Program Analysis and Update to the BUSINESS PLAN for the Sonoma County Energy Independence Program

ENERGY INDEPENDENCE

A SONOMA COUNTY PROGRAM

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Program Update – June 2022

The Sonoma County Energy Independence Program (the "Program") was created in 2009 to provide financing for clean energy upgrades through property assessments. Based on the Program's success, the original scope of Property Assessed Clean Energy (PACE) has since expanded and the Program now finances renewable energy and energy efficiency installations, water conservation, earthquake retrofits, and wildfire hardening. Over its thirteen-year history, the Program has cumulatively funded $86.87 million dollars in residential and commercial property improvements. Through the installation of building improvements, the County has eliminated over 126,498 metric tons of carbon dioxide, and created or retained over 1,737 jobs.

The Program continually evaluates influential factors related to the PACE financing landscape and impacts to SCEIP financing program. As the industry has matured, legislators have amended the legislation that allows the Program to expand the types of improvements. The Program considers these market changes and remains efficient, innovative, and accommodating without sacrificing customer service or consumer protections.

In an effort to evaluate Program efficiencies and cost recovery, staff performed an application time study to assess the average processing time needed for applications and the staff positions involved, and to improve efficiency and effectiveness. The study also informed the evaluation of potential fees. The fee study is discussed in further detail later, under the Revenue Opportunity section.

Although the Program does not collect income data from applicants, an equity analysis of the Program in the last year shows it has funded improvement projects over a wide geographic area that includes all census-derived income brackets. Staff is developing strategies to improve benefits to underserved residents of the County, including a focus on multi-family residential buildings and seeking grants to offset some or all of the project costs at buildings that house low-income residents. Staff has expanded outreach and education in Spanish and is considering other changes to education services.

Lastly, a study of time and resources associated with different Program activities has informed the business plan and proposed changes. This update includes much of that detail along with further analysis informing a decision of whether to continue or to shutdown the Program in the next fiscal year.

Racial Equity Analysis

Utilizing the Racial Equity Toolkit, published by the Government Alliance on Race and Equity, Program staff has expanded consideration of racial equity in decisions, including policies, practices, programs, and budgets. Staff recognizes the racial equity tool can help to develop strategies and actions that reduce racial inequities and improve success for underserved members of our community. Below are several questions adapted from the Toolkit provided by the County.

How does your Program align with or leverage other Countywide initiatives to advance racial equity?
The Program provides access to capital through financing that does not consider the applicant's income, credit score, or debt-to-income ratio, which increases access to non-traditional capital resources. The building improvements financed by the Program can reduce utility costs, improve energy efficiency, resiliency, health, indoor air quality and safety during earthquake and fire disasters for the occupants – all of which disproportionately affect underserved communities. The Program has consumer protections and assurances and an impartial application review process, and includes bilingual service and provides outreach and education through Spanish media.

What specific racial and/or economic inequities in Sonoma County does this Program intend to address/reduce?
The Program intends to increase access by property owners in underserved communities to property improvements that reduce energy costs, improve resilience and comfort in the home, and make properties safer from climate hazards and interruptions in grid power. Currently, the Program does this through its Tool Lending Library (TLL) program and Do-it-Yourself (DIY) Energy and Water Saving Toolkits. Both of these programs are available to low-income residents at no cost. The TLL was developed as a workforce development initiative to provide low-income residents, entering the green workforce, access to expensive, specialized tools through a no-cost rental program. The DIY Kits are available to all residents through the Sonoma County Library. These kits are important in that they allow renters an opportunity to make simple changes, at no cost, that saves them energy, water and money. In addition, consistent with Strategic Plan Goal CAR 2.2, the Program is increasing focus on financing these improvements at multi-family housing. The County has 40% renters and many live in multi-family housing. Much of this building stock is older and in need of improvements related to efficiency, resiliency, health, indoor air quality and durability. The improvements can also lower utility costs that are often part of the renter's responsibility. the Program received Strategic Plan funds to increase education and outreach to multi-family properties. Staff is developing new materials, sent out direct mailers to over 1,000 multi-family property owners and hosted a virtual multi-family workshop. These efforts are leveraged with rebates from the Bay Area Regional Energy Network (BayREN) multi-family program and Sonoma Clean Power's multi-family incentives.

Will the Program have impacts in specific geographic areas (neighborhoods, areas, or regions)? What are the racial demographics of those living in the area?
This financing option is available countywide to any residential or commercial property owner. The Program does not collect personal income or racial demographic details, so it is difficult to determine demographic outcomes. Recently, however, staff evaluated the locations of projects financed through the Program based on median household income using Census data. The results show the financing is utilized by all income levels, and over 25% of the projects were financed in areas with median income levels of $53,195-$73,614.

Who are the most affected community members who are concerned with or have experience related to this issue/program? How will you involve these community members in the development and implementation of this program?
This is a County-wide financing program. It has historically benefited property owners, but current efforts to increase financing of projects at multi-family properties will expand benefits to renters and to more underserved communities. Program staff does extensive outreach and education throughout the County in communities. The Program is expanding efforts to reach more of the Spanish speaking communities in Sonoma County better meet their needs, including on-staff bilingual services and providing community education and outreach about the Program in Spanish. The Division is establishing

relationships with trusted CBOs and partnering with them to include community input for future Program improvements. In addition, the Program supports a Tool Lending Library that is free of charge, and offers Do-it-Yourself Energy and Water toolkits as part of specific education and outreach efforts.

Does the estimated Program budget and timeline include sufficient resources and time to ensure accessibility, i.e. translation, interpretation, outreach, etc.?
Program budget has in the past supported these activities. Current budget shortfalls will curtail some of this work, absent resource interventions.

