



## SUMMARY REPORT

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**Agenda Date:** 7/7/2020

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**To:** Sonoma County Board of Supervisors

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

**Staff Name and Phone Number:** Caroline Judy, 707-565-8058; Erick Roeser, 707-565-3295

**Vote Requirement:** Majority

**Supervisorial District(s):** All

**Title:**

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

**Recommended Action:**

- A) Acting as the County of Sonoma Board of Supervisors: Approve a reduction in the fixed interest rate for Sonoma County Energy Independence Program assessment contracts from 7.00 percent to 5.99 percent, with 4.00 percent to remain allocated to Program operations and interest rates for new bonds to be reduced from 3.00 percent to 1.99 percent, applicable to assessments bonding October 2020 going forward, and 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 reduction.
- B) Acting as the County of Sonoma Board of Supervisors: Authorize the Sonoma County Energy Independence Program to use Program funds to cover the cost of a recorded contract amendment for applicants "in process" at the time of the rate change.
- C) Acting as the County of Sonoma Board of Supervisors: Accept the Sonoma County Energy Independence Program update through fiscal year 2020.
- D) 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.
- E) 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.
- F) Acting as the Directors of the Sonoma County Water Agency: Adopt resolutions withdrawing funds from the Sonoma County Treasury Pool, and authorizing the withdrawn funds to be invested in Sonoma County Energy Independence Program bonds as a long-term Water Agency investment.
- G) 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:**

As of June 30, 2020, the Sonoma County Energy Independence Program ("Program") has cumulatively funded \$84.18 million dollars in residential and commercial property improvements. There is currently \$34.83 million in funding accessible to property owners wanting to do energy efficiency, water conservation, renewable generation, wildfire safety, and seismic strengthening improvements. The program has created or retained over 1,683 jobs to Sonoma County since inception. This Program invests locally to directly improve properties and building stock within Sonoma County. The Program has also been highly successful with property owners appropriately paying their property assessed tax obligations. The portfolio default rate is 0%, and the tax delinquency rate is 0.40%, which is actually lower than the average delinquency rate for the secured tax roll.

With its last action in March 2020, 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 (\$45 million) or the Sonoma County Water Agency (\$15 million) for the purposes of the Sonoma County Energy Independence Program. This authorization expires on September 30, 2020 and must be renewed in order for the program to continue.

With this item, we are requesting authorization to issue bonds and enter into related financing agreements to continue the Sonoma County Energy Independence Program over the next six months. We are also seeking approval to lower the financing interest rate for the first time in the Program's eleven year history. The proposed change would lower our program interest rate from 7.00% to 5.99% for assessments that are bonded starting in October 2020. This item is being brought to the Board earlier than the fall to allow the Program Administrator adequate time to advertise the rate change and to work with local customers and participating contractors to determine the best time to move their projects forward for financing approval.

#### **Discussion:**

On March 25, 2009, the Board of Supervisors established the Sonoma County Energy Independence Program (the "Program"). With the Program's inception, staff provided the Board with quarterly Program reports. In September 2011, the quarterly updates were changed to semi-annual updates jointly with the required semi-annual bond issuance.

#### **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 the Water Agency (\$15 million) collectively. In March 2020 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 the Sonoma County Water Agency for the purposes of the Program. This authorization expires on September 30, 2020 and must be renewed in order for the Program to continue.

#### **Fiscal Impact**

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 three percent annual rate. The total aggregate principal amount of bonds outstanding cannot exceed \$60 million. The current outstanding aggregate principal amount of bonds is \$25,163,804. This means that the Authority may issue up to \$34,836,196 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 \$34,836,196, 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, 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 \$2,500 paid to outside legal counsel for the monthly bond issuance.

### **Program Activity**

The Sonoma County Energy Independence Program is able to finance over 100 different building improvements specifically intended to reduce greenhouse gas emissions, conserve water, harden structures to become more resilient towards natural disasters. In addition, the Program financing helps create and/or maintain jobs in Sonoma County. Results for the Program through June 30, 2020 are presented in the table below:

<b>Funded Improvement Volume (#)</b>			
<b>Project Type</b>	<b>Residential</b>	<b>Commercial</b>	<b>Total</b>
Energy	2,393	80	2,473
Water	70	5	75
Generation	1,687	53	1,740
Wildfire	1	0	1
<b>All</b>	<b>4,151</b>	<b>138</b>	<b>4,289</b>

### **Recent Program Expansion**

Additionally, the Program has recently completed its first major expansion in its eleven year history. This has resulted in our ability to include the financing of wildfire safety improvements and seismic strengthening improvements on our list of eligible improvements. This expansion effort was approved by the Board in July 2019 and was validated by the Superior Court of California in December 2019. The Program began offering financing for these new improvements in January 2020 for residents and businesses on unincorporated County parcels.

Since the validation action took effect in January, staff has been working with the nine (9) incorporated cities to provide background materials, presentations, and draft resolutions for adoption of the expanded measures at the local level. To date, the expanded program has been adopted in six (6) jurisdictions, making the additional improvements available to property owners in Cloverdale, Cotati, Healdsburg, Petaluma, Sebastopol, and Sonoma. Staff is continuing to work with the City Managers' offices in the City of Santa Rosa, the City of Rohnert Park, and the Town of Windsor to expand the Program in these jurisdictions.

