



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 7/12/2022

To: Sonoma County Board of Supervisors, Sonoma Water Board of Directors and the Sonoma County Public Financing Authority Board Members

Department or Agency Name(s): County Administrator Office, Auditor-Controller/Treasurer-Tax Collector, Sonoma Water, and Sonoma County Public Financing Authority

Staff Name and Phone Number: Jane Elias 707-565-6483; Erick Roeser 707-565-3295

Vote Requirement: Majority

Supervisory District(s): Countywide

Title:

Sonoma County Energy Independence Program (SCEIP) Update, Semi-Annual Bonding Authorization, and Annual Interest Rate Determination

Recommended Action:

- A) Receive the Program update.
- B) Provide direction to staff regarding Program changes, as appropriate.
- C) Approve Program funding changes, as appropriate.
- D) Acting as the County of Sonoma Board of Supervisors: Approve an increase in the fixed interest rate for Sonoma County Energy Independence Program assessment contracts from 5.99 percent to 6.99 percent, with 4.00 percent to remain allocated to Program operations; and interest rates for new bonds to be increased from 1.99 percent to 2.99 percent, effective immediately and applicable to bonds issued after September 2022.
- E) Authorize the Program Administrator, in consultation with County Counsel, to amend the Program Report and Administrative Guidelines, revise Program contracts, and take all other necessary steps to effectuate the interest rate increase.
- F) Acting as the Board of Directors of the Sonoma County Public Finance Authority: Adopt resolutions and approve agreements with the County authorizing continued issuance and sale of revenue bonds, to fund the Sonoma County Energy Independence Program.
- G) Acting as the County of Sonoma Board of Supervisors: Adopt resolutions authorizing the Treasurer to invest in bonds issued by the Sonoma County Public Finance Authority and authorizing execution of various related agreements with the Sonoma County Public Finance Authority, including a bond purchase agreement and a loan agreement.
- H) Acting as the Directors of the Sonoma Water: Adopt resolutions withdrawing funds from the Sonoma County Treasury Pool, and authorizing the withdrawn funds to be invested in Sonoma County Energy Independence Program bonds as a long-term Sonoma Water investment.
- I) Acting as the Board of Directors of the Sonoma County Public Finance Authority: Adopt resolutions and approve agreements with the County authorizing continued issuance and sale of revenue bonds, determination of the interest rate and loan of funds to the County, to fund the Sonoma County Energy Independence Program.

Executive Summary:

The Sonoma County Energy Independence Program (the “Program”) staff is presenting a comprehensive Program update including the health and viability of the Program, business operations, future projections and considerations for the continuance of the Program. Additionally, the Treasurer is requesting authorization to issue bonds and enter into related financing agreements to continue the Sonoma County Energy Independence Program over the next six months, from October 1, 2022 through March 31, 2023. This bonding cycle is necessary even if your Board elects to end the Program, in order to ensure that funds are available to reimburse property owners for projects currently in the pipeline. Lastly, in response to rising interest rates in the commercial marketplace, the Treasurer is also seeking approval to increase the financing interest rate to be competitive with other Treasury investments in the portfolio. The proposed change will increase the Program interest rate from 5.99% to 6.99%. This item is being brought to the Board now to allow staff adequate time to incorporate the new rate into the next bonding cycle.

Discussion:

In March 2022, your Board authorized the issuance of bonds related to the Program over the next period of April 1, 2022 through September 30, 2022. These agreements ensure the continuance of an alternative financing mechanism that allows property owners to install improvements that contribute to the reduction of greenhouse gas emissions through the built environment, make buildings healthier, more durable and resilient to natural disasters. 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.

Bond Issuance

The Program is bond financed, and must be reauthorized per State statute. Since the bonds carry a final maturity in excess of 5 years, Government Code section 53601 requires that your Board approve and authorize the Treasurer to make these dedicated investments. The Board previously established a \$60 million program limit that reflects the total bond funding commitment from the Treasury (\$45 million) and Sonoma Water (\$15 million) collectively. In March 2022 the Board authorized bonds to be issued by the Public Financing Authority that were subsequently purchased (invested) by the Treasury on behalf of the Treasury Pool and Sonoma Water for the purposes of the Program. This authorization expires on September 30, 2022 and must be renewed in order for the Program to continue.