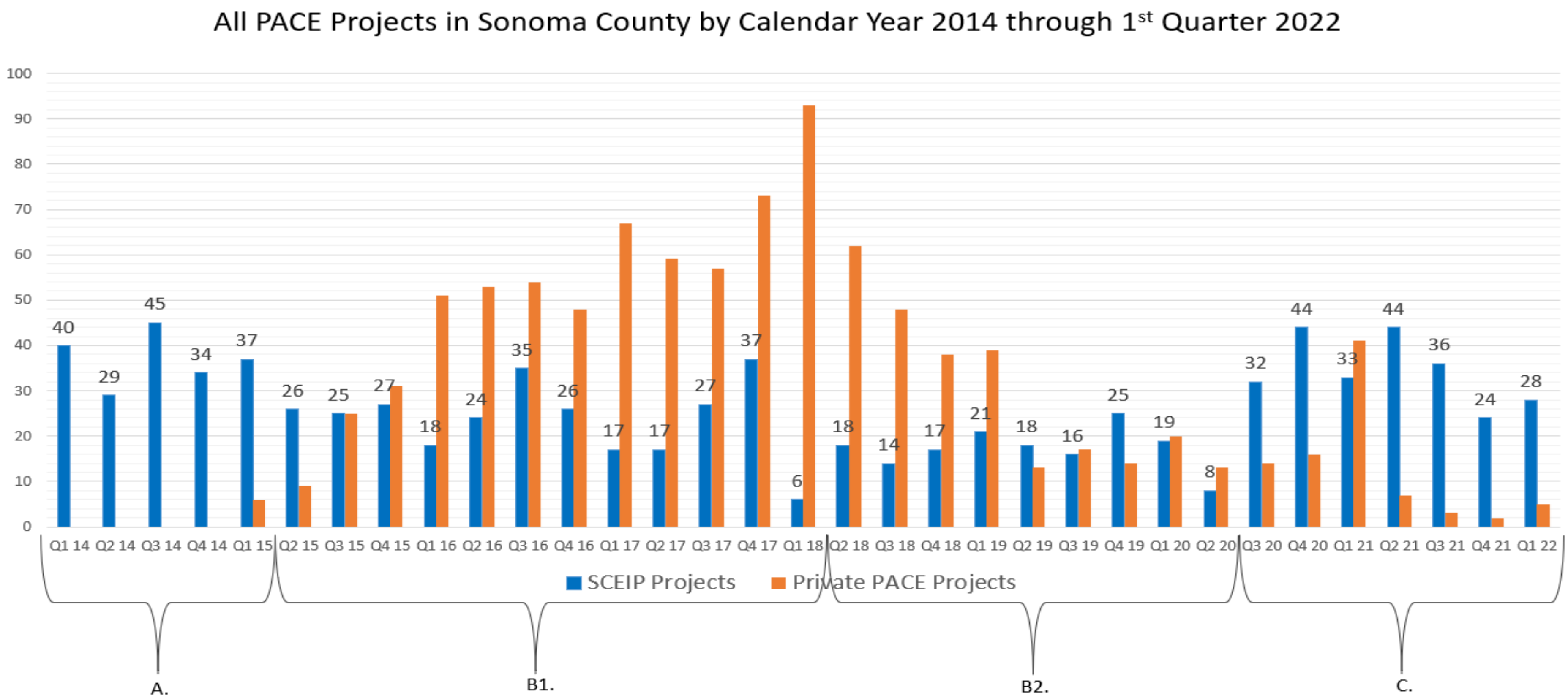
How will the Program document and evaluate the Program's impact on communities of color and low-income communities?
Since the Program does not collect income or personal data, staff has relied on Census data to geographically evaluate the distribution of financing projects across the County. Staff also collects statistics as part of education activities, and performs satisfaction surveys after financing projects are completed. These efforts can be expanded to better collect race and ethnicity information.

What additional disaggregated demographic data will your Program need to collect, track, and evaluate to inform future decisions, and/or develop mitigation practices to respond to unintended impacts of the project in communities of color?
Staff is currently evaluating these questions. One example of a mitigation practice is staff is exploring is developing a partnership with low-income housing non-profits in our work on multi-family housing to ensure the property remains available for low-income residents, and the residents are not displaced by subsequent increases in rent. Staff is also seeking grant funding to defray project costs at low-income multi-family housing, and would constrain grant recipients from displacing low-income residents after receipt of project funding.

Factors Influencing SCEIP

Competition from Private PACE
When SCEIP was established in 2009, it was the first County-operated PACE program, and there were no private interests offering PACE financing in Sonoma County. Private PACE providers were allowed to enter the PACE financing marketplace in Sonoma County in 2015. As depicted in Figure 2, private PACE activity increased steadily over the next 3 years, rising to a volume twice as large as the volume in SCEIP at peak use. Since 2018, however, private PACE activity has diminished to near zero because of consumer protections enacted by the Legislature. The second quarter of 2021 is an outlier in this trend, and reflects projects funded by a single private provider in Coffey Park as part of post-fire reconstruction.

Impact of Private PACE Competition on SCEIP Utilization



Period A: SCEIP utilization before private PACE competition (5 quarters shown from January 2014 to March 2015). Baseline quarterly average of 37 projects financed, with a small seasonal influence showing higher numbers of financing projects recording in summer and fall than in winter and spring.

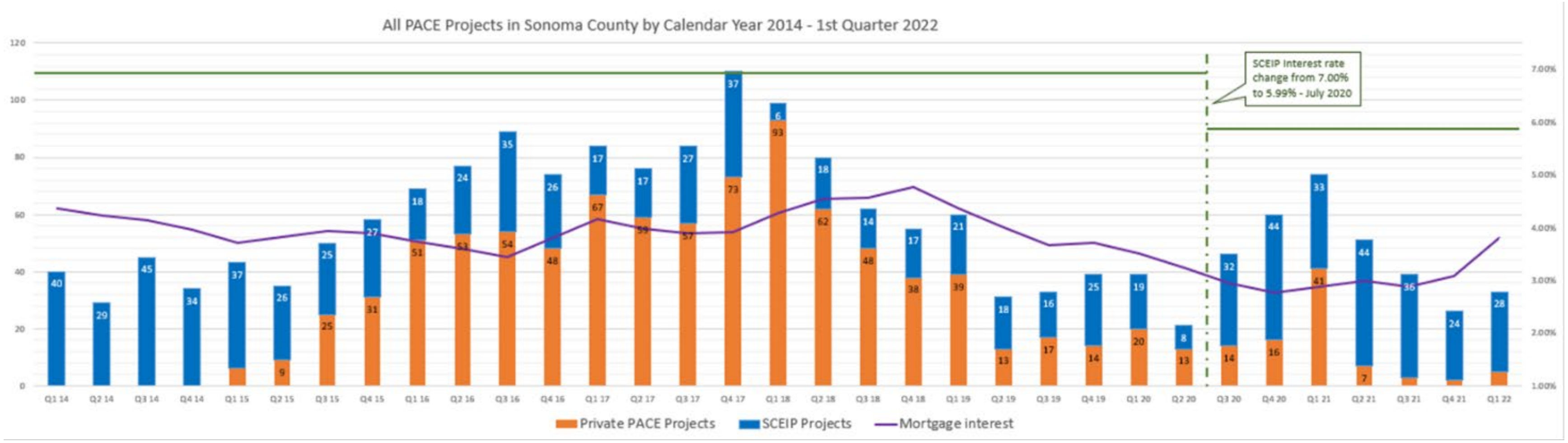
Period B1: SCEIP utilization compared to private PACE use before consumer protections begin (12 quarters shown from April 2015 to March 2018). SCEIP utilization drops to an average of 23.75 projects per quarter and a quarterly low of 6 projects while private PACE use climbs to a quarterly peak of 93 projects and an average quarterly use rate of 51.66 projects.

