



BEST PRACTICES FOR ENERGY RETROFIT PROGRAM DESIGN

CASE STUDY: SONOMA COUNTY ENERGY INDEPENDENCE PROGRAM

MARCH 2010

This document is one of nine case studies conducted by the Best Practices Committee of the Home Performance Resource Center to examine government-run incentive programs that target residential energy efficiency retrofits and renewable power generation. These nine case studies were used to compile best practices recommendations for the design and implementation of successful home energy retrofit programs, specifically focusing on the areas of financing and incentives, marketing, workforce development and business models. Additional documents in the *Best Practices for Energy Retrofit Program Design* series are available online at www.hprcenter.org.

CASE STUDY: SONOMA COUNTY ENERGY INDEPENDENCE PROGRAM

SUMMARY

The Sonoma County Energy Independence Program (SCEIP) provides Property Assessed Clean Energy (PACE) financing for efficiency retrofits, renewable energy and water conservation projects at residential, commercial and industrial properties throughout Sonoma County, California. Financed improvements must be permanently fixed to the property. Improvement loans with terms ranging from five to 20 years are repaid through an assessment on the owner's annual property taxes. Because the assessments take the form of a lien on the property itself, the loan obligation automatically transfers to subsequent owners if the property is sold before the loan is fully paid off.

The program is part of a strategy to meet commitments by Sonoma County and the cities in the county to reduce greenhouse gas emissions to 25% below 1990 levels by 2015.

FINANCING PROCESS

SCEIP currently requires onsite audits only for commercial applicants. However, energy audits will soon be required for residential applicants as well, and since its inception, the program has strongly encouraged homeowners to obtain an onsite survey by a HERS rater or equivalent, or to fill out an online energy rating survey provided by Pacific Gas and Electric Company, which supplies power to Sonoma County residents.

The next step is for the property owner to consult with a licensed contractor to determine the cost of improvements. Any California State licensed contractor is eligible to perform work financed by SCEIP loans, and program participants are responsible for engaging contractors and providing

PROGRAM PROFILE

Incentive Type:

Property Assessed Clean Energy (PACE) financing for efficiency retrofits, renewable energy and water conservation

Time Frame:

Launched in March 2009

Homes in Jurisdiction:

198,438 (2008 census)

Property Owners Participating:

584 combined residential and commercial projects as of 1/22/10, including 56 pending applications

Investment:

Up to \$100 mil. authorized from county treasury and water agency funds; \$18.7 mil. disbursed as of 1/22/10, including nearly \$2 mil. pending; future funding from bonds sold to institutional investors

Energy Savings:

Data not available

Carbon Abatement:

Data not available

Finance Mechanism:

Energy improvement loans repaid through special assessments appended to the owner's property taxes over terms up to 20 years

Jobs Created:

Sonoma County experienced 8.4% job growth in trade labor industries as of 11/12/09, while adjacent counties lost construction jobs

Web Site:

www.sonomacountyenergy.org

cost estimates prior to applying for financing. Based on the contractor's estimate, the property owner can use SCEIP's online payment calculator to get an estimate of annual loan payments for the financed amount.

To apply for financing, property owners fill out an application form available on the program Web site and submit it to the SCEIP office along with a contract, bid or proposal from a licensed contractor (unless the owner is self-installing the recommended measures). SCEIP then reviews the application, verifies that tax and mortgage payments for the property are in good standing, that the applicant is not in bankruptcy, and that there are no other involuntary liens placed on the property.

If the application is approved, the property owner can proceed to hire a contractor and obtain a building permit for the work. The property owner then submits the building permit and a signed and notarized assessment contract to SCEIP (the contract authorizes the program to place a lien on the property until the loan is paid off). At this point the contractor can proceed with the retrofit work and then have the local building inspector sign off on the work.

Complete documentation, including finalized permits and invoices showing all costs, is then submitted to SCEIP. Checks are mailed on the first county business day of each month. Program documents indicate that it takes between five and 35 days to receive payment, depending on which the day of the month permits and invoices are submitted to the county.

PROGRAM DEVELOPMENT

In 2005, Sonoma County and nine cities within the county passed resolutions calling for local governments to reduce greenhouse gas emissions to 25% below 1990 levels by 2015. The *Sonoma County Community Climate Action Plan* adopted in October 2008 outlined a variety of provisions to achieve this goal, including the use of PACE financing "to improve building performance in 80% of Sonoma County homes and commercial spaces to highest cost-effective efficiency level."

Tax-assessed financing – a relatively new concept pioneered by the city of Berkeley, California, to finance photovoltaic installations – had been codified into California law in July 2008 as Assembly Bill 811 (AB 811), which authorized local governments throughout California to designate special tax-assessed energy improvement financing districts. Sonoma was among the first local governments to embrace AB 811 financing for both efficiency retrofits and renewables. The Sonoma County Energy Independence Program was approved by the Sonoma County Board of Supervisors and launched in March 2009. The program is run by the Sonoma County Water Agency, with eight SCEIP staff members as of fall 2008.

Since the launch, program staff have tracked results and worked with stakeholders to propose adjustments. Significantly, the program will soon require residential customers to conduct whole-house energy audits and propose retrofit measures projected to achieve at least 10% energy savings in order to qualify for SCEIP financing.

