MEMORANDUM
ASSOCIATION OF BAY AREA GOVERNMENTS
Representing City and County Governments of the San Francisco Bay Area

DT: November 4, 2009

TO: ABAG Executive Board

FM: Ezra Rapport, Deputy Executive Director
Gerald Lahr, Energy Programs Manager

RE: ARRA Funding for Building Retrofits
- State Energy Program (SEP) Application for Funding
- DOE Retrofit Ramp-up
- Status Report on ABAG SEED Program

On October 8th the California Energy Commission (CEC) released an RFP for $95 million in State Energy Program (SEP) funds, and on October 19th the Department of Energy (DOE) issued a Funding Opportunity Announcement for $390 million in Retrofit Ramp-Up funds. Together these solicitations provide an unprecedented opportunity to develop and implement a regional community-scale building retrofit program.

The CEC will use the SEP competitive grant to fund projects in the following program areas:

1. Municipal Financing Program ("AB 811-type programs")
2. California Comprehensive Residential Building Retrofit Program
3. Municipal and Commercial Building Targeted Measure Retrofit Program
4. Low Interest Energy Efficiency Financing Program

DOE is specifically targeting funds for a small number of high-profile, high-impact awards that will enable large-scale programs of ongoing energy efficiency retrofits on residential, commercial and public buildings in geographically focused areas. DOE anticipates making 8-20 awards under this topic, with award sizes up to $75 million.

Upon a request by local member agencies, ABAG has taken the lead in coordinating with interested local governments in its service territory to submit a regional proposal for the SEP category #2 - California Comprehensive Residential Building Retrofit Program. As lead applicant and fiscal sponsor, ABAG in partnership with participating local governments seeks to achieve the following objectives:

- Create competitive regional grant application that maximizes funding for Bay Area residential building retrofit programs by collaborating on program design and implementation
- Reduce program design and implementation costs for each participating County-wide program through shared activity (cross cutting tasks that benefit all Bay Area programs might include developing model program protocols and procedures, shared list of

qualifying contractors, shared regional web-based project tracking system, tools and templates, consumer education resources, contract admin/reporting, etc.)
- Reduce confusion among contractors and homeowners with more program uniformity while maintaining individual County priorities.
- Leverage early adopter programs (e.g. Sonoma County, Alameda County, etc.) which will have developed tools and templates before SEP money has been released

ABAG has hired Bevilacqua-Knight Inc (BKi) and Build It Green (BIG) to coordinate the SEP 2 grant proposal process. BKi and BIG will develop a common proposal framework and task structure, although each County program will write specific portions in order to tailor the program scope and budget to fit local conditions, existing initiatives and priorities. A representative from each County-wide program is participating in a steering committee to guide proposal development and program implementation. It is expected that this proposal will request approximately $10 million for the region.

Although ABAG is also exploring the development of a regional Energy Financing District (SEED), we will not be submitting a proposal for SEP category 1 (Municipal Financing Program) in order to avoid conflicts with other county and state-wide applications (see discussion below). ABAG's role in the category 2 proposal is focused on coordinating interested County-wide programs and acting as a fiscal sponsor. ABAG will lead cross cutting tasks that benefit all county-wide programs but each county-wide program will be responsible for implementation their scope of work.

In addition, ABAG is coordinating with three other regions in the state (Sacramento, LA County and San Diego) to submit a grant application for the DOE Retrofit Ramp-Up funds. This application is being put together in coordination with the CEC and is expected to request approximately $75 million. BKi has been retained under an existing contract with LA County to lead the development of this proposal as well. Each region will be asked to contribute approximately $12,500 toward its development.

Status of ABAG SEED Program:

Following the Governor's veto of SB 279, staff has undertaken an assessment of how ABAG will continue its work in developing a regional program to encourage maximum participation in energy efficiency retrofits and solar installations for both residential and commercial properties. SB 279 would have provided authority for ABAG to form a regional financing district and would have allowed residential property owners to pay for energy and water efficiency improvements as well as solar installations through their property tax bill.