Period B2: SCEIP utilization compared to private PACE use as consumer protections take full effect (9 quarters shown from April 2018 to June 2020). SCEIP utilization remains low at an average of 17.33 projects per quarter, while private PACE declines to an average quarterly use rate of 29.33 projects.

Period C: SCEIP utilization compared to private PACE after consumer protections are well established (7 quarters shown from July 2020 to March 2022). SCEIP utilization recovers to an average of 34.43 projects per quarter, on par with use before private PACE providers entered the marketplace, while private PACE use diminishes to near-zero. One outlier quarter (2021 Q1) reflects projects funded by a single private provider in Coffey Park as part of post-fire reconstruction.

Impact of Interest Rates

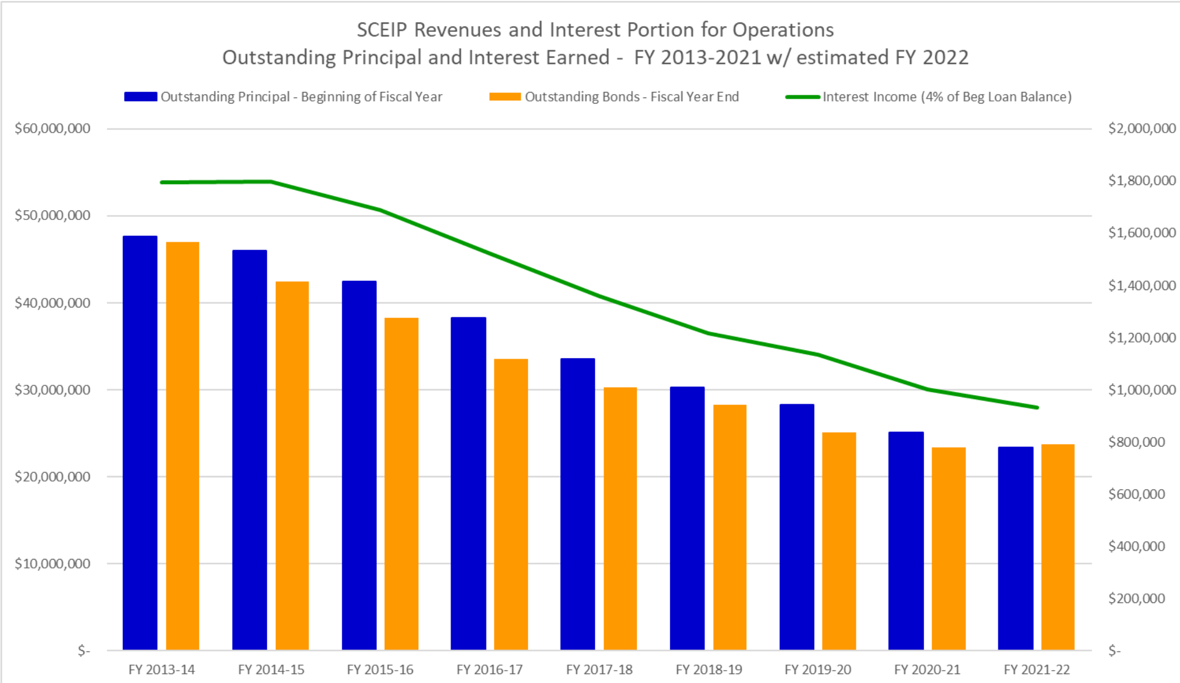
Interest rates have a significant impact on the utilization of the SCEIP financing, and on the funds available to operate the Program. Prevailing interest rates for home refinancing are an important factor in whether property owners choose traditional financing or financing through PACE, especially when interest rates for home improvement loans and refinancing are compared to the rate offered by SCEIP. The next figure overlays prevailing interest rates and SCEIP rates on the utilization trend depicted in the previous figure. Notably, overall PACE utilization declined when traditional financing interest rates dropped to historically low levels, and this decline has been seen statewide. Utilization of SCEIP financing increased in 2020 when the financing rate offered by the Program was reduced to a more competitive level, and the Program was expanded to finance home hardening for wildfire and earthquake retrofits. Interest in home hardening remains strong, and traditional financing rates are projected to continue rising; it is unlikely that we will see those historically low interest rates in the foreseeable future.



*Mortgage interest data from Freddie Mac Primary Mortgage Market Survey
https://www.freddiemac.com/pmms

