Diane Glazman who spoke to the group about the principles of effective written communication. In June, Brian Perry from Chandler Asset Management spoke on the topic of investing in today’s economic market. In September, John Kim from DelaRosa and Co. talked about borrowing in the today’s credit market. We have one final meeting scheduled for December 12. The annual holiday luncheon and meeting will be held in San Francisco at Hotel 480 at Union Square. Our annual speaker is economist Gary Schlossberg from Wells Capital. Information for this meeting will be available on the CMTA website in November.

Division Chairs

I
Nadine Mandery, CCMT
City of Chula Vista
Tel: (619) 691-5051
Fax: (619) 585-5685
nmandery@ci.chula-vista.ca.us

II
Sharon Duckworth
City of Vernon, CA
Tel: (323) 826-1471
Fax: (323) 826-1491
sduckworth@ci.vernon.ca.us

III
Cass Cook
City of Dinuba
Tel: (559) 591-5900
Fax: (559) 591-5902
ccook@dinuba.ca.gov

IV
Marissa Duran
City of Watsonville
Tel: (831) 768-3471
Fax: (831) 769-4066
mduran@ci.watsonville.us

V
Richard Loomis, CCMT
City of Pinole
Pinole, CA 94564
Tel: (510) 724-9823
Fax: (510) 724-9826
rloomis@ci.pinole.ca.us

VI
Sue Clive
Santa Rosa, CA
Tel: (707) 543-3119
Fax: (707) 543-3139
sclive@srcity.org

VII
Mary Asturias, CCMT
Burlingame, CA
Tel: (650) 558-7221
Fax: (650) 342-8386
masturias@burlingame.org

IX
Terry Loomis
Irvine Ranch Water District
Tel: (949) 453-5340
Fax: (949) 453-0128
loomis@irwd.com

X
Tina Norrdin, CCMT
Mira Loma
Tel: (951) 685-7434
Fax: (951) 727-3503
tnorrdin@jcsd.us

Committees

EDUCATION
Mary Asturias, CCMT
City of Burlingame, CA
Tel: (650) 558-7221
FAX: (650) 342-8386
masturias@burlingame.org

LEGISLATION
Laura Parisi, CCMT
Laguna Beach, CA
Tel: (949)497-0327
Fax: (949)497-0771
lparisi@lagunabeachcity.net

GENERAL CONFERENCE AND SITE SELECTION
Linda Lorenzetti, CCMT
City of Concord
Tel: (925) 671-3183
Fax: (925) 671-3198
linda@ci.concord.ca.us

CERTIFICATION
Bill Gallardo, CCMT
City of Brea, CA
Tel: (714) 671-4418
Fax: (714) 671-4484
billga@cityofbrea.net

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LEAGUE LIAISON
Kanat Tibet
Sacramento, CA
Tel: (916) 658-8226
Fax: (916) 658-8240
kanattibet@cacities.org

COMMERCIAL ASSOCIATE LIAISON
Don W. Collins
Wedbush Securities
Newport Beach, CA
Tel: (949) 719-3237
don.collins@wedbush.com

2009 CONFERENCE
Palm Springs, CA
April 22-24, 2009

Financing the green... —continued from page 1

the types of improvements allowed, and the financing program.

Public finance professionals in California are promoting an alternative legal approach through Assembly Bill 1709, which is still working its way through the California Legislature. AB 1709 would amend the Mello-Roos Community Facilities Act of 1982 to allow Community Facilities Districts ("CFDs") to levy special taxes to finance renewable energy and energy efficiency improvements to private property. This adds additional capability to the existing and already-flexible CFD law. Note that the City of Berkeley pioneered the CFD model by using its status as a charter city to adopt a special tax ordinance based on the CFD law. AB 1709 is modeled on Berkeley's special tax ordinance.

There are a few significant differences between AB 811 (contractual assessments) and AB 1709 (CFD special taxes). First, AB 811 is limited to developed property, while AB 1709 would also allow financing of renewable energy and energy efficiency improvements for new development. Second, AB 811 is only available to cities and counties, while AB 1709 would be available to all local agencies. Third, the CFD law (AB 1709) has proven to be a more flexible financing tool than the 1911 Act (AB 811), which may be important as local agencies, public finance professionals and the lending community begin to explore the rapidly-changing area of renewable energy financing. Finally, AB 1709 (which would allow the annual levy of a special tax to pay bonded indebtedness issued to finance renewable energy and energy efficiency improvements) may be less problematic with respect to existing home mortgages than AB 811 (which levies the entire principal amount of the assessment at the time the contractual assessment is established).