The initial concept was to tie SB 279 financing to homeowners as a means of creating a one-stop shop for consumers to access both screened contractors to do the work and favorable financing to pay for it. ABAG and PG&E joined together to analyze how a program might be designed to accomplish these objectives. A working group was established and an extensive market survey was undertaken among PG&E customers to determine levels of interest. The findings of the market survey were that a large number of consumers are interested in energy efficiency home improvements, and would be stimulated by financing in the 5-6% range. There was a steep drop off in interest when rates exceeded 7%. This finding has been confirmed elsewhere.

At the present time, neither AB 811 (nor SB 279) is able to provide financing to scale at interest rates below 6% without government subsidies. The bonds issued by these programs would be characterized by the capital market as taxable municipal securities, and even credit enhanced bonds in this category are presently trading at 8.5 – 9.5%. While most experts in the field believe that AB 811 financing is much more secure than traditional taxable municipals, there will need to be much more volume (e.g. $500 million) for these bonds to be priced at a lower rate than other taxable municipals.

Given that the market is not adequately pricing AB 811 type bonds (referred to as Property Assessed Clean Energy Bonds, or PACE bonds), an effort has been made to see if the federal government would be interested in helping to support AB 811 bonds as a means to making progress on climate change goals. Discussions have taken place with Congress and the Department of Energy (DOE), and the Environmental Protection Agency (EPA) about finding ways to support energy retrofit using PACE bonds. Vice President Biden has also expressed a great deal of interest in supporting the PACE bond concept. Renewable Funding has played an instrumental role in moving this issue to the federal level.

The conclusion from these discussions is that there is indeed interest at the federal level in the PACE concept. In our view, the long-term solution to the financing problems with AB 811 does lie at the federal level. Two actions are needed: 1) Fannie Mae and Freddie Mac need to publish underwriting standards to define the PACE bond structure. PACE bonds potentially impair the interest of mortgage holders, and both Fannie and Freddie need to agree on how they should be structured so as not to diminish the value of first lien mortgages; 2) the Treasury needs to guarantee PACE bonds, so they will be priced at the level of other federally guaranteed debt. Given the security of PACE bonds through foreclosure provisions, with a priority over mortgage debt, the federal guarantee will not cost the Treasury any subsidy and will accomplish significant climate change benefits. The interest rate on this type of financing would likely be in the 5% range. A provision of the Waxman-Markey bill, HR 2454, contains a provision offering $7.5 billion in guarantees for PACE bonds. This provision apparently has bipartisan support, and has been stripped out as an independent bill by Rep. Steve Israel (D-NY) for possible passage if the Cap and Trade bill bogs down.

The DOE has provided the State of California with two opportunities to pilot an AB 811 program in coordination with the California Energy Commission. SEP category #1 and the DOE Retrofit Ramp Up funding opportunity can both potentially support a pilot AB 811 program to collect data before any additional federal support takes place. This period of evaluation will be instrumental in furthering actions at the federal level to support AB 811 programs. In light of this, the California Statewide Communities Development Authority ("CSCDA") has utilized their CaliforniaFIRST program, in partnership with Renewable Funding and participating local governments, to apply for SEP 1 Financing and help sponsor a regional approach to the DOE

Retrofit Ramp Up that will demonstrate the utility and efficacy of the AB 811 approach. ABAG staff has been participating and supporting these efforts.

The other element of the ABAG SEED program is the customer friendly access to retrofit contracting, combining the contracting program with favorable financing. As discussed above, ABAG is coordinating the SEP 2 application, which focuses on residential retrofit. Included in that application is a proposal to create contracting standards, workforce development, and alternative methods of marketing energy retrofit programs to consumers. ABAG is partnering with StopWaste.org to complete some of the tasks that ABAG and PG&E were working on to create the most robust energy retrofit programs with entry at alternative pricing points.

Action: Staff recommend the Board approve Resolution No. 17-09 authorizing ABAG to execute all necessary agreements to implement and carry out the purposes of any funds awarded as a result of its SEP 2 funding application.

cc: Henry Gardner, Executive Director