



**WRITTEN TESTIMONY
OF
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AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR
COUNTY OF SONOMA
BEFORE
THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
JUNE 28, 2012**

Introduction

Honorable Chairman Bingaman, Ranking Member Murkowski, and Members of the Committee, thank you for this opportunity to appear before you today as you examine “Innovative non-federal programs for financing energy efficient building retrofits.” My name is David Sundstrom, and I serve in the elected position of Auditor, Controller, Treasurer and Tax Collector of Sonoma County, California. I also serve as the administrator of the Sonoma County Energy Independence Program, known as SCEIP, which is the leading Property Assessed Clean Energy (PACE) program in the nation. I am pleased to have this opportunity to discuss the Sonoma County Energy Independence Program, a model of multi-jurisdictional and public-private partnership for financing energy efficient and renewable energy retrofits for the betterment of the community.

PACE Explained

PACE is a local government initiative that allows property owners to finance energy efficiency, water conservation and renewable energy projects for their homes and commercial buildings. Qualifying property owners finance improvements through a property tax assessment which is repaid over the course of up to 20 years. PACE financing spreads the cost of improvements, such as insulation, energy efficient boilers, new windows, or solar installations, over the expected life of the improvement. The method of financing is intended to allow the repayment obligation to transfer automatically to the next property owner when the property is sold. PACE Programs have been authorized by the legislators of the District of Columbia and twenty-eight states, including many states represented by members of this Committee.

Growth of the Sonoma County Energy Independence Program

Sonoma County, which has long been a progressive leader in the area of green energy and environmental stewardship, immediately identified PACE as a tremendous strategic opportunity to help us reach our greenhouse gas reduction goals, promote energy efficient improvements by local property owners, and provide jobs in the local “green” construction industry.

Sonoma County and the Sonoma County Water Agency jointly pledged \$60 million of local funds to launch the program, making it the largest PACE program in the nation. SCEIP has proven itself to be very popular and

effective: after three years of operation, SCEIP has received 2,400 applications for financing. Those applications have been for more than \$89 million in local energy improvements, of which more than \$62 million have been approved, and nearly \$57 million have been disbursed to projects that are already completed. Approximately \$6.7 million of these assessments have been paid off, freeing those funds for additional projects. In addition, the \$62M invested locally has energized the creation of an active energy efficiency and renewable energy construction market and has generated more than 145,000 man-hours of construction work within the local job market.

SCEIP has coordinated with other local- and State-funded energy efficiency programs to provide our community with a one-stop-shop approach to pursue and facilitate energy efficiency and renewable energy investments.

Despite impediments imposed by the Federal Housing Finance Agency, property owners continue to join the Program, which now has over 1700 participating property owners. In the past three years, those property owners have completed more than 1600 energy efficiency projects and 1000 solar installations which total more than 7.7 megawatts of clean, renewable solar photovoltaic energy. This has given Sonoma County one of the highest kilowatt-hour per capita solar energy production rates in the country.

We continue to seek long-term financing through the bond market, securitization, and private placement, to enable SCEIP to grow, allowing the energy and water conservation improvements to continue as long as there is a demand. We have also attracted private capital for particular projects. In one such case, SCEIP facilitated funding for a \$1.6 million solar installation on a major commercial complex through private capital provided by CleanFund, which recently also assisted in the financing of a commercial PACE project in Senator Franken's home state of Minnesota.

Partnership for Success

The energy community continues to be an active partner in our efforts to promote sustainability. Energy audits help to ensure the best choice in technology and allow for measureable environmental results arising from the program. Currently, commercial properties are required to conduct an energy evaluation, and the program strongly encourages energy audits for residential participants as well – the cost of which can be included in the financing provided through the program. Our use of Department of Energy grants channeled through the California Energy Commission over the last year has allowed us to implement several major program improvements, all focused on making participation in SCEIP easier, faster and more valuable for the property owner.

