Bond Case Briefs

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Solar Moves Forward in California

The California Energy Commission approved new rules governing residential buildings requiring all residential buildings up to three stories high (including both single-family buildings and condos) to be built with solar panels. The rules go into place in 2020. There will be exceptions for buildings that can't fit panels or are hidden from the sun by vegetation or their urban environment. Solar is already responsible for about 16% of California electricity — these rules are intended to help the state reach its goal of having at least half of electricity come from renewable energy by 2030.

One issue people will have with the new regulations is the estimated $8,000-$12,000 more it will cost to build a new home. The Energy Commission estimates that buyers could see their monthly mortgage go up by $40 every month. Still, this would be offset by an estimated $80 decrease in monthly utility bills. Over time, a family would save $19,000 in today's dollars, adjusted for inflation, over 30 years. Other estimates show higher installation costs offset by greater monthly utility savings. All the estimates we have seen show better than breakeven results for residences installing the panels.

As is the case with so many other environmental issues, California is at the forefront of innovation. Should the regulation work out favorably, this standard could not be adopted by other states as they seek to achieve environmentally beneficial goals.

In addition, should the program work favorably, there's an opportunity for California to use housing finance programs, such as municipal bonds, to assist lower-income homebuyers finance environmentally friendly homes. Bonds could also be used to finance "retrofitting" of existing housing, especially for lower-income homeowners where such a program could generate both cost savings for the homeowner as well as environmental benefit for society as a whole.

Oregon Introduces Sustainability Bonds

Oregon State Treasurer, Tobias Read, recently announced the inaugural sale of Oregon Sustainability Bonds — a new category of state bonds tailored for socially responsible investors and dedicated to projects that will enhance community and sustainability efforts. The first tranche is a $40 million federally taxable issuance to bolster affordable housing construction and home ownership programs.

Proceeds will finance grants for the construction of affordable housing projects via the State's Local Innovation and Fast Track (LIFT) Affordable Housing Program. The projects selected for inclusion in the LIFT program by the Oregon Housing and Community Services Department are in historically underserved communities and designed for households earning at or below 60% of Area Median Income.

These bonds are authorized under the Oregon Sustainability Act, which calls for developing and protecting resources so we can meet current needs while also providing that future generations can meet theirs — from the joint perspective of environmental, economic and community objectives.

The Treasurer's Office also detailed how they intend to address accountability concerns of socially responsible investment interests. There will be annual reporting on the uses and spend-down of the bond proceeds available on the Oregon State Treasurer's website until the funds are spent in full. This is a trend we anticipate will continue across the country as more investors are increasingly mindful about where they put their money.

Infrastructure Dead at the Fed for 2018

The White House acknowledged last week that one of President Donald Trump's central domestic legislative promises – a massive $1 trillion package to fund the construction of new roads, bridges and other infrastructure projects – probably isn't going to happen anytime soon.

As a result, states and localities will remain the leaders in creating, executing and most importantly, funding their infrastructure needs. And this puts more pressure on their existing funding sources and credits as they cope with the lack of a coherent (if promised) funding plan.

Posted 05/17/2018 by Joseph Krist

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