



## PALM DESERT

# Energy Independence Program Report and Administrative Guidelines

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## **Introduction**

This Report has been prepared pursuant to Section 5898.22 of the California Streets and Highways Code in connection with the establishment of the City of Palm Desert Energy Independence Program (“EIP”). This is the guiding document for EIP and fulfills the Section 5898.22 requirements that this report contain:

1. A map showing the boundaries of the territory within which contractual assessments are proposed. (See Appendix B.)
2. A draft contract between a property owner and the City. (See Appendix D.)
3. City policies concerning contractual assessments.
4. A plan for raising a capital amount to pay for the work performed.

The Energy Independence Program described herein is designed to help Palm Desert property owners save energy and gain independence from the scarcity of sources of energy that are compromising the California power grid, threatening national security, and endangering the global climate.

*The Energy Independence Program helps Palm Desert property owners save energy and money while doing right for the environment.*

## **Goals**

EIP will carry out the City’s mission of helping property owners of improved real property make principled investments in the long-term health of the local, state, and national economy and global environment.

EIP aims to provide multiple benefits. By enabling property owners to take responsible energy actions, the program seeks to cut their utility bills. At the same time it shores up the local economy, the California power grid, and national and global energy interests, and makes it possible for Palm Desert to fulfill energy conservation and climate protection commitments.

The City has established a goal to reduce electric and natural gas energy consumption by 30%. The City welcomes innovative energy solutions that will contribute to this goal. The City intends to initially fund EIP with \$2.5 million for energy reduction investments that might not have otherwise been possible, with a maximum aggregate amount of \$25 million.

## **Background**

As a result of Palm Desert’s authorship and advocacy of what became Assembly Bill 811, the bill was approved by the California Legislature, signed into law by the Governor on July 21, 2008 and became immediately effective as an urgency measure. Under this bill, the California Legislature has declared that a public purpose will be served by a contractual assessment program that provides the local government with the authority to finance the installation of distributed generation renewable energy sources – such as solar -- and energy efficiency improvements that are affixed to residential, commercial, industrial, or other real property (collectively known as “Energy Improvements”).

To make Energy Improvements more affordable and to promote their installation, AB 811 provides procedures for authorizing voluntary assessments to finance the cost of these improvements. The Energy Independence Program works with the free and willing consent of owners of the property on which the Energy Improvements are to be made.

The City will make loans (“EIP Loans”) to property owners within the City to finance the installation of Energy Improvements pursuant to contractual assessment agreements. Property owners in the City will repay EIP Loans through an assessment levied against their property which is payable in semi-annual installments on property tax bills.

### **Program Benefits**

From the City’s perspective, the Energy Independence Program will be a key element in achieving the City’s 30% energy reduction goals. EIP provides a significant channel for funneling more resources into the shift to greater efficiency and renewable energy, while securing the energy future. For example, \$25 million of energy efficiency and renewable energy investments has the potential to provide over \$50 million in direct consumer benefits over time while contributing to regional, state, national and international goals.

For property owners, EIP offers:

- A no-money-down means of financing Energy Improvements.
- Fixed-rate loans.
- Financing without requiring a property appraisal.
- A stream-lined loan process.

### **Program Administration**

EIP will be administered by the City’s Office of Energy Management (“OEM”), which is headed by the Director of the Office of Energy Management (the “Director”) and staffed by EIP professionals. EIP staff will be responsible for:

- Community outreach
- Energy surveys
- Solar site checks
- Advising property owners
- Processing loan applications
- Managing and tracking funds available for EIP Loans
- Monitoring individual and collective energy conservation
- Integrating EIP with Palm Desert’s successful Set to Save rebate program.

The intent of these services is to provide a “turn-key” service for Palm Desert property owners who would otherwise be unable or unwilling to finance efficiency measures and renewable energy options. Their participation is critical to the City in achieving its 30% energy reduction goals and for the State to meet its greenhouse gas commitments to reduce carbon emissions to 1990 levels by 2020.

## **Program Requirements**

### **Eligible Property Owners**

All owners of improved real property are eligible for the Energy Independence Program. Owners may be individuals, associations, business entities, cooperatives, and virtually any owner which pays real property taxes.

A property owner needs to be current in the payment of property taxes and the property must be free and clear of all liens, excluding customary mortgage liens and assessment liens. Property owners are eligible to make multiple applications for additional Energy Improvements with the maximum aggregate of these applications not to exceed \$100,000 per parcel.

### **Eligible Properties**

EIP Loans are available to all owners of improved real properties in the City including, but not limited to, residential, commercial, and industrial properties. Unfortunately at this time, EIP Loans are not available for properties that do not pay property taxes, such as governmental entities and certain non-profit corporations.

### **Consent Agreement**

All EIP loans \$30,000 or more shall have a Consent Agreement, signed by each private institution or individual which is the beneficiary and holder of a pre-existing Deed of Trust, authorizing the placement of the Notice of Assessment on the property.