Bringing PACE to Scale

The U.S. Green Building Council reports that the building sector accounts for almost half of the greenhouse gas emissions in the United States annually.¹ The United States Environmental Protection Agency reports that this is spread approximately equally between residential buildings and commercial buildings.² The White House Recovery Through Retrofit report found that home energy retrofits have the potential of reducing home

¹ Announcement dated 5/7/2007, <http://www.usgbc.org/News/PressReleaseDetails.aspx?ID=3124>.

² <http://www.epa.gov/ttnchie1/conference/ei17/session5/knowles.pdf>

energy bills by \$21 billion annually, paying for the retrofits over time.³ A recent report by the Rockefeller Foundation estimated that \$279 billion could be invested annually across the residential, commercial, and institutional market segments, yielding more than \$1 trillion of energy savings over 10 years and creating more than 3.3 million cumulative job-years of employment.⁴ In short, energy retrofits have enormous potential. A concerted push toward sustainable energy investment will reduce greenhouse gas emissions, save energy, benefit American homeowners and businesses through cost savings, and create and sustain millions of jobs.

Obstacles to Residential PACE

The enthusiastic response we received from the community on the launch of our Program and the continued interest we receive from the community demonstrates the community's desire for a retrofit program that offers a low up-front cost, transferable on sale option. However, the Federal Housing Finance Agency has challenged PACE programs because it believes PACE programs, which create a lien comparable to property taxes and other assessment liens, create risk for Fannie Mae and Freddie Mac due to the financing's seniority over the property's first mortgage. FHFA has recently proposed a rule on PACE programs essentially directing Fannie Mae and Freddie Mac to ensure that their mortgage documents permit immediate foreclosure on any property where the owner agrees to a PACE funded retrofit—whether or not the property owner is current on their mortgage and has a sterling payment history.

Our own statistics demonstrate that the FHFA's fears are groundless. In fact, PACE participants are significantly less likely to default on their mortgage payments⁵ and more likely to make their tax payments than property owners as a whole. The FHFA indicates that there is insufficient evidence to validate this result, yet firmly blocks new programs and prevents gathering the very evidence that would satisfy its concerns. In the House, HR 2599, setting out parameters to ensure PACE programs address the FHFA's concerns, has been submitted by a bipartisan group of Congress Members, and we hope that your Committee would support a similar effort in the Senate.

The proposed rule issued by the FHFA also allows for the submittal of alternatives. One alternative cited was having programs with acceptable underwriting criteria. It is our belief that HR 2599 is predicated on the very criteria being called for by the FHFA. Programs established under HR 2599 guidelines should mitigate FHFA concerns. We continue to hope that the FHFA will revise the proposed rule if presented with a program that meets the underwriting criteria they believe are needed to protect property owner and mortgage holder investments. We would greatly appreciate any assistance that you could provide in reaching a compromise with FHFA, such as incorporating the underwriting criteria cited in HR 2599.

Conclusion

Through collaboration with government, business, and non-profit partners, Sonoma County has been able to forge ahead with a financially sustainable program that furthers our community's strategic priorities of

³ http://www.whitehouse.gov/assets/documents/Recovery_Through_Retrofit_Final_Report.pdf

⁴ <http://www.rockefellerfoundation.org/uploads/files/791d15ac-90e1-4998-8932-5379bcd654c9-building.pdf>

⁵ There are only 16 reported mortgage defaults out of over 1600 properties in the County's PACE program—under one percent, significantly below the County average.

environmental sustainability and local economic vibrancy. In doing so, the program has become a shining example of government innovation and collaboration. We look forward to continuing to expand our efforts in the commercial sector and within underserved communities, and to reaching a resolution with FHFA so that property owners can proceed with PACE funded retrofits without threat of foreclosure.

Thank you again for the opportunity to appear before you today and describe our successful, and replicable, Program. I am happy to answer any questions from members of the Committee.