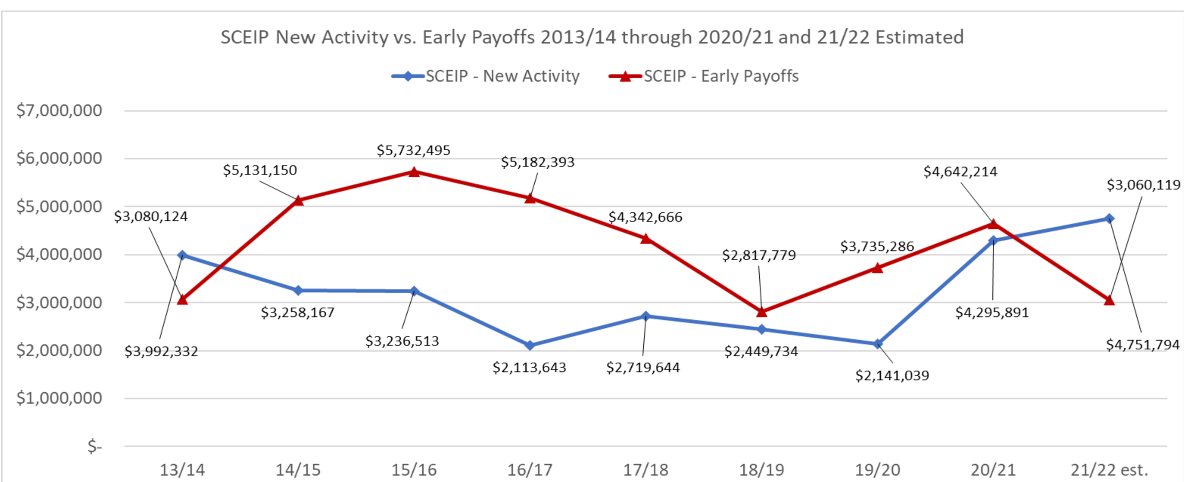
The extraordinarily low interest rates available through traditional financing have impacted the Program in another very important way. Property owners with outstanding SCEIP assessments have used this low-cost traditional financing to pay off their assessments early. This presents challenges because operation of the Program is funded by interest paid on the outstanding balance of assessments, and early pay-offs have caused the outstanding balance to drop. Further, processing the early pay-offs has increased accounting related program costs; the Program has never charged a penalty for early pay-off, and recent legislation now bars it. The graph below shows the change over time in outstanding principal and interest earned.

Trends in Outstanding Principal & Interest Earned Over Time



The Program currently collects a fixed interest rate for every assessment placed. From the interest rate associated with each assessment, 4.00% is used to cover operational costs. As both outstanding principal and interest earned have dropped, operating revenues to support the Program have also dropped. Staff evaluated initiation and pay-off trends of more than 2,600 assessments approved since the start of the program to estimate a baseline rate of assessment volume, changes in volume due to competition from private PACE providers, baseline life of assessments, and the change in assessment life after interest rates dropped. Staff also considered differences in these metrics based on whether the assessments were on residential or commercial properties, and also the average value of residential and commercial assessments. Based on this evaluation, staff estimates that from fiscal year 2014/15 to 2020/21 the Program forfeited over $2.6 million dollars in revenue.

The figure below shows financial trends over the last nine years. It reflects payoffs outnumbering the new activity to the Program over the last seven years with this current fiscal year reversing the trend. The funding gap is narrowing, however, and as interest rates for traditional financing rise, new activity will outpace early pay-offs.



Long term projections indicate prevailing market forces will cause outstanding principal balance to rise, and revenue to the Program from interest paid will return to levels needed to sustain operations.

Factors that are projected to drive this trend include:

- Rising interest rates for traditional financing
- Rising inflation in the economy
- Rising energy costs
- Increasing impacts from climate hazards, such as extreme heat, wildfire, and drought, as well as interruption of grid electricity
- Increasing public interest in renewable energy, energy upgrades, home hardening against wildfires, and water conservation
- Absence of private PACE competition

The Program remains a popular financing choice for Sonoma property owners, especially since the Program expanded to include wildfire safety and seismic improvements. With higher inflation and interest rates, the Program will become a critical financing opportunity for underserved residents as traditional lenders tighten their underwriting criteria.

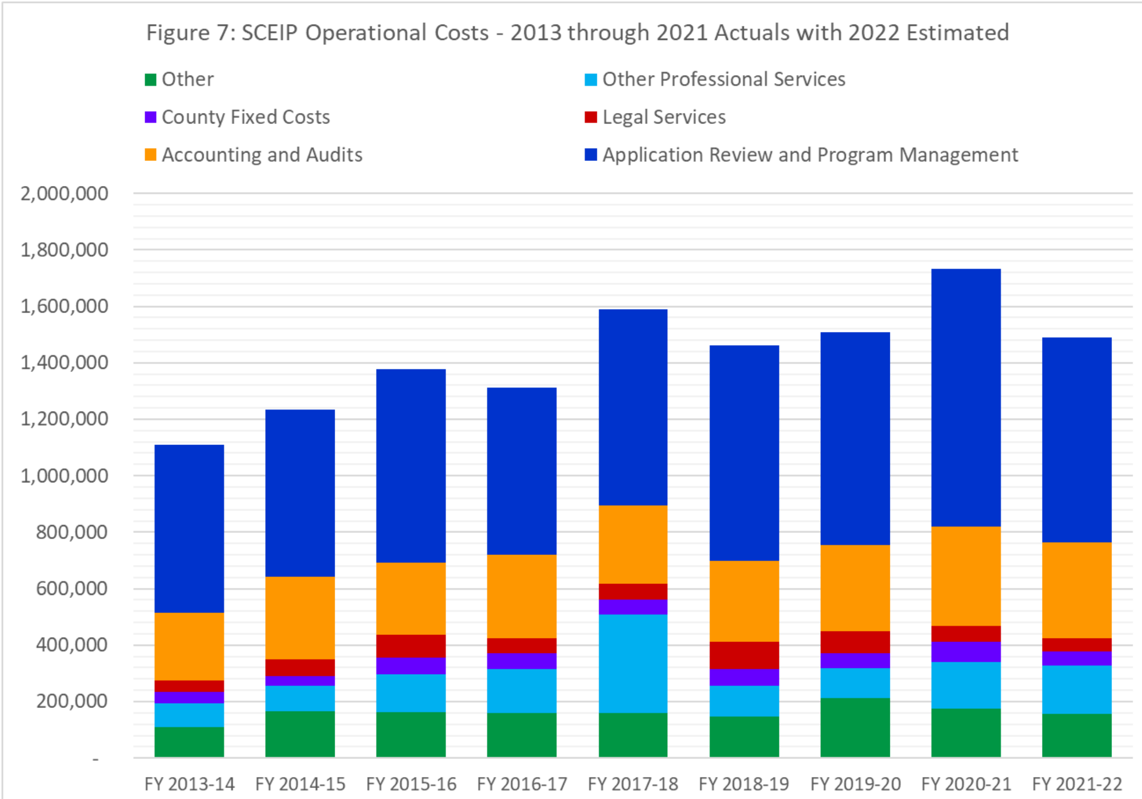
Operation Costs

Program Operation Costs

Operational costs for the Program include:

- Application Review & Program Management – this primarily includes technical, administrative, and management staff time in ESD supporting the Program, as well as free consultations on financing options, and solar power.
- Accounting & Auditing – this primarily includes fiscal and administrative staff time in the office of the Auditor-Controller-Treasurer-Tax Collector, and contracted Audit services.
- Other Professional Services – contracted services that support verification for application underwriting criteria, creation of amortization schedules, payoff quotes, management and placement of the assessment levies on the tax bills and the purchase and support for the Salesforce platform that underpins Program operations.
- Legal Services – routine legal review of program activities and advising on legislative matters and regulatory compliance.
- County Fixed Costs – includes costs related to Information Services Division, such as, computers, phones and network maintenance.
- Other – includes costs associated to operations, such as, office supplies, fleet rental, advertising and marketing, equipment leases, etc.