### **Eligible Equipment**

EIP affords property owners in Palm Desert the opportunity to take advantage of a wide range of energy-savings measures, consistent with the following provisions:

1. EIP provides financing for Energy Improvements that are permanently affixed to property.
2. EIP Loans are specifically made available for Energy Improvements. Property owners that elect to engage in broader retrofit projects – such as home or business remodeling – will only be provided EIP Loans for that portion of the costs used to retrofit existing structures with Energy Improvements. (This is discussed further in Eligible Costs.)
3. EIP Loans are intended for retrofit activities to replace outdated equipment and to install new equipment that takes energy off the grid. However, EIP Loans are also made available for purchasers of new homes and businesses that wish to add Energy Improvements after the property owner takes title to the property.
4. EIP Loans are made available for the following types of improvements that are presented in greater detail in Appendix A:

- a. Efficiency Measures. EIP supports a wide range of efficiency measures as presented in Appendix A. EIP also supports Energy Improvements that are eligible for Set to Save program rebates.
  - b. Solar Systems. EIP Loans will be available for a range of solar systems, from photovoltaic to solar thermal.
  - c. Custom Measures. Upon review and approval by the Office of Energy Management, EIP Loans are made available for emerging technologies for Energy Improvements that provide new ways to save or generate energy and that will be evaluated on a case-by-case basis.
5. EIP is flexible and provides three “Tracks” for participation that focus on Efficiency Measures, Solar Systems, and Custom Measures. See “Tracks for Participation” below for more information.
  6. EIP Loans are also made available for combinations of Energy Improvements such as bundling energy efficiency and renewable energy measures. For instance, a property owner may choose to replace both an aging and inefficient air conditioner and install a solar system.

### **Eligible Costs**

Eligible costs of the Energy Improvements include the cost of equipment and installation. Installation costs may include, but are not limited to, labor, drafting, engineering, permit fees, and inspection charges.

The installation of Energy Improvements can be completed by a qualified contractor of the property owner’s choice. Eligible costs do not include labor costs for property owners that elect to do the work themselves.

In each case, the Office of Energy Management will determine whether the estimated equipment and installation costs are reasonable. The OEM will evaluate market conditions and may require additional bids to determine whether costs are reasonable. While the property owner will be able to select the bidder of his or her choice, the amount available for the EIP Loan may be limited to an amount deemed reasonable by the OEM, and may be reviewed by the City Manager and the Palm Desert City Council.

### **Tracks for Participation**

There are three ways for property owners to participate in the Program. Eligible equipment and standards are presented in greater detail in Appendix A:

#### **The Efficiency Track**

The Efficiency Track covers a wide range of energy efficiency fixtures, from windows and doors, attic insulation that are Energy Star rated. Packaged and central air conditioning systems

must meet the minimum efficiencies specified in the Set to Save program. Given Palm Desert's preponderance of pools, specific efficiency requirements are presented for pool pumps and heaters. All other efficiency measures must go through the Custom Measure Track. .

### **The Solar System Track**

The Solar System Track makes available Energy Independence Program loans for Energy Improvements. The Solar Track also helps property owners with solar electric and solar thermal investments by offering optional, no-cost solar site checks and consultation by EIP experts.

### **Custom Measure Track**

All other proposed measures follow the Custom Measure Track. These measures may include renewable energy sources (other than solar), such as wind, geothermal, and potentially solar-hydrogen fuel cells, as well as more complex and innovative energy management solutions and emerging technologies. The developments of technologies are encouraged by EIP as a means of diversifying the City's energy sources.

Applicants for the Custom Measure Track should consult the OEM to determine eligibility. In some cases, the findings of national energy laboratories and nationally accredited research and testing centers will be required for EIP approval. In all cases, the City reserves the right to decline funding of a custom measure.

### **Energy Surveys and Solar Site Checks**

The Office of Energy Management offers energy surveys at owners' properties. During these on-site surveys, a trained Program expert will review as appropriate, energy efficiency, energy management, and renewable energy opportunities and EIP financial details with the property owner. The property owner will then be advised as to the potential Energy Improvements, their estimated costs and savings through EIP participation.

Energy surveys are highly recommended but not required.

### **The Financial Strategy**

The City will create the Energy Independence Program Fund which may accept funds from any available source and which may disburse such funds for the purpose of funding Energy Improvements. Loan repayments – through the property assessment mechanism – will be made to the Energy Loan Fund.

The City initially will seed the Energy Loan Fund with \$2.5 million from the General Fund. Thereafter, the Energy Loan Fund may be funded from a number of other potential sources, and combinations of sources, which may include but are not limited to additional funding from the General Fund, the issuance of notes, bonds, or agreements with utilities or public or private lenders or other governmental entities and quasi-governmental entities such as CALPERS.