Both the CFD (AB 1709) and Assessment (AB 811) routes offer two primary benefits because:

The obligation to repay the cost of the renewable energy and energy efficiency improvements will be on the property tax bill. It will not be "due on sale" of the benefited property (which is the case with traditional equity lines of credit) and the lender will have a "super lien" on the benefited property that is equal to the lien of general ad valorem property taxes; and

Renewable energy and energy efficiency improvements may be financed without a significant down-payment.

Chris Lynch, of the bond counsel firm Jones Hall, who authored Berkeley's special tax ordinance and helped Assemblyperson Loni Hancock write AB 1709, believes the biggest hurdle to public financing of renewable energy and energy efficiency improvements to private property is not legal but financial: "Because bonds issued for this purpose will not be tax-exempt, it remains to be seen whether local government will be able to offer a financing program that is economically superior to financial products available from the private sector."

Rebates and incentives

As part of the Governor's $3.3 billion Million Solar Roofs Program, the State of California has a rebate program, known as the California Solar Initiative ("CSI"). A typical residential solar installation can currently receive a rebate of up to $4,750 for the installation of 2.5 kW system. For more information, please see www.gosolarcalifornia.ca.gov. Note that the Federal government also has a tax credit program to incent such incentives. This federal tax credit is set to expire at the end of 2008, but it may be extended. A number of bills have been brought forth to extend the credit, and the political maneuvering continues.

To leverage private investment, the City and County of San Francisco implemented an incentive program on July 1, 2008 for residential, non-profit, and commercial solar installations. A homeowner can apply and receive between $3000 and $6000 for a 1.5kW or larger system. The initial funding in the amount of $3 million is being provided by the San Francisco Public Utilities Commission's Sustainable Energy Account. For further information, go to http://sfwater.org/home.cfm and click on the GoSolarSF links.

Grants and voluntary programs

Some cities are providing for voluntary contributions, via their utility bills for example. Residents may donate any amount to fund solar and energy efficiency programs within their communities, particularly for schools, low-income applications, and non-profit organizations.

Grant funding can come from a plethora of sources. PG&E, for example, has given significant grants to fund solar installations at schools and non-profit housing facilities. Further information is available at www.pge.com/giving/.

These avenues and others will surely evolve over time. The good news is that you can start now and foster investment that will save money, reduce pollution and our environmental footprint, and help diversify our sources of energy. Those three goals are certainly worthy of our time and efforts.

One for the history books —continued from page 1

bondholders and policyholders, but virtually wiping out shareholders.

2008 has also brought us the greatest number of bank failures since the Savings and Loan crisis of 1989-91, including the second largest bank failure in the history of the United States. Unfortunately, the FDIC has warned that there are likely many more to come.

Now, we are on the verge of a government bailout of financial institutions that will in the short run cost taxpayers at least $700 billion dollars (which will be repaid at least in part over time from the proceeds of the acquired assets when liquidated) on top of a federal budget deficit that will approach $500 billion in the coming fiscal year (2008-09). Additionally, most state and local governments have seen revenues decline as property tax receipts fall as the result of the housing crisis and sales tax collections decline as consumers spend less. This has created a situation where to bridge revenue shortfalls either spending has had to be cut and/or taxes increased at the State and local level, providing an additional drag on the economy.

The American consumer has had to weather significant increases in energy prices (although off their record highs, still much higher than a year ago) as well as increased food prices. A fiscal stimulus check in spring, 2008 did give a temporary respite, but the effect was short-lived. Housing prices continue to decline, albeit at a decreasing rate in many locations. The "credit crunch" has made all types of borrowing not only more difficult (from an underwriting perspective), but also more costly for those that do qualify for loans of all types.

With this background, it should not be surprising that we have seen weakness in virtually all the economic data points. Most notably, non-farm payrolls have not had a *single* positive growth month this year to date, nor is one forecasted. The job losses this year has almost completely wiped out the job gains in 2007. This has occurred in an economy that needs to grow jobs by approximately 125,000 per month to keep up with the natural growth of the job force. There has *never* been such an extended period of negative job growth (i.e. job losses) without the economy either being in a recession or entering a recession.