As a County-administered public service program, SCEIP provides financing and education services community-wide, without profit, in order to assist in meeting the County’s greenhouse gas emission reduction goals, and to promote community resilience to drought, earthquakes, and wildfires. The Program makes financing available to a property owner by placing an

assessment on the property, which is used to fund eligible property improvements and then paid back through property taxes over 10 or 20 years with a fixed interest rate. Financing is available to both residential and non-residential property owners with a minimum assessment amount of \$2,500. The amount available for financing is based on the value of the property.

Financing Structure and Implications

Under the Program, the Sonoma County Public Finance Authority (“Authority”) is authorized to issue two series of bonds each month, one series matures in 10 years and the other series matures in 20 years. The bonds bear interest at a 1.99 percent annual rate. The total aggregate principal amount of bonds outstanding cannot exceed \$60 million. The current outstanding aggregate principal amount of bonds is \$24,042,116. This means that the Authority may issue up to \$35,957,884 in aggregate principal amount of additional bonds, which is \$60 million minus the aggregate principal amount of bonds outstanding.

Assuming that the Authority issues the total available principal amount of \$35,957,884, the total amount of proceeds received by the Authority would be that principal amount less an amount deposited to a capitalized interest account to pay the interest on the Bonds through the following September 1. Because the bonds are issued monthly, in varying amounts, with terms of either 10 or 20 years, the amount of capitalized interest cannot be estimated in advance of issuing the bonds.

Due to the nature of the bonds issued by the Authority, including variations in term lengths and bond issue dates and their effect on interest calculations, assessment interest cannot be accurately estimated in advance of issuing the bond. The Authority does not incur any financing charges or fees paid to third parties, except for a small amount (expected to be less than \$200) paid to the California Debt and Investment Advisory Commission in connection with filings for the bonds and \$1,750 paid to outside legal counsel for the monthly bond issuance.

Interest Rate

The proposed change will increase the Program interest rate from 5.99% to 6.99%, effective immediately and upon full execution of the SCEIP assessment contract/ implementation agreement between the applicant(s) and the County. A guaranteed 5.99% rate will be issued to applicants that meet the following criteria: 1) Applicants that have submitted a complete application packet to Program staff by 5 p.m. on July 11, 2022 will receive a Financing Estimate and Disclosure (FED) form that reflects the 5.99% rate and; 2) applicants must also fully execute the SCEIP assessment contract and implementation agreement documents between the applicant(s) and the County by 5 p.m. August 10, 2022. Prospective applicants that do not meet all of the above criteria will be eligible for the 6.99% interest rate.

This rate increase means the Program will have an additional bond tranche this fall, given there will be applicants “in contract” but not yet completed and bonded before October 2022. Typically, only one bond tranche is necessary. In this case, one will be at the lower rate of 5.99% and one will be at the higher rate of 6.99%.

Program Fund – Outside Forces, Impacts and Recovery

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 regulation¹ 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 (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. By the end of FY 2027-28, projected increases in the outstanding principal and associated revenues (interest plus any cost savings) are expected to fully cover the Program's operating costs. Without the recommended cost saving revenues, the Program will fully recover solely through interest earnings by FY 2029-30.

Over the last several years the Program has relied on its operating fund balance to cover the shortfall in interest revenues. 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 has identified additional measures that can be taken in FY 2022-23; the additional measures are described below. 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. The General Fund loan will be repaid by FY 2030-31 assuming SCEIP's outstanding principal balance totals \$41 million by FY 2027-28 then increases by 5-10% annually over the next three years as reflected in Figure 3 below.

Staff requests Board direction on implementing the following Program changes to reduce costs, bring in additional revenues until Program interest revenue recovers, and then stabilizes the Program:

- (1) Temporarily shifting the Program focus to expand commercial financing projects, which typically involve significantly larger loan amounts without a commensurate increase in staff resources (this will allow the temporary shifting of staff resources to other funded activities, described below);

¹ California Financing Law: Property Assessed Clean Energy program: program administrators, Cal. Assemb. B. 1284 (2017-2018) and California Financing Law: PACE program administrators, Cal. Assemb. B. 2063 (2018-2019).

- (2) Temporarily shifting staff resources to support complementary programs to be developed, including support for Building Resilient Infrastructure and Communities (BRIC) grants, a low-interest loan program for water quality compliance, and other aligned incentive programs as appropriate (estimated 5-year average annual revenue of approximately \$75,000);
- (3) Temporarily shifting staff resources to support energy and sustainability activities of the Climate Action and Resiliency Pillar of the Strategic Plan (estimated 3-year average annual cost of \$20,000); and
- (4) Establish a fiscally prudent designated reserve and associated policies regarding its use.

