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To: Sonoma County Board of Supervisors
Department or Agency Name(s): County Administrator Office and Auditor-Controller/Treasurer-Tax Collector
Staff Name and Phone Number: Jane Elias 707-565-6483; Kathleen Parnell 707-565-6124; Erick Roeser 707-565-3295
Vote Requirement: Majority
Supervisorial District(s): Countywide

Title:

Sonoma County Energy Independence Program Update, Approval of Program Operational Changes, and Annual Interest Rate Determination

Recommended Action:

A) Accept the Sonoma County Energy Independence Program update through April 2023.
B) Approve revisions to the Program Report and Administrative Guidelines, including a minimum dollar threshold change for applications requiring approval of the Program Administrator from $60,000 to $75,000 and an adjustment to the lien-to-value threshold amount from 100% to 95%.
C) Approve an increase in the fixed interest rate for Sonoma County Energy Independence Program assessment contracts from 6.99 percent to 7.49 percent, effective July 1, 2023, with 4.00 percent to remain allocated to Program operations and interest rates for new bonds to be increased from 2.99 percent to 3.49 percent, applicable to assessment contracts executed after June 30, 2023.

Executive Summary:

The Sonoma County Energy Independence Program (the “Program”) staff is presenting a Program update through April 2023. The update includes budgetary projections for the remainder of this fiscal year and next year. The update describes that due to an increase in projects volume, expense reductions, and a reduction of early financing payoffs the Program is a better fiscal position than what was projected in July 2022.

Staff is also proposing programmatic policy changes updating the Program Administrative Guidelines policy which increase the Program Administrator’s application approval requirements and the lien-to-value (LTV) threshold amount.

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 will increase the Program’s interest rate from 6.99% to 7.49%, effective July 1, 2023.

Note, this Program update also includes a Racial Equity Analysis.

Discussion:

Program Update

As directed by your Board on July 12, 2022, the following is an update through April 2023.

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 100% 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

For much of the Program's history, this increment of interest earned covered Program's administrative costs, but as private PACE competition expanded and consumer market interest rates declined, the Program relied on its reserve to cover costs for several years. Then, in 2021-22, private residential PACE activity declined sharply in response to new consumer protection regulations. Program staff regularly monitors reports, 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. In addition, the consumer interest rate market experienced ten rate increases since March 2022 with the Federal Reserve raising the target Fed Funds rate by 500 basis points, which has slowed the amount of home mortgage refinance activity. Therefore, staff has noticed a significant drop-in early payoff activity in the Program's assessments, which is favorable towards the Program's fiscal sustainability.

Application Volume

The number of new financing applications submitted continues to trend upwards. In the July 2022 Program update presented to your Board, staff set a target growth rate of 20% over last fiscal year; the data for this fiscal year indicates growth will meet or exceed that target, with over $6 million in completed and bonded projects. This will be the third year in a row the Program has experienced significant growth. In addition to the number of new assessments, the stability of the Program is impacted by the rate at which assessments are paid off early (before interest is accrued) and the operational costs of the Program.

The increase in the number of bonded projects, along with Program expense reductions and the reduction of early payoffs, has put the Program in a slightly better fiscal position than staff projected in July 2022 Board item.

July 2022 Projections for FY 2022-23:

- 20% year-over-year growth in annual bonding - on target
- 9% rate of payoffs - currently trending at 6.5%
- Expenses budgeted at $1,487,556 - current estimate is $1,255,791 or 84.4% of projection

Beginning in fiscal year 2023-24, the Program anticipates the need to start accessing the General Fund loan your Board approved last July. See fiscal projections through FY 2031-32 in Attachment 4 of this Summary.

PROGRAM CHANGES

Loan Approval Requirements
Staff proposes raising the Program Administrator's approval requirement for financing applications with projects ranging from $60,000 to $500,000 to a range of $75,000 to $500,000. Under the Current Administrative Guidelines, projects financing less than $60,000 may be approved by Program staff, and projects financing between $60,000 and $500,000 require approval by the Program Administrator, which entails review by two members of the Steering Committee. Projects financing more than $500,000 require approval by your Board. Staff is proposing to raise the threshold at which review by the Steering Committee and approval by the Program Administrator is required; the new threshold would be $75,000. This request is based on the number of applications exceeding the $60,000 threshold due to rising costs of supplies, materials, labor and overhead associated with the cost of doing improvements over the years. The current $60,000 lower threshold, established at the Program's inception in 2009, no longer adequately assesses financing applications and requires Program Administrator approval on more projects than originally intended. This would not change any of the other application approval processes in place, including management review and approval, established consumer protections related to "reasonable costs" associated to improvements, and financed improvements meet the Program's required specifications. This change would provide Program savings by reducing the amount of Steering Committee staff time, which includes legal, administration, and operational management.