Figure below depicts changes in Program operational costs over a 9-year period from FY 2013-14 through FY 2021-22.



Some important changes to note include:

- Overall Program costs peaked in FY 2020-21 and were significantly higher than in the previous or subsequent years. FY 2017-18 also stands out.
- Application Review and Program Management costs:
  - The jump FY 2020-2021 in costs largely reflects the impact of the pandemic shift to working from home. During that year, other programs in Energy and Sustainability Division were largely curtailed and Division staff supported SCEIP. As a result, the Program doubled the number of assessments it completed.
  - In FY 2016-17, we had several vacancies during the year which resulted in Application Review and Program Management services not billing to the budgeted amount.
  - The increase in FY 2018-19, occurred after General Fund support was withdrawn from ESD and certain costs supporting all Division work including SCEIP were shifted onto the Program because restrictions prevented their allocation to other funding sources.
  - The dip in FY 2021-22 results from short-term cost savings implemented by staff.
- Other Professional Services costs:
  - The sharp increase in Program costs in FY 2017-18 reflects the purchase and implementation of the Salesforce platform, which more than doubled expenditures on Other Professional Services.
  - Other Professional Services increased in FY 2020-21 as a result of cost increases in the contract for creation of amortization schedules, payoff quotes, management and placement of the assessment levies on the tax bill services.

- Accounting and Audit Costs: The increase in recent years is largely due to costs incurred processing the increase in early pay-offs of assessments.

It also bears mentioning that the Salesforce platform, while costly, has allowed the Program to effectively manage application review and the client base, and to transparently track resource use at every stage of the review process.

Cost Saving Measures and Opportunities

Staff implemented short term changes to staffing levels, cut expenditures for training, travel, and other categories where possible, and proposed further cuts for the FY 2022-23 budget. These savings are discussed below, along with additional opportunities to address the funding shortfall.

Salary Savings
The Program has been supported by two Senior Office Assistants who perform preliminary application review and customer support; both positions recently became vacant. Management is underfilling one Senior Office Assistant position with an Office Assistant II. The recruitment to fill the other Senior Office Assistant position has been put on hold pending the outcome of a needs review. During the coming fiscal year, Management will perform a study of Program needs for this class of administrative support to identify the most cost-effective alignment of administrative support with budget constraints. The Program has also been supported by two Administrative Aides, who evaluate and process applications. In conjunction with refilling a recent vacancy, one Administrative Aide position has been reallocated to a 50% shared position with the Climate Action and Resiliency Division (CARD).

The consequence of these cost-savings actions is a 37.5% reduction in administrative support for the Program, and the reduction in skills is somewhat larger because of the underfilling with a less experienced administrative professional. The administrative needs of the Program are substantial, even with the efficiencies associated with use of the Salesforce platform. A temporary refocusing of program priorities (described below) should result in a short term decrease in certain administrative demands from the Program, however workload will be shifted among remaining staff who will bear some increased burden. If continued over the longer term, these cuts would harm the Program's overall effectiveness and its usefulness to County residents. These measures result in a cumulative cost savings of $172,000 per year.

In addition, a Department Program Manager position has also been underfilled with a Department Analyst and the Program receives additional support from Management that is not billed directly to the Program. With the temporary refocusing of Program priorities this underfill can be sustained over the near term, however the Program will require a dedicated manager over the long term. This underfilling results in a cost savings of $16,000 per year.

Lastly, as part of the integration of the Energy and Sustainability Division with Climate Action and Resiliency Division (CARD) in FY 2022/23, the two Department Analyst positions that currently support SCEIP with technical expertise related to specific project types will provide targeted support for climate action and resiliency projects as subject matter experts in their specific areas of expertise. CARD will provide $20,000 contribution per year for this support.

Other Savings
In late 2021, staff updated its financing application work flow process. Identifying possible areas to make the process more efficient, the Program now incorporates more automated document creation, which should reduce administrative support time. In the proposed budget for the coming fiscal year, management cut training, travel, and other costs, and marketing costs except for a marketing campaign targeting multi-family residential properties that is supported with Strategic Plan implementation funds.

Temporarily Refocusing Current Program Priorities
In order to achieve Climate and Resilience goals in the Strategic Plan, staff recognizes the Program must incentivize upgrades across building stock in Sonoma County. In the near term, however, staff proposes to increase focus on commercial financing projects. Commercial projects finance amounts that are, on average, more than six times larger than the average amount financed for residential projects. While these larger commercial projects do require more staff time to process than the typical residential project, the increase in processing resources is not proportional to the size of assessment. Commercial projects actually result in significantly more interest revenue to the program for an equivalent investment of staff time. A shift to financing commercial projects will result in more interest revenue generated by fewer total financing projects, but this shift comes at the expense of support for residential projects. Over the long term, the Program will need to restore support for residential financing in order to achieve the County's climate and resilience goals, and to serve the residents of Sonoma County.

Commercial properties make up 3% of the total financing projects over the history of the Program, or an average of 7 completed projects per year. This is a very small percentage; however, businesses are understanding the increased consumer demand for climate-smart products and services; combined with increased marketing and support to this sector, the Program should be able to substantially increase the number of commercial projects. During the second half of 2021, Program staff actively pursued commercial property owners and building business relationships. The Program joined a number of business chambers, increased networking, marketing to commercial sources and worked with contractors to provide SCEIP financing information to the commercial property owners. In FY 2021-22 the Program has funded 8 commercial applications totaling $1,389,419 with 4 additional commercial applications in the pipeline. This equates to 9% of financing projects in this fiscal year, accounting for another $1,632,649 or 36% of the requested financing in our active project pipeline of 57 applications.

Temporarily refocusing Program priorities to commercial financing projects will allow Program staff to provide near term support for other, complimentary programs under development. Those programs would pay for the support provided, relieving the SCEIP budget of that expense.

