



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: HCD
Department No.: 055
For Agenda Of: 10/26/10
Placement: Board Hearing
Estimated Time: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: N/A

TO: Board of Supervisors

AA for DM

FROM: Department David Matson, Department of Housing and Community
Director(s) Development (x2068)
Contact Info: Angie Hacker, Department of Housing and Community
Development (x3515)

SUBJECT: Status of emPowerSBC

County Counsel Concurrence

As to form: Yes

Other Concurrence: N/A

As to form: No

Recommended Actions:

That the Santa Barbara County Board of Supervisors:

- A. Receive and file a presentation on the status of emPowerSBC resulting from Federal Housing Finance Authority guidance and ongoing Federal policy deliberations about the future of Property Assessed Clean Energy (PACE) programs.
- B. Authorize the Director of Housing and Community Development (HCD) to accept a competitive ARRA Energy Efficiency and Conservation Block Grant from the US Department of Energy in the amount of \$2,401,309 awarded to the County of Santa Barbara to support emPowerSBC program administration.
- C. Direct HCD staff to return to the Board on December 14, 2010 to present a financing implementation plan proposal for emPowerSBC, inclusive of residential and commercial energy efficiency, water conservation, and renewable energy retrofit financing options beyond PACE.

Summary Text:

Statements released by the Federal Housing Finance Agency (FHFA) in July have created lasting national uncertainty about the future of property assessed clean energy (PACE) programs. While PACE postponement does effect one financing mechanism available to emPowerSBC, the County's innovative clean energy finance program, there are other viable options that can achieve similar outcomes and

reduce the County's overall risk. At this hearing, staff will provide the Board with an update on emPowerSBC, and recommends that the Board authorize acceptance of a \$2.4 million grant from the Department of Energy to support the emPowerSBC program for the next three fiscal years. Staff also recommends that the Board direct staff to return on December 14, 2010 to present a financing implementation plan for emPowerSBC, inclusive of program financing alternatives beyond PACE.

Background:

emPowerSBC, the County's innovative clean energy finance program, was launched on April 20, 2010 to drive demand for energy and water efficiency building retrofits, including the use of renewable energy technologies. A key aspect of initial program implementation was the development of a PACE-type financing product, which used local government authority established by California Assembly Bill 811 to allow home and business owners to pay back upfront financing for energy and water conservation improvements on their property tax bill.

Given widespread community enthusiasm for emPowerSBC, the inter-departmental project team, lead by HCD, worked aggressively to make applications for financing available to potential program participants. Unexpectedly, on July 6, 2010, important senior lien issues were raised in a policy guidance letter to the banking industry from the Federal Housing Finance Agency (FHFA) that challenged the PACE financing mechanism being incorporated into over 275 programs, similar to emPowerSBC, launching across the United States. In response, on July 13, 2010, staff provided an update to the Board in light of the statements made by the FHFA, which led the Board to adopt a resolution directing staff to wait to make residential PACE applications available until the federal policy issues had been resolved. On August 10, 2010, the Board adopted a resolution supporting congressional action to resolve the federal policy issues surrounding PACE. To date, there are three bills in Congress and six lawsuits filed by various government and community-based organizations that aim to preserve PACE.

It has become clear over the last 60 days that federal action to address the concerns of the FHFA will take time to resolve. Given the uncertainty around PACE, staff will present a preliminary approach to use \$3.2 million in emPowerSBC dedicated federal grant funding to proactively address current market barriers to achieving communitywide energy and water efficiency retrofit and renewable installation goals in Santa Barbara County. This approach remains based on a policy and financial investment strategy that limits risk and minimizes general fund costs. Federal funding already secured for emPowerSBC allows the County to develop and implement an immediate path forward to achieve the outcomes forecasted for the program:

- Create local jobs, specifically in struggling contractor trades
- Stimulate local economic output and associated multipliers, including County revenue
- Enable benefits for property owners including utility savings, increased property value, better indoor comfort and health
- Upgrade the local building stock to enhance overall community renewal
- Improve countywide resource efficiency, including conservation of water and energy, thereby leading to significant GHG emission reductions and decreased reliance on traditional energy sources.

