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To: Sonoma County Board of Supervisors
Department or Agency Name(s): Auditor Controller Treasurer Tax Collector and County Administrator Office
Staff Name and Phone Number: Terri Somers 707 565-6489, Erick Roeser 707-565-3295, Rhianna Frank 707-565-6483
Vote Requirement: Majority
Supervisorial District(s): Countywide

Title:
Sonoma County Energy Independence Program Update and Annual Interest Rate Determination

Recommended Action:
A) Accept the Sonoma County Energy Independence Program update through May 2024;
B) Approve a 50-basis point increase in the fixed interest rate for Sonoma County Energy Independence Program assessment contracts from 7.49 to 7.99 percent, applicable to assessment contracts executed after July 3, 2024.

Executive Summary:
This item provides an update on the Sonoma County Energy Independence Program (the "Program") through May 2024. The update includes budgetary projections for the remainder of this fiscal year and next year. Due to an increase in project volume, expense reductions, and a reduction of early financing payoffs, the Program is in a better fiscal position than what was projected in May 2023.

In addition, the Auditor-Controller-Treasurer-Tax Collector requests approval to increase the financing interest rate to be competitive with market yields for comparable Treasury investments with a similar average maturity profile. The proposed rate change would increase the Program's assessment contract interest rate from 7.49% to 7.99%, effective for assessment contracts executed after July 3, 2024. 4.00% would remain allocated to Program operations, and the interest rate for new bonds would increase from 3.49% to 3.99%.

Discussion:

BACKGROUND
This County-administered, public service program provides financing and education services community-wide to assist in meeting the County's greenhouse gas emission reduction goals, and to promote community resilience to grid power interruptions, drought, earthquakes, and wildfires. The Program makes financing available to a property owner, by placing an assessment on their property, to fund eligible improvements and then funds are 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. A property owner can request up to 10% of the current market value of the property, however, the amount of the requested financing plus the amount of any existing liens cannot exceed 95% lien-to-value ratio.

Staff has developed strategies and actions as part of its education and outreach for reducing racial inequities and ensuring access for all Sonoma County residents, including underserved members of our community. The Program provides access to capital through financing that does not consider the property owner's income, credit score, or debt-to-income ratio, which increases access to non-traditional capital resources.

PROGRAM UPDATE

The Program's administrative cost is funded through a portion of the interest rate applied to the financing. A 4.00% increment of the interest goes towards the Program's administrative costs with the remaining portion of the interest rate going towards the Treasury's investment to its existing portfolio. The Treasury purchases the monthly bonds created by the Program, and as such, these bonds remain competitive with other Treasury investment options available.

Marketplace Competition and FED Interest Rates

Program staff regularly monitors reports pertaining to 3rd party Property Assessed Clean Energy (PACE), including the Sonoma County Clerk-Recorder-Assessor's recorded PACE lien data and assessments reported to the State's PACE Loss Reserve Program, that confirm that residential private PACE companies have exited the marketplace. As a result, the Program currently has little to no competition in the residential PACE marketplace. However, other types of financing, such as solar loans and Home Equity Lines or Credit (HELOCs) have been, and continue to be, considered competition for the Program.

The consumer interest rate market experienced four rate increases of 25 basis points each in calendar year 2023, with the Federal Reserve raising the Target Federal Funds rate a total of 1.00%. There have been no further rate increases since July 2023. The higher rate environment has contributed to a slow-down in the amount of home mortgage refinance activity, and staff has noticed a significant drop in early payoff activity in the Program's assessments, which contributes to a higher bonded project balance and greater interest revenue to the Program. While there has been much speculation regarding possible Fed Funds rate decreases in 2024, the timing of such actions remains uncertain, and to date there have been zero rate decreases this year.