Service Cuts or Funding Changes
The Program currently maintains an energy auditing Tool Lending Library at the SCEIP office as part of a workforce development program at an annual cost of $3,500 to maintain and calibrate the tools. These specialized building measurement and diagnostic tools are available to contractors and energy professionals, free of charge, to help new professionals enter the workforce. This is especially helpful to developing professionals from underserved communities, as these tools are very expensive and the cost is a barrier to entry in this green economy job sector. In the FY 2022-23 proposed budget, support for the Lending Library is cut by 86% to $500. Maintenance will be deferred and equipment calibrations will be less frequent. The Lending Library can be continued at this level for a limited time, but will need to be discontinued as the tools deteriorate, unless maintenance is restored.

In addition, The Program is a partner with the DIY Energy and Water Saving Toolkit at an annual cost of $1,000. In partnership with the Sonoma County Library, Sonoma Water and Sonoma Clean Power, the Program provides Toolkits through the Sonoma County Library as a part of a program promoting energy and water efficiency. The DIY Toolkits include the tools and information necessary for customers to perform their own home upgrade projects to weather strip windows and doors, monitor electrical usage, find water leaks and make their homes more efficient. In addition, the Toolkits are stocked with samples and supplies, such as LED lightbulbs, water-efficiency parts, and weather stripping that customers can use in their homes. The Program provides the printed instruction manuals and restocks the tools returned in the kit as needed. They are available for checkout at all branches of the Sonoma County Library, and are especially helpful to renters who may not have their own tools and who may be less inclined or less able to purchase materials to make these simple efficiency upgrades. In the FY 2022-23 proposed budget, support for the DIY Toolkit program is cut by 50% to $500.

Shifting Costs for Certain Activities Funded by SCEIP
There are certain costs and services that support the implementation of SCEIP and other programs that, due to restrictions on the use of funds in externally funded programs, are borne entirely by SCEIP. Key costs and services include:

- Free consultations on financing options and solar installations at about $28,000 per year
- The Tool Lending Library program at about $3,500 per year
- The Do-It-Yourself (DIY) Toolkit Program through the Sonoma County Library, at about $1,000 per year. MF initiative)

The total costs for these programs and services is over $32,000.

Additional Revenue Opportunity

Staff performed an application time study to assess the average processing time needed for applications and the staff positions involved, and to improve efficiency and effectiveness. The study also informed the evaluation of potential fees. The study found that the fee needed to cover the time spent processing a simple application from initiation to disbursement is $1,200.00. This does not include the staff time related to the accounting portion of creating the vendor account, cutting the disbursement check or bonding the assessment.

Fee Survey
Staff performed a survey of the current approved financing applicants and the applicants that utilized the Program the year prior to inquire if a fee were to be applied to the application, what fee threshold would likely not be an issue and would it have changed their mind in using the Program. Staff surveyed 109 property owners with a 50% response rate.

$200-$400 fee:	80% of the respondents would still be likely to use the financing.
$450-$600 fee:	20% of the respondents would still be likely to use the financing.
$750-$1000 fee:	9% of the respondents would still be likely to use the financing.
Above $1000 fee:	0% of the respondents would use the financing.

Based on the responses collected, a fee larger than $400 would create a significant barrier for future applications, and that barrier would be most detrimental to lower income residents and small businesses with lower liquidity. If the Program were to collect a $400 fee, the total revenue created would be approximately $50,000 per year without factoring in any loss of applicants; based on the survey responses, a loss of 20% of applicants should be anticipated, which reduces the gross annual revenue to $40,000. In addition, the cost of processing and tracking the invoices and fee payments would be approximately $100 per application, so the net revenue would be closer to $30,000 per year. The cost of set-up includes the public process to establish fees and create the invoicing and tracking software code and procedures, and would be about $45,000 in staff time and other costs. Auditing costs would be covered by the existing financial audit.

To promote equity and reduce barriers to low-income users of the Program, staff evaluated a fee waiver and a fee reduction for qualified applicants. Based on a GIS analysis of project location data, over 25% of the projects were financed in areas with median income levels of $53,195-$73,614. A fee waiver for 25% of applications would reduce net fee revenue, but that reduction would be offset by an increase in applications among this group. Based on survey results, some of the fee-sensitivity was seen in higher income brackets and staff estimates that including the low-income waiver would result in about $30,000 per year in net revenue, excluding set-up and auditing costs.

Because the survey did not include fees less than $200, and showed a chilling effect on use of the program, staff assumed the reduced fee would need to be less than $200 to change the chilling effect on applicants. Incorporating a fee of only $100 for qualifying low-income applicants would likely be enough reduction to overcome that chilling effect in a significant number of cases; however, when coupled with the per-application processing costs, the net revenue change for this scenario is likely less than $1000 per year; an outright waiver would be simpler, more effective, and result in essentially the same revenue.

Staff evaluated charging a fee on commercial properties only because they likely have a greater capacity to pay and larger fees could be considered. The survey did include commercial property owners that have used SCEIP financing, however they comprised a small portion of responders such that conclusions from the data are really anecdotal and not statistically significant. The fee analysis focused on basic math: commercial financing currently constitutes an average of 7 completed assessments per year over the course of the program. Even if this number is doubled or tripled in the near term, the revenue would be de minimis unless the fees were set in the range of several thousand dollars per application – a level at which staff expects a substantial chilling effect that would likely make it impossible to grow the Program use in this sector.

Staff also evaluated assessing fees on other services. As part of the education provided to residents, SCEIP offers no-cost consultations on financing options and solar energy installation. These consultations are popular and staff time is billed to the Program. These consultation services cost the Program up to $28,000 each year. Of this, approximately $19,000 in costs are associated with solar consultations. The financing consultations more directly support Program operations and are highly correlated with new applications for SCEIP financing, even though other financing options are covered. The solar consultations clearly support clean energy choices; however, they are less closely correlated to new SCEIP applications. These consultations typically cost around $130 per consultation. In order to recover that cost and the $100 in internal costs, excluding set-up and tracking, the fees would need to be set at $230 per consultation. Staff did not include questions in the fee survey about this service, however, based on the fee-sensitivity for overall program use, a fee of $230 is likely to have a substantial effect on the use of the service, especially by lower income residents and small businesses.