Staff requests Board direction on the following Program funding changes:

- (1) In Fiscal Year 2023-24, shift the non-SCEIP personnel costs from SCEIP to the Energy and Sustainability Division administrative overhead, funded with General Fund (current year cost of \$54,000; and
- (2) In Fiscal year 2023-24, secure a General Fund loan of up to \$500,000 to be applied as gap funding until interest revenues recover, with the actual amount borrowed each year to be the funding needed to offset the Program's operating deficit. The loan would be repaid over 3 years, beginning one year after budget deficit is eliminated.

Without the loan, 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. This projected deficit is illustrated in the Program Analysis and Update attachment. 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 staff is requesting be funded by the General Fund.

Strategic Plan Objectives

If the Program is sustained, over the next several years it will undertake concerted efforts towards achieving Strategic Plan goals in two sectors – commercial buildings and multi-family residential buildings. Specifically, staff will focus on Climate Action and Resiliency Goal 2.2 (Support carbon eliminating microgrid technology in communities and energy grid resilience) and Goal 2.3 (Provide \$20 million in financing by 2026 that incentivizes property managers and renters to retrofit existing multi-family housing). Upon direction by your Board in hearing this item, staff will work to increase the number of commercial projects funded through SCEIP.

Multi-Family Efforts

To achieve the Strategic Plan goal CAR 2.2 of “Provide \$20 million in financing by 2026 that incentivizes property managers and renters to retrofit existing multi-family housing towards

achieving carbon neutral buildings” staff has increased outreach to owners of multi-family properties and to non-profits that build and manage multi-family housing. The Program currently has \$36M available in funding capacity. Based on the current net rate of Program growth, planning for \$4M of the available financing capacity per year over the next five years with an emphasis of improving multi-family housing stock to achieve carbon neutrality through SCEIP financing is feasible. This goal will be achieved through a multi-pronged marketing campaign including outreach, collaboration, and leveraging of multiple programs offered through the Energy and Sustainability Division that offer combined financing, incentives and rebates to multi-family property owners. In addition, ESD staff is actively pursuing funding that will specifically address low-income multi-family properties. The funding would provide a portion needed to make improvements related to energy savings and resiliency for the tenants.

Cost Savings 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 in the Program Analysis and Update attachment, along with additional opportunities to address the funding shortfall.

Developing Complementary Programs

In partnership with CARD, ESD is collaborating with the staff of the North Coast Regional Water Quality Control Board (Regional Board) on preliminary steps to develop a low-interest loan program for residents to comply with Total Maximum Daily Load standards under Section 103(d) of the Clean Water Act. The loan program is offered with funds from the Division of Financial Assistance of the State Water Quality Control Board (State Board). Staff at both the State and Regional Boards are strongly supportive of the County developing a low-interest loan program, and the loan program funds can also support staff resources to operate the program. This program could provide low interest loans for septic repairs, improvements or replacement. The full scope of the loan program will be determined through a survey; however, it is likely to be tens of millions of dollars and a conservative estimate is \$25 million. In the early stages of the loan program, staff estimates it could reasonably provide \$75,000 per year in funding for staff time to operate the program – which would be accomplished with SCEIP staff resources made available by refocusing SCEIP program priorities. In addition, the new Clean Water Analyst in CARD will support the loan program. As the program matures it will require dedicated staffing, which it will also fund. At that time support from SCEIP staff will no longer be needed, and those staff resources can return to supporting SCEIP if the budget allows, or they can be directed to implementation of another complementary program.

ESD is collaborating with Permit Sonoma to develop an application review process for applications associated the Hazard Mitigation Grant Program (HMGP) and/or Building Resilient

Infrastructure and Communities (BRIC) for vegetation management and/or construction hardening improvements. This process would initially be implemented with support from SCEIP staff that already have relevant administrative and subject matter expertise. The grant program(s) will provide cost sharing for the work performed by SCEIP staff. As with the Clean Water loan program, support for the grant program(s) would transition to dedicated staffing as soon as the that level of support is required, and the program(s) would fund the dedicated staffing. Staff estimates the program(s) would provide \$75,000 per year in funding for staff time for operations until it matures and transitions to dedicated staffing.