Loan to Value Threshold
Additionally, the Program Administrator and the Steering Committee determined an adjustment to the Program's lien-to-value (LTV) threshold amount from a 100% to a 95% is appropriate to mitigate risk to the Program. When applications are reviewed, the total amount of existing liens associated with the property plus the requested financing amount cannot exceed 100% of the current market value. This is done so property owners are not considered "under water" at the time they apply. Given economic housing forecasts, the decline in residential market values, the Program Administrator recommends shifting to the 95% LTV allowance. To assess the potential impact of this change, staff compared previous application LTV calculations between 2016-2022 and determined that 6%, or 34, of the applicants would not have qualified had this new proposed LTV been in place (see Figure 1, below).

Figure 1:

2016-2022 Summary		
551 Assessments	**% of Residential Properties Meeting LTV Threshold**	**Number of Applications Meeting LTV Threshold**
≤85% LTV	81.49%	449
≤90% LTV	88.02%	485
≤95% LTV	93.83%	517*
≤97% LTV	96.73%	533
≤100% LTV	100.00%	551
*34 properties would not have qualified (6.17%).		

The Program does not collect income data. Staff compared each of those 34 assessments with the 2017-2021 U.S. Census median household income blocks to identify the geographically based income brackets of those participants. The data shown in Figure 2, below, reflects the number of bonded assessments in each geographical income block and how many paid off their assessments before full maturity. Data reflects that 44%, or 15, paid off their assessment early. While we do not know why they paid off early, we can say they had the ability to pay off early. Also, a greater percentage of the applicants fell within geographically based income brackets that include the average Sonoma County median income level of $91,607 or greater.

Figure 2:

SCEIP Residential Assessments Over 95% LTV calculation			
Median household income levels	**Properties bonded**	**Percent of bonded projects**	**Paid off early**
$46,587-$58,526	0	0.00%	0
$58,527-$82,760	7	20.59%	5
$82,761-$106,995	11	32.35%	5
$106,996-$131,230	10	29.41%	2
$131,231-$155,464	6	17.65%	3
$155,465-$171,983	0	0.00%	0
Totals	**34**	**100.00%**	**15**

<u>FIXED INTEREST RATE INCREASE</u>

The proposed increase to the Program's annual interest rate from 6.99% to 7.49% ensures the 3.49% portion of interest collected from the Program assessments towards the Treasury's investment to the existing portfolio stays competitive with other Treasury investment options available. The remaining 4.00% is intended to finance Program operations. The new rate would take effect for any applicants that have not fully executed the Program's assessment contract/ implementation agreement between the applicant(s) and the County by 5:00 PM PST on June 30, 2023. During this interim period, applicants would receive two Financing Estimate and Disclosure (FED) forms, one reflecting the 6.99% rate and the other reflecting the 7.49% rate. Respective applicants that do not meet the above stated deadlines and requirements would be eligible for the 7.49% 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 2023.

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 the process of how the Program evaluates the property owner’s eligibility criteria in the future.

Further details and next steps can be found in Attachment 5 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.
And Goal 1: Continue to invest in wildfire preparedness and resiliency strategies
Objective 1: Provide educational resources to the community that promote and facilitate carbon neutral and fire hardening construction for new and existing homes.

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?
Yes

The Racial Equity Analysis is provided as Attachment 2 in this Board packet.

Prior Board Actions:
3/14/23 - Sonoma County Energy Independence Program Semi-Annual Bonding Authorization
8/30/22 - Board authorization for the approval of Grapevine Holdings, LLC Sonoma County Energy Independence Program (SCEIP) financing application for $722,160.
7/12/22 - Sonoma County Energy Independence Program (SCEIP) Update, Semi-Annual Bonding Authorization, and Annual Interest Rate Determination
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

FISCAL SUMMARY

Expenditures	**FY 22-23 Adopted**	**FY23-24 Projected**	**FY 24-25 Projected**
Budgeted Expenses	-	$1,516,119	$1,591,925
Additional Appropriation Requested	-	$40,000	$235,000
Total Expenditures	**-**	**$1,556,119**	**$1,826,925**
Funding Sources	-	-	-
General Fund/WA GF - Loan	-	$40,000	$235,000
State/Federal	-	-	-
Fees/Other - SCEIP Fund	-	$1,516,119	$1,591,925
Use of Fund Balance	-	-	-
Contingencies	-	-	-
Total Sources	**-**	**$1,556,119**	**$1,826,925**

Narrative Explanation of Fiscal Impacts:

Last July, your Board approved a General Fund loan up to $500,000 beginning fiscal year 2023-24. It is anticipated the Program will need to begin accessing these funds at that time. Beginning FY 2023-24, it is projected the Program will begin utilizing these funds as gap funding until interest revenues recover, with the actual amount borrowed each year needed to offset the Program's operating deficit.

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. Racial Equity Analysis
3: PowerPoint Presentation
4: Program Budget and Fiscal Projections Summary
5: Consumer Financial Protection Bureau Proposed Rulemaking for Residential PACE Update

Related Items "On File" with the Clerk of the Board:

N/A