Application Volume

The Program has received 374 financing applications to date in FY 2023-24, compared to 450 in FY 2022-23. This fiscal year, as of May 1st, SCEIP has bonded 223 applications totaling $5,987,432, compared to FY 2022-23 which had 260 applications bonded totaling $6,407,786. In the May 2023 Program Update presented to your Board, staff set a target growth rate of 15% over last fiscal year or $7.0 million in new assessments. With over $6.4 million in completed and bonded projects to date, staff anticipates approximately $6.9 million will be bonded by the end of the fiscal year, which would result in a 14.6% year-over-year increase. Although slightly lower than the targeted growth of 15%, this will be the third year in a row the Program has experienced significant growth in bonded projects.

Operating Fund Condition

The SCEIP operating fund has a single source of net revenue: interest paid on bonded projects, net of interest expense paid on SCEIP bonds. Net revenue is influenced by the amount of new projects bonded and the rate at which existing assessments are paid off. The growth in bonding of new projects, coupled with the decrease in early payoffs, caused an overall increase in revenue to the Program. Over the same period, operational costs of the Program decreased, primarily due to vacancies. As a result, the SCEIP operating fund is in a better fiscal position than staff projected at the last update in May 2023.

Projections for FY 2023-24 vs. current experience:

- 15% year-over-year growth in annual bonding - currently at 87% of goal
- 9% rate of payoffs - currently trending at 5.1%
- Expenses budgeted at $1,586,789.61 - current estimate is $1,257,005.52 or 79% of projection.

Beginning in fiscal year 2023-24, the Program was advanced $100,000 from the General Fund as a loan to the Program, your Board approved in July 2022. The advance was necessary to address timing of cash inflows and outflows. The advance is accounted for in the projected fund balance at year end. Even if the advance is subtracted out, the ending fund balance for FY 2023-24 is projected to be $325,985, and no negative future fund balance is projected. See fiscal projections through FY 2031-32 in Attachment 3 of this Summary.

PROPOSED FIXED INTEREST RATE INCREASE

The proposed 50 basis point increase to the Program's annual interest rate from 7.49% to 7.99% reflects the prevailing interest rate environment and forward curve as of April 4, 2024. Treasury would invest in SCEIP bonds at a yield of 3.99% (an increase from 3.49%), which remains competitive with similar Treasury investment options available. The remaining 4.00% is directed to finance Program operations. The new rate would take effect for any applicant that does not have a fully executed SCEIP assessment contract / implementation agreement by 5:00 PM PST on July 3, 2024. Between the date of this Board action and the effective date of the rate increase, applicants will receive two Financing Estimate and Disclosure (FED) forms, one reflecting the 7.49% rate and the other reflecting the 7.99% rate. Applicants that are not under contract by the July 3, 2024 deadline will only be eligible for the 7.99% interest rate.

Program staff anticipate that the SCEIP interest rate increase, coupled with potential Fed rate reductions could create a higher percentage of early payoffs and a decrease in applications.

CONSUMER FINANCIAL PROTECTION BUREAU (CFPB) AND RESIDENTIAL PACE

In May 2018, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). This legislation included Section 307, directing the Consumer Financial Protection Bureau (CFPB) to promulgate ability-to-repay (ATR) regulations for residential property assessed clean energy financing. The results of this rulemaking may impact how the Program evaluates the property owner's eligibility criteria in the future. A final rule has not yet been published by the CFPB.

Further details and next steps can be found in Attachment 4 of this Summary.

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.

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?
No

Prior Board Actions:
3/16/24 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization
9/19/23 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization 5/23/23- Sonoma County Energy Independence Program Update and Interest Rate Determination
3/14/23 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization
7/12/22 - Sonoma County Energy Independence Program Update, Semi-Annual Bonding and Annual Interest Rate Determination

FISCAL SUMMARY

Narrative Explanation of Fiscal Impacts:
There is no Fiscal Impact related to this item

STAFFING IMPACTS

Narrative Explanation of Staffing Impacts (If Required):
There is no staffing impact related to this item

Attachments:
1: SCEIP Program Report and Administrative Guidelines
2: PowerPoint Presentation
3: Program Budget and Fiscal Projections Summary
4: Consumer Financial Protection Bureau Proposed Rulemaking Update regarding PACE

Related Items "On File" with the Clerk of the Board: N/A