## **Expanded Marketing Efforts**

As we conclude the marketing year, we continue to make strides building awareness of the Program's new features. Some of the highlights include:

- Fall workshop series throughout the County
- Radio and television ads
- Updated collateral and creation of wildfire safety and seismic strengthening information
- Expansion launch breakfast events with over 75 attendees
- Department of Emergency Management workshop presentations
- Newsprint and other local media advertising
- Focused local contractor outreach

In March, the interruption due to the shelter-in-place forced staff to re-evaluate and create a modified marketing strategy based on how people are receiving information. This new strategy will utilize targeted digital campaigns and online advertising along with an on-demand educational workshop series. As the health order continues to change, traditional forms of advertising such as static billboards and in-person events will be re-introduced.

In addition, staff continues to plan collaborative marketing efforts with the Office of Recovery and Resiliency (ORR) and Permit Sonoma's Fire Prevention Division in regards to the Hazard Mitigation Grant Program outreach.

## **Interest Rate Change**

Since the Program's inception in 2009, the interest rate charged to customers has been set at 7.00%. These interest payments are split between providing an economic return to the Treasury Pool (3%) and to the Program Fund for operations (4%). With this current item, the Program is seeking approval to lower the financing interest rate for the first time in its eleven year history. The proposed change would lower our Program interest rate from 7.00% to 5.99% for assessments that are bonded starting in October 2020. Under the new rate, interest payments to the Treasury investment would be 1.99%, while the current split to fund Program operations would remain at 4%. The rate reduction also establishes SCEIP as the most competitive PACE program in Sonoma County. Staff is recommending these changes which will provide an acceptable rate of return to the Treasury in current market conditions and we anticipate the lower Program interest rate, coupled with the recent Program expansion, will increase participation and revenue available to fund Program operations. Staff will continue to closely monitor the long-term business plan and fiscal projections, and provide updates to your Board.

This item is being brought to the Board earlier than usual to allow the Program Administrator adequate time to advertise the rate change and to work with Sonoma County property owners and participating contractors to determine the best time to move their projects forward for financing approval. At the same time, the Administrator is requesting authorization to utilize Program funds to cover the recordation cost of the contract amendment document for applicants "in process" at the time of the rate change. The cumulative cost is estimated not to exceed \$400. Program staff is currently developing analysis tools for SCEIP customers to

evaluate different assessment amounts, bonding dates, and interest rates under the two scenarios. We expect that the interest rate change will be very popular with both existing SCEIP contractors and potential SCEIP customers, especially given the newly-available improvements made possible for financing under the recent Program expansion.

**Prior Board Actions:**

- 3/10/20 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization and Program Update
- 9/17/19 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization, Program Update, and Annual Interest Rate Determination
- 7/23/19 - Expansion of the Sonoma County Energy Independence Program to Allow for Seismic Strengthening and Wildfire Safety Improvements
- 4/30/19 - Resolution of Intention for Program Expansion to Allow Seismic and Wildfire Safety
- 3/19/19 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization and Program Update
- 9/18/18 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization, Program Update, and Annual Interest Rate Determination

**FISCAL SUMMARY**

<b>Expenditures</b>	<b>FY 19-20 Adopted</b>	<b>FY20-21 Projected</b>	<b>FY 21-22 Projected</b>
Budgeted Expenses			
Additional Appropriation Requested		\$400	
<b>Total Expenditures</b>		<b>\$400</b>	
<b>Funding Sources</b>			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance		\$400	
Contingencies			
<b>Total Sources</b>		<b>\$400</b>	

**Narrative Explanation of Fiscal Impacts:**

There are no direct fiscal impacts related to this item, other than the estimated cost for contract amendment documents to be recorded because of the rate change.

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

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**Narrative Explanation of Staffing Impacts (If Required):**

There is no staffing impact related to this item.

**Attachments:**

- Attachment 1- Resolution authorizing the Public Financing Authority to issue and sell Sonoma County Energy Independence Program contractual assessment revenue bonds
- Attachment 2- County Resolution Authorizing the Treasury to Invest in Sonoma County Energy Independence Program contractual assessment revenue bonds
- Attachment 3- County Resolution consenting to Water Agency investment in Sonoma County Energy Independence Program contractual assessment revenue bonds
- Attachment 4- Water Agency Resolution Authorizing the Water Agency Funds to Invest in Sonoma County Energy Independence Program contractual assessment revenue bonds
- Attachment 5- County Resolution Approving Loan Agreements
- Attachment 6- Authority Resolution Determining Interest Rates
- Attachment 7- County Resolution Determining Interest Rates
- Attachment 8- PowerPoint Presentation

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

- On File 1- Form of Bond Purchase Agreement between the Treasury and Public Financing Authority to purchase Sonoma County Energy Independence Program contractual assessment revenue bonds
- On File 2- Form of Loan Agreement between the County and the Public Financing Authority