As an observation (and without judgment), the US economy is grounded in the easy availability of credit. Said another way, credit fuels economic growth in the US. In an environment of capital-constrained financial institutions where credit has to be allocated and financially-stressed consumers, it is hard to imagine the circumstances where the economy can grow at its optimal potential (viewed by many to be approximately 3% annualized). In fact, many observers agree that not only will economic growth be sub-optimal, but could likely be negative in the quarters to come.

In light of this, it is hard to construct the scenario whereby the Fed will feel the need to raise interest rates until well into 2009 at the earliest. It is far easier to imagine the circumstances where the Fed may be forced to lower interest rates to stimulate the economy. For those that worry that an increase in inflation may force the Fed to raise rates, remember, all Central Banks know how to control inflation (whether they have the political will to do so is a different question). What Central Banks struggle with is how to stimulate a sluggish economy. Making long-term spending decisions, like the purchase of a home or car requires buyers to have confidence in the future which often requires a psychological state of well-being, not merely low interest rates. If low rates were all that were needed to have a strong vibrant economy, Japan would have the strongest economy in the world.

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2009 CONFERENCE
Palm Springs, CA
April 22-24, 2009

The California Municipal Treasurers Association invites you to attend the Advanced Investment Workshop January 28–29, 2009. The workshop will be held at Kellogg West Conference Center, Cal Poly Pomona.

The Advanced Investment Workshop is structured to provide two solid days of technical, yet understandable, portfolio and cash management topics for municipal investors with three or more years of experience. This workshop also provides points earned towards the Certified California Municipal Treasurer credential. Recent topics have included:

- Introduction to Duration and Option Adjusted Spread
- Advanced Portfolio Management
- Outsourcing the Portfolio Management Function
- Performance Measurement
- Investment of Bond Proceeds
- How to Profit From Taking Losses
- Portfolio Analytics
- Fixed Income Resources on the Net.

The registration deadline for the Advanced Investment Workshop is January 5, 2009. Registration information will be available in October on our website cmta.org.

Thank You to the Sponsors of Dollars & $ense!

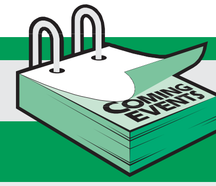
(All advertisers throughout the newsletter)

California Municipal Treasurers Association

CMTA
1400 K Street, 4th Floor
Sacramento, CA 95814

What's inside....

Calendar of events



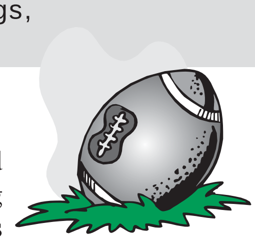
CMTA DIVISION MEETINGS

Div II	**Oct 9:** "Calpers Funding of OPEB," Burbank Smokehouse **Dec:** El Monte Historical Museum, El Monte
Div IV	**Oct 24:** "Investing the Main Street Way." Speaker Kevin Webb, Senior Vice President, Stanford's Public Funds Group **TBD**: "Par Excel-ance" (ways to use Excel for powerful reports and presentations). Speaker Kevin Webb
Div V & VI	**Nov 6:** "The Politics and Policy of the State Budget Process" Speaker Michael Coleman, Financial Consultant/Advisor, League of California Cities. Legends at Bennett Valley, Santa Rosa
Div !, III, VII, IX, X	Dates, locations and topics tbd. Refer to website (www.cmta.org) for current information.

UPCOMING CONFERENCES/MEETINGS/WORKSHOPS

Jan 28-29, 2009	Advanced Investment Workshop. Two solid days of technical, yet understandable, portfolio and cash management topics for municipal investors with three or more years of experience. The workshop will be held at Kellogg West Conference Center, Cal Poly Pomona.
April 22-24 2009	CMTA Annual Conference in Palm Springs,

Fall is in the air!



Football, Hockey, FHLMC, FNMA, FHFA will mark the end summer. Fall is officially in the air and our calendars are filling quickly. I would like to request that any commercial associates that would be willing to give a presentation at the Advanced CMTA Education workshop January 28th and 29th, send an email to masturias@burlingame.org, Don.Collins@wedbush.com, or call me at 866-579-2871.

– Don Collins. 866-579-2871 Direct
dcollins23@bloomberg.net, don.Collins@Wedbush.com