Overall, the evaluation of fees on revenues and program use indicates that the potential revenues from fees are small relative to overall Program costs: annual costs of operating the SCEIP program are currently about $1.5 million per year, and instituting application fees would generate about $30,000 per year in net revenue, and about two and half years of fee collection would be needed to offset the costs of setting up the program. If these fees are established, they would go into effect in FY 2023-24; however, they would have a net negative impact on Program fund balance until FY 2025-26.

Program Continuance

The Program is funded through an increment of the interest paid on the outstanding principle borrowed by property owners for eligible projects. For much of the Program's history, this increment of interest earned was more than sufficient to cover Program costs, and the Program built a substantial operating fund balance. Competition from then unregulated private PACE financing providers reduced the number of projects financed by SCEIP. At the same time very low commercial interest rates led to early payoffs of funds borrowed. Together these forces caused the outstanding principle to fall, ultimately to a level that does not yield enough interest income to fund Program costs. This is a temporary condition, if staff's Program funding recommendations described below are approved by the Board for implementation.

Recent regulation of the private PACE marketplace has driven most private PACE activity out of California, and rising commercial interest rates are decreasing the number of early payoffs. The Sonoma County Treasury projects the outstanding principle (and the interest earned on it) will rise, and the interest earned along with cost saving revenues will cover Program costs in 5 years.

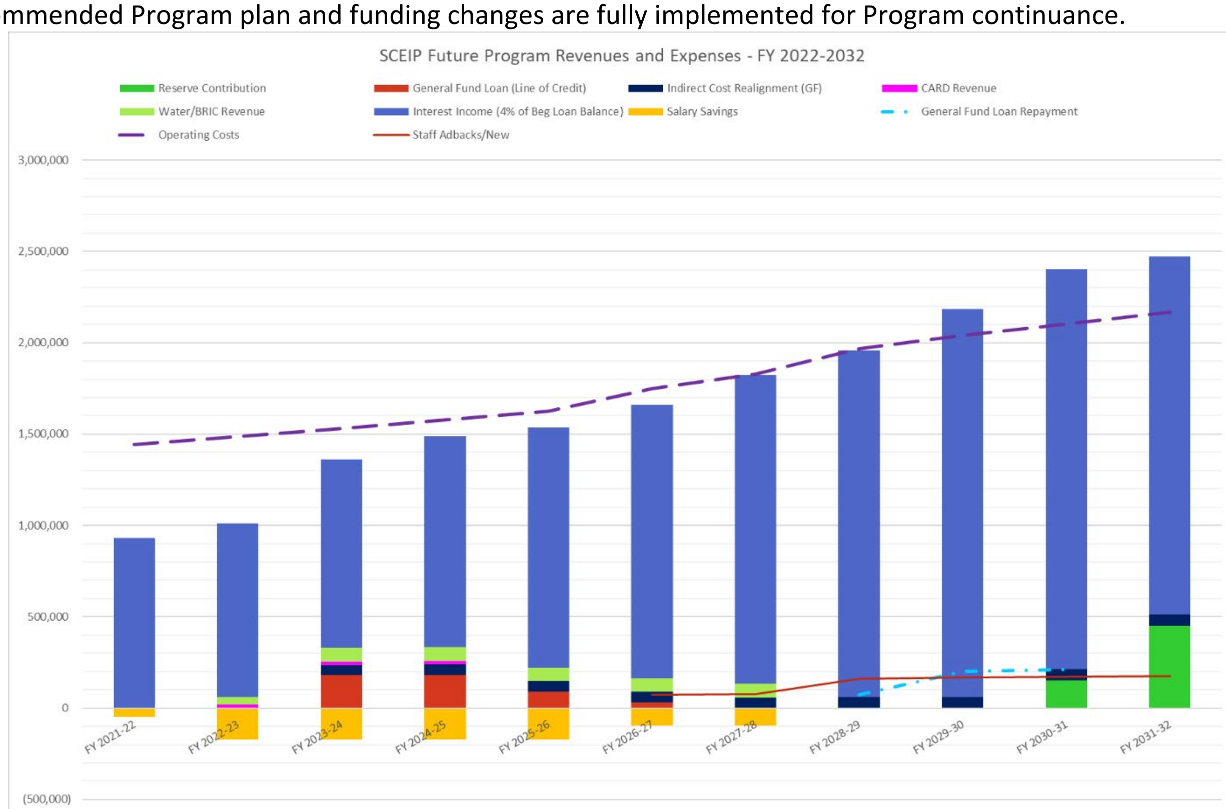
Staff projects the Program will exhaust its operating fund balance in FY 2023-24. Recognizing this, staff implemented several cost-savings measures in the current fiscal year and identified additional measures that can be taken in FY 2022-23. If all identified cost-savings measures are implemented, the Program will require a loan of about $500,000 split out over four years to cover the shortfall in revenues until interest income rebounds.

Projections reflect the four years of loan funds through FY 2026-27, a year to build interest and then in FY 2028-29, the Program begins paying back the loan over three years. In addition, the Program begins setting aside revenue for a Reserve Fund starting in FY 2030-31. When the Program does decide to shut down in the future, the Reserve Fund will provide the necessary funding needed for the Program operating costs over the twenty years.

Program projections with the line-of-credit loan, payback and reserve.

SCEIP Cash Balance Projections	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32
Interest Income (4% of Beg Loan Balance)	933,008	951,094	1,031,760	1,154,772	1,312,069	1,494,951	1,689,662	1,898,191	2,122,629	2,342,097	2,558,371
Cost Savings - Accounting	68,206	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Cost Savings - Program Mgmt.	-	60,000	95,000	95,000	75,000	75,000	75,000	-	-	-	-
Indirect Cost Realignment (GF)	-	-	54,000	55,080	56,182	57,305	58,451	59,620	60,813	62,029	63,270
Operating Costs	(1,442,104)	(1,486,556)	(1,531,153)	(1,577,087)	(1,624,400)	(1,748,132)	(1,830,576)	(1,967,993)	(2,042,033)	(2,103,294)	(2,166,393)
GF loan (Line of Credit)	-	-	180,988	182,236	91,149	30,876	0	(75,000)	(200,000)	(210,249)	0
Estimated Year End Gain/Loss	**(440,890)**	**(385,462)**	**(79,404)**	**1**	**(0)**	**0**	**82,537**	**4,819**	**31,408**	**30,583**	**95,248**
Estimated Ending Cash Balance	**464,867**	**79,405**	**1**	**1**	**1**	**1**	**82,539**	**87,357**	**118,766**	**149,348**	**244,597**
Program Reserve	**-**	`	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**150,000**	**450,000**

The figure below is a projected forecast that shows the expected fiscal trends for the Program over the next 10 years if the recommended Program plan and funding changes are fully implemented for Program continuance.