DOE BetterBuilding Grant

On June 11, 2010, the County Department of Housing and Community Development received notification that it was awarded \$2,401,309 from a competitive solicitation by the U.S. Department of Energy (DOE), through a \$500 million federal market stimulus program known as BetterBuildings. Specifically, the grant was awarded to fund emPowerSBC for the first three fiscal years. The grant allows for funding of a loan loss reserve and will also cover certain administrative costs of the County. No County match is required to accept this grant.

emPowerSBC was one of 35 innovative programs in the nation selected to showcase local government programming that aims to drive demand for communitywide retrofit and renewables. The goal is to retrofit hundreds of thousands of homes and businesses across the country in an effort to create real market transformation in the financing and contractor trade sectors. Along with funding, the County also has access to a wealth of shared information from peer jurisdictions as well as substantial technical assistance from various national experts hired by the DOE at no additional cost to the County.

The documentation associated with acceptance of the grant is included as Attachment 1. While the original grant application referenced the County's intention to create a PACE program, the legal and regulatory challenges associated with the PACE program necessitate that the County work with the DOE to develop a suitable financing alternative and amend the grant award terms as necessary. To clarify that acceptance and use of the grant is not contingent upon the implementation of a PACE program, the DOE has submitted a letter (Attachment 2) to allow subsequent modification of the statement of work objectives. This letter acknowledging that programs like emPowerSBC, that had originally intended to incorporate PACE into program design, are encouraged to propose a revised statement of work objectives outlining different operational strategies after the award is accepted. The revised statement of project objectives will be provided to the Board, along with a full implementation plan on December 14.

The emPowerSBC Challenge

The premise of emPowerSBC has always been to address the two chief barriers to achieving communitywide energy and water efficiency retrofit goals in Santa Barbara County:

- 1) Access to capital: PACE was intended to create an attractive financing package for homeowners and businessowners. While other financing options exist for property owners, these options have led very few owners in Santa Barbara County to initiate these improvements. Widespread interest in making these improvements is evident in the market research, but the lack of low cost, accessible and convenient financing will continue to inhibit property owners from taking action.
- 2) Market complexity: The marketplace of financing, vendors and incentive providers is disconnected and rapidly changing, producing considerable confusion for property owners interested in building retrofits and renewables. This transaction needs to be simplified and the processes need to be streamlined.

Addressing the Challenge

To strategically address these market barriers, State and federal funding will be used to implement a program with four key known best-practice techniques and principles noted below:

- Focus on Public Private Partnerships: While direct lending through a County revolving loan fund may still be a viable option, an emerging national best practice model focuses government involvement instead on inclusive partnerships with the private lending community to drive down the overall cost of borrowing for local property owners. Using this approach, the County can pair credit enhancements with private capital to establish products that are more accessible, cheaper and attractive than what is currently offered to consumers. For example, our DOE financial advisors concur with staff models showing that the creation a loss loss reserve of \$1,000,000 could leverage \$20,000,000 of new private capital available to local property owners¹. Clearly this 20 to 1 ratio would generate a far greater number of retrofits than would be possible through direct County lending. By no longer engaging in direct lending, a public private partnership approach reduces the inherent risk in the underwriting process by partnering with lenders with banking expertise, meaning the County does not have to play the role of the bank
- Comprehensive program design: It is clear that driving demand for building retrofits and renewables will require more than just the development of attractive financing options. Local government, as a central coordinator, is uniquely positioned to help make building retrofits easier and more affordable in several other ways. For example, emPowerSBC can offer discounted bulk pricing either negotiated locally or offered through the BetterBuilding program to drive down the cost of the property improvements. emPowerSBC staff can also provide customized and personalized assistance to help participants identify and attain applicable local, State and federal incentives. Beyond affordability, consumers will also need assistance identifying qualified contractors and vendors. In alignment with state and federal initiatives and best practice models, emPowerSBC will act as the dedicated one stop shop customized to meet the needs of Santa Barbara County's workforce and property owners. Developing a one stop stop means that program design must include a comprehensive approach with the following elements: financing, workforce development, marketing outreach, and data evaluation. As a result, local property owners will find the process of completing building retrofits much less daunting
- Local participation, local control, and local results: The goal of emPowerSBC is to create opportunities specific to the needs, values and preferences of Santa Barbara County. A generic turn-key approach can not possibly fit the needs and conditions of all jurisdictions. What works in Bakersfield, may not work in Santa Barbara. This means that a local financial product can best adapt to local factors such as market valuations, climate and utility demand, eligible improvements and economic indicators. By keeping investments and funding local, the County goes farther to stimulate local job creation, drive economic output, and maintain robust civic engagement surrounding the issues of energy efficiency and climate concerns. Undoubtedly, strong partnerships already established with local community stakeholders ranging from non profits, educational institutions, contractor associations and utilities, will continue to be critical to the success of a revised program.
- Sustainable Program Funding: While certain administrative costs of emPowerSBC can be funded for the first three years of implementation with \$3.2 million provided by the DOE and CEC, a