The Clean Water loan program is on a faster development track than the BRIC program and their respective development and launches will likely occur in serial. By allocating a portion of SCEIP staff resources to the serial development and launch of these two programs, SCEIP will accrue cost savings for the allocated staff time. The SCEIP budget deficit is projected to be resolved by the time the second loan/grant program is launched.

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.

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

Shifting Costs for Indirect Division Staff Costs Funded by SCEIP

Until FY 2018-19, the Division received \$420,337 in General Funds. A portion of these funds covered indirect staff costs that are not allowed to be billed to externally funded contracts, as well as the above programs and services associated with the Division. Certain indirect staff costs excluded from external funding by BayREN, Green Business and the LGP amount to an additional \$54,000 per year.

General Fund Loan

Your Board could offer a loan of General Fund to the Program to offset funding deficits until the interest revenue from outstanding principal is sufficient to cover Program costs. The General Fund loan would be advanced and used on an as-needed basis.

Depending on whether further cost savings measures and revenues are approved, staff projects that interest revenues will be sufficient in 4 to 5 years, and the total deficit to be offset would be about \$500,000.

Other Potential Opportunities

Staff is actively exploring other grant funding opportunities that would further incentivize the projects funded through SCEIP assessments, which would contribute administration cost-sharing to the Program. In addition, if a climate and resiliency assessment is considered at a future time, directing a portion of those proceeds to incentives and SCEIP services would benefit the Program and the residents and businesses of Sonoma County.

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.

Business Operations and Financial Assessment

Financing Activity Over the Last Year

Both residential and commercial properties are eligible for financing through SCEIP. The average residential assessment is about \$28,000, while the average commercial assessment is \$166,185. Historically, commercial assessments make up a very small percentage of projects financed. From the inception of SCEIP through the end of 2020, the Program funded 2,645 projects, and only 79 of them, or about 3% were assessments on commercial properties.

In late 2021, staff made a concerted effort to increase participation in SCEIP by commercial properties. Program staff outreach and promotion for commercial SCEIP projects resulted in 12 new commercial applications with 8 disbursed through June 2022 and the remainder in the pipeline. The current overall pipeline is \$4,494,171. Compared to the same time last year, our current pipeline is 31.3% higher over last year.

Financial Projections

As previously reported to your Board, lost interest revenue has resulted in use of fund balance to sustain operations. Staff implemented short term cost saving measures and sufficient funds remain in fund balance to cover expected operating costs through FY 2022-23. Without further intervention, however, staff projects the program will have insufficient funds to continue operations through the subsequent fiscal year.

Figure 1 shows projected costs and fund balances for the Program from the current fiscal year to FY 2031-32. The “Operating Costs” reflects the cost saving measures already implemented by staff and “Cost Savings – Program Mgmt.” includes the development of complementary programs.

Figure 1:

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	23,492,374	25,381,748	28,315,507	32,090,409	36,490,598	41,181,913	46,212,078	51,631,262	56,932,833	62,159,482
Outstanding Bonds - Fiscal Year End	23,492,374	25,794,010	28,869,294	32,801,729	37,373,774	42,241,539	47,454,783	53,065,715	58,552,419	63,959,281	69,326,581
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				
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)
Estimated Year End Gain/Loss	(440,890)	(385,462)	(314,392)	(237,315)	(147,331)	(88,181)	24,086	20,198	170,596	328,803	481,979
Estimated Ending Cash Balance	464,867	79,405	(234,987)	(472,303)	(619,633)	(707,814)	(683,729)	(663,530)	(492,935)	(164,132)	317,847

With these measures implemented by staff, the Program will end the coming fiscal year with a cash balance just under \$80,000. In FY 2023-24, the Program is projected to operate at a net cost of almost \$314,400. Projected increases in the outstanding principal and associated revenues (interest plus any cost savings) will result in a progressively smaller operating deficit each year until FY 2027-28, when revenues are expected to fully cover the Program's operating costs. The Program is expected to have a positive ending cash balance in FY 31/32. The 4-year cumulative net cost from FY 2023-24 to 2027-28 totals just over \$787,000.