Program Shutdown

Should the Program decide to cease all new activity and shutdown the Program in FY 2022-23, it would likely occur at the end of the bonding cycle in March 2023. The Program will stop accepting new financing applications by November 1, 2022 in order to complete any disbursement of funds to property owners and new bonding activity by March 30, 2023.
Shutting down the Program results in phasing out of operations the County's SCEIP program, with an estimated net cost to the County of $500,000; which will require a county discretionary funding source. Although the Program would not be accepting new applications, there are ongoing Program costs for accounting, auditing, reporting, and other activities required by law until the last assessments are repaid and the bonds have matured – which will occur about 20 years after the last bond issuance. In addition, the Program currently funds certain indirect staffing costs to support other non-SCEIP programs (currently $54,000 per year) that should be funded by General Fund.

Shutdown Projections

SCEIP Cash Balance Projections	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32
Outstanding Principal - Beginning of Fiscal Year	**$23,356,352**	**$23,675,991**	**$22,857,289**	**$19,771,555**	**$17,201,253**	**$14,879,084**	**$12,796,012**	**$10,940,590**	**$9,299,502**	**$7,811,581**	**$6,483,613**
- Payoffs	$ (3,095,459)	$ (2,130,839)	$ (1,600,010)	$ (1,186,293)	$ (1,032,075)	$ (892,745)	$ (767,761)	$ (656,435)	$ (557,970)	$ (468,695)	$ (389,017)
- Debt Service (Principal)	$ (1,336,696)	$ (1,538,939)	$ (1,485,724)	$ (1,384,009)	$ (1,290,094)	$ (1,190,327)	$ (1,087,661)	$ (984,653)	$ (929,950)	$ (859,274)	$ (778,034)
- Disbursements	$ 4,751,794	$ 2,851,076	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Outstanding Bonds - Fiscal Year End	**$23,675,991**	**$22,857,289**	**$19,771,555**	**$17,201,253**	**$14,879,084**	**$12,796,012**	**$10,940,590**	**$ 9,299,502**	**$7,811,581**	**$6,483,613**	**$5,316,562**
Interest Income (4% of Beg Loan Balance)	$ 933,008	$ 947,040	$ 914,292	$ 790,862	$ 688,050	$ 595,163	$ 511,840	$ 437,624	$ 371,980	$ 312,463	$ 259,345
Other Misc Income	$ 68,206	$ 90,000	$ 40,000	$ 36,000	$ 32,400	$ 29,160	$ 26,244	$ 23,620	$ 21,258	$ 19,132	$ 17,219
Operating Expenses	$ (1,442,104)	$ (1,189,245)	$ (419,030)	$ (427,410)	$ (435,958)	$ (444,678)	$ (453,571)	$ (462,643)	$ (471,895)	$ (481,333)	$ (490,960)
Estimated Ending Cash Balance	**$ 464,867**	**$ 312,662**	**$ 847,924**	**$ 1,247,376**	**$ 1,531,867**	**$ 1,711,513**	**$ 1,796,026**	**$ 1,794,627**	**$1,715,969**	**$1,566,231**	**$1,351,834**

SCEIP Cash Balance Projections	FY 2032-33	FY 2033-34	FY 2034-35	FY 2035-36	FY 2036-37	FY 2037-38	FY 2038-39	FY 2039-40	FY 2040-41	FY 2041-42	FY 2042-43	FY 2043-44
Outstanding Principal - Beginning of Fiscal Year	**$ 5,316,562**	**$ 4,253,250**	**$ 3,317,535**	**$ 2,521,327**	**$ 1,865,782**	**$ 1,343,363**	**$ 940,354**	**$ 639,441**	**$ 422,031**	**$ 270,100**	**$ 189,070**	**$ 130,458**
- Payoffs	$ (318,994)	$ (255,195)	$ (199,052)	$ (151,280)	$ (111,947)	$ (80,602)	$ (56,421)	$ (38,366)	$ (25,322)	$ (16,206)	$ (11,344)	$ (7,827)
- Debt Service (Principal)	$ (744,319)	$ (680,520)	$ (597,156)	$ (504,265)	$ (410,472)	$ (322,407)	$ (244,492)	$ (179,043)	$ (126,609)	$ (64,824)	$ (47,267)	$ (32,615)
- Disbursements	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Outstanding Bonds - Fiscal Year End	**$ 4,253,250**	**$ 3,317,535**	**$ 2,521,327**	**$ 1,865,782**	**$ 1,343,363**	**$ 940,354**	**$ 639,441**	**$ 422,031**	**$ 270,100**	**$ 189,070**	**$ 130,458**	**$ 90,016**
Interest Income (4% of Beg Loan Balance)	$ 212,662	$ 170,130	$ 132,701	$ 100,853	$ 74,631	$ 53,735	$ 37,614	$ 25,578	$ 16,881	$ 10,804	$ 7,563	$ 5,218
Other Misc Income	$ 15,497	$ 7,748	$ 6,974	$ 6,276	$ 5,649	$ 5,084	$ 4,575	$ 4,118	$ 3,706	$ 3,335	$ 3,002	$ 2,702
Operating Expenses	$ (500,779)	$ (310,795)	$ (292,011)	$ (272,851)	$ (253,308)	$ (233,374)	$ (213,042)	$ (192,302)	$ (171,149)	$ (149,571)	$ (127,563)	$ (40,114)
Estimated Ending Cash Balance	**$ 1,079,215**	**$ 946,301**	**$ 793,968**	**$ 628,250**	**$ 455,227**	**$ 280,677**	**$ 109,832**	**$ (52,767)**	**$ (203,319)**	**$ (338,741)**	**$ (455,729)**	**$ (487,911)**

Conclusion

This update is a supplement to the SCEIP Business Plan document. It is intended to better inform the Program decision making over the next fiscal year 2022-23.
It is the Program's intention to remain focused on the County goals associated to reducing carbon emissions, achieving local energy independence and building community resiliency while offering an excellent financing option to all property owners within Sonoma County.