¹ The establishment of a loan loss reserve is an allowable use of both the DOE and CEC funding.

certain portion of this funding is intended to be used for direct program expenditures. Accordingly, it is clear that the program will need to identify a sustainable funding source to achieve long term self sufficiency without impacting on the general fund. Staff is currently exploring several revenue generation options including partnerships agreements to drive demand to specific lenders or vendors, partnerships with utility company conservation marketing efforts, application fees, other grant sources, and potential interest rate spread derived from the financing product.

Next steps

To continue working towards the goals and principles outlined above, the necessary first step is to solidify funding sources that will allow the County to implement a pilot program based on a new approach. In December 2009, the Board of Supervisors authorized the acceptance of the \$773,000 formula funding from the CEC to support emPowerSBC. Per County protocol, the Board must also authorize acceptance of the \$2.4 million competitive funding from the DOE.

Once program funding is secured, project team members from the Housing and Community Development and the Auditor Controller will work with financial technical assistance provided through the DOE to engage potential third party finance partners to design public/private partnerships. Potential partners will be asked to develop proposals that provide attractive financial options for local property owners.

Upon completion of a request for proposal (RFP) process with local financial institutions and further development and evaluation of a pilot program design, the project team will return to the Board to review revised program options and to request direction to begin implementation. The project team, then intends to return to the Board quarterly to provide status updates on the pilot program. The pilot program will be considered complete when the state and federal financing for the pilot is exhausted. At this point, depending on the program's ability to achieve its intended outcomes and identify sustainable programmatic revenue sources, the Board will have the option of continuing emPowerSBC, or terminate the program.

Conclusion

While PACE postponement does effect the one mechanism available to emPowerSBC to create access to financing, it has created an opportunity to re-envision the program, limit County risk and encourage more community participation, particularly with local private lenders. There is an effective path forward to achieve the goals of emPowerSBC without PACE by utilizing other viable strategies. To move forward, staff recommends that the Board take action to accept the DOE grant for emPowerSBC. Staff also recommends that the Board direct staff to return to the Board on December 14, 2010 to present a financing implementation plan proposal for emPowerSBC.

Performance Measure:

Fiscal and Facilities Impacts:

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Budgeted:

Fiscal Analysis:

<u>Funding Sources</u>	<u>Current FY Cost:</u>	<u>Annualized On-going Cost:</u>	<u>Total One-Time Project Cost</u>
General Fund			
State			
Federal			\$2,401,309
Fees			
Other:			
Total	\$ -	\$ -	\$ 2,401,309.00

Staffing Impacts:

Legal Positions:

FTEs:

Special Instructions:

Attachments:

Attachment 1: DOE grant acceptance documentation

Attachment 2: DOE letter regarding modifying the statement of work objectives

Authored by:

Angie Hacker, Housing and Community Development