Figure 2 below shows the same time period financial projection for the Program. In addition to the projections shown in Figure 1, Figure 2 includes the addition of \$54,000, plus a 3.00% cost-of-living adjustment for each year. It is shown as "Indirect Cost Realignment (GF)" funding. Under this scenario, the Program will still end the coming fiscal year with a cash balance just under \$80,000 since we are not looking to request funding until FY 2023-24. However, with the inclusion of the indirect cost realignment, the Program is projected to operate at a net cost of almost \$260,400 in FY 2023-24. Projections show a net cost in four more fiscal years, and in FY 2027-28, revenues are expected to exceed the cost of Program operations. The cumulative deficit in fund balance is projected to peak at about \$500,000, as interest revenues to the Program will begin to defray that debt positive result.

Figure 2

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)
Estimated Year End Gain/Loss	(440,890)	(385,462)	(260,392)	(182,235)	(91,149)	(30,876)	82,537	79,819	231,408	390,832	545,248
Estimated Ending Cash Balance	464,867	79,405	(180,987)	(363,223)	(454,372)	(485,248)	(402,710)	(322,892)	(91,483)	299,348	844,597

Figure 3 below shows the same time period financial projection for the Program. In addition to the projections shown in Figure 2 with the addition of a General Fund loan, payback of that loan and a projected Program Reserve in place.

Figure 3

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

Costs and Implications for Shutdown

Your Board may direct the Program to cease accepting new applications. In that event, there are Program costs that will continue, and there are staffing impacts and implications to achieving goals of the Strategic Plan.

Long Term Costs – In winding down the Program, expenditures will continue through the life of the assessments on record. Internal accounting costs related to ongoing Program accounting, financial statement preparation and audits, customer inquiries, early payoff requests, monthly reports associated to activity, existing bonds on record, tax bill preparation for existing assessments, recordation associated to lien releases either through early payoff or maturity of

the assessment. Ongoing external costs include assessment payoff quotes, management and placement of the assessment levies on the tax bills. It is likely that legal services will be needed from either County counsel and/or outside bond counsel throughout the winding down of the Program. Internal accounting costs are anticipated to decrease by \$50,000 annually related to ceasing the issuance of new bonds. Otherwise, internal accounting, audit and assessment administration costs would be status quo for several years then gradually decrease over time as bond issuances mature and the number of outstanding bonds decreases. The remaining balance in the SCEIP Program Fund will need to be maintained in order to pay Program costs over a 20-year period or until the final bonds mature. Without new project loans, the outstanding principal and interest revenue will drop, and by 2028-29, revenues from the interest earned will not be sufficient to cover these costs. In FY 2033-34, operating expenses drop substantially when the 10-year bonds mature, and continue to decline as more bonds mature and the number of outstanding assessments declines. However, interest income also declines more quickly than operating expenses. Projections indicate that in FY 2038-39 the residual cash balance is exhausted and revenues are insufficient to cover expenses. When the last assessments are paid off and the last bonds mature in 2043-44, the estimated cumulative operating deficit is approximately \$500,000.

In addition, without SCEIP to fund the \$54,000 per year of indirect costs for the non-SCEIP programs discussed above, those costs will be shifted to the General Fund.

Staffing implications

The Program currently supports six full-time equivalent positions, and has successfully recruited highly qualified, mission-driven individuals with specific and relevant subject matter expertise from prior private sector employment. If your Board directs the Program to cease accepting applications, all of these positions will be eliminated. Management would take actions to place the affected employees in other positions where their specialized skills and knowledge would be used, following procedures established by agreements with the respective bargaining units.

Implications for Strategic Plan Goals and Objectives

As stated, SCEIP is an important tool supporting multiple goals and objectives of the Strategic Plan. The Program directly implements two of the three specific objectives of Climate Action and Resiliency Goal 2: Invest in the community to enhance resiliency and become carbon neutral by 2030:

1. Support carbon eliminating microgrid technology in communities and energy grid resilience to reduce impact of power loss during power shutdowns and natural disasters (floods, fires, earthquakes) through education and legislative advocacy, prioritizing critical infrastructure and vulnerable populations.

2. Provide \$20 million in financing by 2026 that incentivizes property managers and renters to retrofit existing multi-family housing towards achieving carbon neutral buildings.

Discontinuing the financing opportunities provided through SCEIP is contrary to these goals and will make it significantly more difficult to achieve them. More broadly, SCEIP financing is an important alternative financing option for lower income residents, and the free consultations, the Tool Lending Library, and DIY Toolkits specifically benefit underserved residents.

