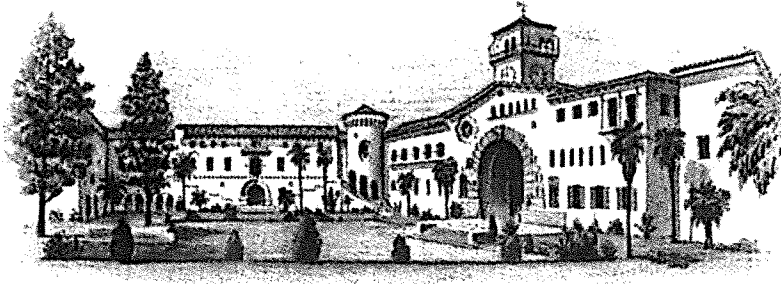


COUNTY OF SANTA BARBARA

THEODORE A. FALLATI, C.P.A.
Auditor-Controller

BETSY M. SCHAFFER, C.P.A.
Assistant Auditor-Controller



County Administration Building
105 E. Anapamu Street, Rm. 303
Santa Barbara, CA 93101
(805) 568-2100

Auditor@co.santa-barbara.ca.us

Mailing Address:
P.O. Box 39
Santa Barbara, CA 93102-0039
Fax: (805) 568-2016

OFFICE OF THE AUDITOR-CONTROLLER

Board of Supervisors
County of Santa Barbara

October 6, 2016

Re: Commercial PACE Financing

Dear Board Members,

The Auditor-Controller's Office recommends against the pursuit of a Commercial PACE program for the unincorporated area of Santa Barbara County.

We do so for the following fundamental reasons:

1. Such a program adulterates the property tax system of the County by making the County a collection arm of lenders for individual loan payments. The essence of property tax assessments is to finance public improvements such as water, sewer, streets and lighting but not to finance private improvements to properties of non-government entities.
2. Such a program puts the lender in an unfair "super priority" lien position with property taxes and ahead of other lenders such as first mortgage holders who typically have a greater stake in the property.
3. There are other financing alternatives for clean energy financing including:
 - Zero interest, no fee on-bill financing with the major utility companies
 - Solar equipment leasing
 - Conventional loans
 - Equity loans
 - Contractor direct financing
 - Energy Services Companies
 - Energy Performance Contracts
 - The County's own emPower program

We support the goal of clean and sustainable energy improvements and projects, and understand the necessity to finance such improvements and projects. However, we simply are not in favor of the PACE model to accomplish the goal.

If your Board does decide to pursue Commercial PACE for the unincorporated area of the County, then the Auditor-Controller's Office recommends that the Third Party Administrator (TPA) model be used and that the California Statewide Communities Development Authority (CSCDA) OPEN PACE program be the County's choice.

We do so for the following reasons:

- The CSCDA is an established Joint Powers Authority (JPA) founded by CSAC and the League of California Cities.
- The County is already a member of this Joint Powers Authority.
- The County has successfully participated in other CSCDA financing programs.
- The CSCDA Commissioners have pre-qualified, vetted and appointed three Commercial Pace Administrators so that no other JPAs need to be joined and property owners can shop for the best price and fit among the three TPAs. Currently, the three TPAs are Alliance NRG, California First, and Clean Fund.
- Using the JPA will limit the County's costs and risks of program administration. This is a "turn-key" solution with little County staff support required.
- This program requires consent of existing first position lenders that have loans on the properties.
- This JPA will remove defaulted assessments from the tax rolls and will be responsible for pursuing any further collection efforts of the assessment. This will prevent borrower from incurring high property tax penalties and interest charges and relieve the County from collection and foreclosure efforts.

Very truly yours,



Theodore A. Fallati, CPA CPFO
Auditor-Controller