Marketing

SCEIP financing has been marketed through open forum talks, billboards, radio ads, construction trade meetings, solar marketer meetings, and tabling at events such as the Solar Sonoma County Solar Energy & Efficiency Fair. The program has received extensive free media coverage, and provides complete documentation and application materials for commercial and residential building owners on a program-specific Web site. The Sonoma County Water Agency also maintains a storefront in Santa Rosa (the county seat and largest city in Sonoma County) that serves as an information hub. As of Jan. 22, 2010, the program had received 10,697 inquiries. Of those, 7,604 came via telephone, 1,641 via e-mail, and 1,452 from walk-ins.

Workforce Development

While workforce development is not a component of SCEIP itself, the county has partnered with local training programs and Workforce Investment Boards to increase the number of trained residential energy efficiency and clean energy workers. In Fall 2009, the county budgeted \$250,000 for field workforce training – enough to train about 75 workers. Since that time the program has received more funds from the California Energy Commission and is working to scale up training efforts.

Finance and Incentive Models

AB 811 allowed Sonoma County to designate a county-wide clean energy financing district, and the county pledged up to \$100 million from its treasury and from the Sonoma County Water Agency. The county eventually plans to sell bonds to institutional investors to help finance the program.

The interest rate for SCEIP loans is currently fixed at 7%, though the interest rate will be reduced if the county is able to do so after negotiating long-term financing for the program. The minimum loan amount is \$2,500. Five- or 10-year repayment terms are offered for assessment amounts of \$2,500 to \$5,000; 10- or 20-year repayment terms are offered for assessments over \$5,000. The loans also include nominal closing costs and program fees. Because the loans are affixed to property tax assessments, they do not impact the borrower's credit, and the loan obligation automatically transfers to subsequent owners if the property is sold before the loan is paid off.

Recently, the program added a restriction that property owners holding mortgages cannot qualify for SCEIP financing if they owe more than 110% of the value of the property, and energy improvement loans are capped at 10% of the property value. For homeowners who owe nothing on their homes, SCEIP financing is capped at 70% of the property value.

When the program begins to require energy audits for residential applications, SCEIP plans to offer subsidies to help homeowners pay for the required audits. Subsidy details are still being finalized, but the program has received a grant from the State of California that will be used to pay audit subsidies.

METRICS AND FEEDBACK

As of Jan. 22, 2010, the program had provided financing for 584 projects, including 56 projects that were still pending. A total of \$18.7 million had been disbursed by the same date, including nearly \$2 million of pending project funding.

The program reported 8.4% job growth in trade labor industries in Sonoma County as of Nov. 12, 2009, while other counties in the area had lost construction jobs. Employment spikes tracked the number of projects under way at the time.

Early on in the program, about 40% of the applications were single-measure proposals for photovoltaic installations alone, and only about 9 cents of every dollar requested was for anything other than PV, replacement windows or cool roof projects. This suggests that participants were not taking advantage of AB 811 financing to undertake the kind of multi-measure retrofits that tend to generate the deepest energy savings. The program relies heavily on contractor-run marketing and sales, so the high number of PV and window installations could result from the greater number of existing companies in those fields promoting their products and services to Sonoma County residents.

Local Home Performance companies (and auditors in particular) advocated that audits be required in advance of all SCEIP loans, not just for commercial applications. When the program begins to require energy audits for residential projects, some stakeholders expect that more homeowners will use SCEIP financing for multi-measure retrofits as they are better informed about the long-term savings that can be achieved.

RECOMMENDATIONS

PACE Financing: In its first year, the Sonoma County Energy Independence Program has demonstrated the effectiveness of PACE financing in stimulating demand for residential energy efficiency retrofits and renewable energy installations. The structure of SCEIP has helped to alleviate homeowner concerns about borrowing capital to pay for home energy improvements, because the loans involve minimal upfront costs, are fixed to the properties and do not affect the borrowers' credit.

Promoting Energy Efficiency: The program will soon begin requiring thorough diagnostic energy audits for each applicant. PACE programs should also set a loading order that requires certain efficiency measures be completed before financing for renewables can be obtained.

Referral System: No referral system is currently in place for qualified auditors, retrofitters and installers. A list of approved contractors would help to connect interested property owners with qualified Home Performance and renewable energy companies.

SUMMARY OF RECOMMENDATIONS

- Provide PACE loans or other innovative financing mechanisms to help homeowners pay for efficiency retrofits
- Require thorough diagnostic energy audits for all PACE-financed projects
- Establish referral systems to help homeowners find qualified contractors

SOURCES

This report is based on interviews and e-mail correspondence with Liz Yager, Program Manager, Sonoma County Energy Independence Program; Andrew Dunn, Recurve, Inc.; and other Northern California members of Efficiency First.

Interviews and background research were conducted for the Home Performance Resource Center by Brant Rotnem and Coby Rudolph.

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Program-Related Web Sites:

Sonoma County Energy Independence Program: www.sonomacountyenergy.org

Sonoma County Climate Protection Campaign: www.climateprotectioncampaign.org



The Home Performance Resource Center is a national 501(c)(3) nonprofit organization formed to conduct public policy and market research in support of the Home Performance industry. The Resource Center develops research materials for policymakers, energy program managers and industry stakeholders to promote job creation, economic recovery, lower household energy bills and deep reductions in residential carbon emissions through improved home energy efficiency.

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The Home Performance Resource Center is supported by Efficiency First, the Building Performance Institute (BPI) and the Energy Foundation.