In summary, there would be continued operational costs after closing the Program for new applications. Closing the program would be contrary to the multiple goals of the Strategic Plan and would disproportionately reduce support for underserved residents to access the benefits of energy resilience and green economy jobs.

As a business matter, interest on the outstanding principal was sufficient to fund program operations until a convergence of external forces caused a temporary change in the marketplace that drove down applications to SCEIP and the interest earned on outstanding principal. The effect on the Program's budget was compounded when General Fund support was withdrawn from ESD, causing a shift of internal costs to SCEIP. Projections show that interest on outstanding principal is likely to rise and will again sustain the core program operations, but not some of the related activities and policy objectives in the Strategic Plan.

From a policy perspective, SCEIP supports key goals and objectives in the Strategic Plan, and advances important goals related to equity. It also provides millions of dollars that reduce the carbon footprint of Sonoma County, improves its resilience, and creates or retains jobs. If the County were offered an opportunity to invest between one or two million dollars over 10 years to bring \$40 or \$50 million in benefits to our residents and businesses, we would consider that a great opportunity. That is the opportunity in continuing the SCEIP program.

Conclusion and Requested Board Actions

Your Board's 5-Year Strategic Plan includes objectives directly involving the SCEIP. The Program provides an important option for our businesses and residents to finance projects that reduce the County's carbon footprint and increase its resilience to climate change and related disasters. Its continued operation is essential for the County to achieve the goals of the Climate Pillar of the Strategic Plan. Closing the program would be contrary to multiple goals of the Strategic Plan and would disproportionately reduce support for underserved residents to access the benefits of energy resilience and green economy jobs.

The recommended actions staff is requesting today include:

- Approve an increase in the fixed interest rate for Sonoma County Energy Independence Program assessment contracts from 5.99 percent to 6.99 percent, with 4.00 percent to remain allocated to Program operations and interest rates for new bonds to be increased from 1.99 percent to 2.99 percent.
- Adopt resolutions and approve agreements with the County authorizing continued issuance and sale of revenue bonds, to fund the Sonoma County Energy Independence Program.
- Adopt resolutions authorizing the Treasurer to invest in bonds issued by the Sonoma County Public Finance Authority and authorizing execution of various related agreements with the Sonoma County Public Finance Authority, including a bond purchase agreement and a loan agreement.
- Adopt resolutions withdrawing funds from the Sonoma County Treasury Pool, and authorizing the withdrawn funds to be invested in Sonoma County Energy Independence Program bonds as a long-term Water Agency investment.
- Adopt resolutions and approve agreements with the County authorizing continued issuance and sale of revenue bonds, determination of the interest rate and loan of funds to the County, to fund the Sonoma County Energy Independence Program.

In addition, staff requests direction from your Board on two future alternatives for the program.

Alternative 1: Continuation of SCEIP

Direct staff to implement the following actions in order to continue SCEIP:

- Temporarily refocus the Program to emphasize and increase commercial property participation to increase the interest revenue earned per financing project completed.
- Temporarily redirect SCEIP staffing resources to develop and implement complimentary loan and incentive programs with anticipated external reimbursement of approximately \$75,000 per year.
- Temporarily dedicate CARD funding for subject matter expert consultations on climate and resiliency projects in the amount of \$20,000 per year.
- Shift non-SCEIP program indirect staffing costs from SCEIP to the General Fund at a current year cost of \$54,000, beginning in FY 2023-24 and ongoing.
- Allocate up to \$500,000 as a loan from the General Fund to cover the residual budget deficit after implementation of the above actions. Repayment of the loaned funds would begin one year after the Program revenues are sufficient to fund operating costs, and would be made pursuant to plan developed by staff and approved by your Board as part of that budget cycle.

Alternative 2: Shutdown SCEIP

Direct staff to implement the following actions in order to end SCEIP:

- Cease accepting new applications after November 1, 2022.
- Notify SCEIP participants, contractors and partners of the impending closure and associated deadlines and procedures.
- Allocate \$500,000 for future costs related accounting and other required activities associated with managing bonds and outstanding assessments.
- Shift non-SCEIP program indirect staffing costs from SCEIP to the General Fund at a current year cost of \$54,000, beginning in FY 2023-24 and ongoing.
- Initiate lay-off procedures consistent with County policy and other requirements.

In summary, your Board can sustain and steward the historic SCEIP program by directing staff to implement temporary program changes and by authorizing a short-term loan of \$500,000 – or your Board can direct the closure of the program at a General Fund cost of \$500,000 that will not be repaid.

Projected Impact	Continue SCEIP	End SCEIP	Notes
PACE Financing Available	✓		Private PACE providers left California
Implement CAR 2.2	✓		CAR 2.2: Provide \$20M financing upgrades for carbon neutral multi-family housing
Provide consultations, tools, & kits	✓		
Temporary staffing reduction	1.5 FTE		Position sharing, underfilling & vacancy
Permanent staffing reduction		6.0 FTE	Following HR procedures
Create reserve for future costs	✓		Designated reserve built over time
Short term loan from General Fund	~\$500k		To be repaid by the Program
Cost to General Fund to close program		~\$500k	Covers fund implementation costs when interest earned is insufficient
Shift non-SCEIP costs to General Fund	\$54k/yr	\$54k/yr	Certain indirect staffing costs for non-SCEIP program activities

Regardless of which future alternative your Board may choose, the items before you today regarding bonding and interest rate determination are necessary for the Program to operate through March 31, 2023.

Strategic Plan:

This item directly supports the County's Five-year Strategic Plan and is aligned with the following pillar, goal, and objective.

Pillar: Climate Action and Resiliency

Goal: Goal 2: Invest in the community to enhance resiliency and become carbon neutral by 2030

Objective: Objective 2: Provide \$20 million in financing by 2026 that incentivizes property managers and renters to retrofit existing multi-family housing towards achieving carbon neutral buildings.

Prior Board Actions:

3/22/22 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization and Program Update

9/21/21 – Sonoma County Energy Independence Program Semi-Annual Bonding Authorization, Program Update, and Annual Interest Rate Determination

3/16/21 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization and Program Update

7/7/20 – Sonoma County Energy Independence Program Semi-Annual Bonding Authorization, Program Update, and Annual Interest Rate Determination

3/10/20 – Sonoma County Energy Independence Program Semi-Annual Bonding Authorization and Program Update

7/23/19 – Expansion of the Sonoma County Energy Independence Program to Allow for Seismic Strengthening and Wildfire Safety Improvements

FISCAL SUMMARY

Expenditures	FY 21-22 Adopted	FY22-23 Projected	FY 23-24 Projected
Budgeted Expenses			
Additional Appropriation Requested			\$ 554,000
Total Expenditures			
Funding Sources			
General Fund/WA GF			\$554,000
State/Federal			
Fees/Other			
Use of Fund Balance			

Contingencies			
Total Sources			\$ 554,000

Narrative Explanation of Fiscal Impacts:

Restoration of \$54,000 per year in General Fund contribution to the Program. This corresponds to about 13% of the General Fund contribution that was withdrawn. The contribution would cover indirect program costs associated to Division staff not funded from SCEIP.

Allocation of up to \$500,000 as a loan from the General Fund to cover the residual budget deficit. It is expected in FY 23/24, the Program would need to access \$180,988 of the loaned funds.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

- 1: Resolution authorizing the Public Financing Authority to issue and sell Sonoma County Energy Independence Program contractual assessment revenue bonds - Oct 2022
- 2: County Resolution Authorizing the Treasury to Invest in Sonoma County Energy Independence Program contractual assessment revenue bonds – Oct 2022
- 3: County Resolution Approving Loan Agreements – Oct 2022
- 4: Water Agency Resolution Authorizing the Water Agency Funds to Invest in Sonoma County Energy Independence Program contractual assessment revenue bonds – Oct 2022
- 5: County Resolution consenting to Water Agency investment in Sonoma County Energy Independence Program contractual assessment revenue bonds – Oct 2022
- 6: County Resolution Determining Interest Rates – 3.00%
- 7: Authority Resolution Determining Interest Rates – 3.00%
- 8: County Resolution Determining Interest Rates – 1.99%
- 9: Authority Resolution Determining Interest Rates -1.99%
- 10: Program Analysis and Update
- 11: PowerPoint presentation

Related Items “On File” with the Clerk of the Board:

- Agreement 1: Form of Bond Purchase Agreement between the Treasury and Public Financing Authority to purchase Sonoma County Energy Independence Program contractual assessment revenue bonds – Oct 2022
- Agreement 2: Form of Loan Agreement between the County and the Public Financing Authority - Oct 2022
- Updated 2022 SCEIP Business Plan