EIP Funds will then be used by the City for additional EIP Loans and/or to establish a Reserve Fund or pay administrative costs and/or to reimburse itself for advancing moneys from the General Fund to the EIP Fund.

At a minimum, \$1.25 million of the \$2.5 million loan amount will be reserved for EIP Loans for residential property owners. The Office of Energy Management will report on penetration to the City Manager and Council on a quarterly basis at a minimum, providing Council with the information necessary to shift funds as it elects to do so at its sole discretion.

The City may also establish an EIP Reserve Fund if bonds are issued to cover EIP Loan payments in the event of assessment delinquencies prior to foreclosure and tax sale if deemed necessary by the City Manager and the City Council.

## **Energy Independence Program Parameters**

### **Minimum Energy Loan Amount**

The minimum size for an EIP Loan is \$5,000.

### **Maximum Energy Loan Amount**

The maximum size for an EIP Loan is \$100,000. All EIP Loans greater than \$60,000 must be approved by the City Manager.

### **Maximum Portfolio**

The maximum principal amount of the Energy Loans to property owners under the Program is \$25 million. This may be increased by the City Council at its discretion. A minimum of 50% of the loan funds available shall be set aside and used only for energy efficiency upgrades and retrofits, as determined by the Office of Energy Management.

### **Assignment of Rebates and Incentives**

The Office of Energy Management recommends that the amount of an EIP loan be reduced by an applicable California Solar Initiative Expected Performance Based Buy-Down rebate, Self-Generation Incentive Program (SGIP) rebate, and any Set to Save rebates. Such rebates may be assigned to the applicable contractor. By not including rebates in the EIP loan, thousands of dollars in interest fees can be saved through the life of the loan.

### **Duration**

EIP Loans are made available for up to 20-year terms to accommodate a wide range of efficiency measures and renewable energy investments. The term of the loan is in the discretion of the property owner in consultation with the Office of Energy Management.

### **Interest Rate**

EIP Loans will be made for the initial \$2.5 million an annual interest rate not to exceed 7% for all loans. Thereafter, the City Council will maintain the discretion to adjust the interest rate up to an amount not to exceed 10%. The Council will determine interest rates so that the Energy Loan Fund remains financially viable up to the legal limit.

The City will set the interest rate for an EIP Loan at the time that the City and property owner enter into the contractual assessment agreement.

### **Administrative Fees**

The City of Palm Desert will offer the Energy Independence Program as an additional City service that will help property owners achieve their energy goals, while helping the City achieve its energy and climate protection goals. The City of Palm Desert will be responsible for all EIP marketing and outreach, as well as the duties of the Office of Energy Management.

The City may elect to cover a portion of its costs through the “spread” between its combined earnings rate, and the EIP Loan issuance rate. Similarly, it may elect to recover EIP costs through a spread between bond rates and loan rates, or the spread between interest rates of any financial vehicle. The City will not charge property owners a fixed administrative fee.

Two forms of costs will be the responsibility of the property owner:

1. Title costs – including title insurance – will be paid by the property owner.
2. Assessment collection costs will appear as a line item on property taxes not to exceed \$40 per property per year and will be paid by property owner. This cost was determined after consultation with the County of Riverside Assessor’s Office.

### **Changes to Report**

The Director or City Manager may make changes to this Report that the Director or City Manager reasonably determines are necessary to clarify its provisions. Any changes to this Report that materially modify the Energy Independence Program shall only be made after approval by the City Council.

The City Manager or Director may modify from time to time the Equipment List, draft Loan Contract and draft Application attached hereto as Appendix A, Appendix D and Appendix C, respectively, as deemed necessary by the City Manager or the Director to effectuate the purposes of the Program.

## **Appendix A: Equipment List**

The Energy Independence Program offers EIP loans for a number of equipment types, including efficiency measures, solar systems, and other innovative, energy-saving custom measures. In each case, the use of rebates and tax credits to prepay a portion of the loan is at the discretion of property owner.

### **Efficiency Measures**

The Energy Independence Program provides services and loans for a wide range of Energy Star-rated efficiency measures, including many Set to Save Efficiency Measures for which property owners can get rebates as well as EIP Loans. Excepting HVAC equipment as noted below, efficiency measures that are Energy Star rated must meet the Energy Star minimum efficiency levels.

For all packaged and central air conditioning systems funded in this loan program, the minimum efficiency levels shall be as required by the current minimum requirements set forth in Set to Save program.

All other proposed efficiency measures will be considered in the Custom Measure Track.

The City of Palm Desert anticipates that Energy Star requirements will “ratchet up” to greater efficiency levels over time. Energy Star will also become more inclusive of technologies over time. Thus the EIP will evolve with Energy Star and the market for energy-efficient technologies.

The following Energy Star measures – among others – are eligible in the Efficiency Track.

- Attic and wall insulation
- Light fixtures (no bulb-only retrofits)
- Reflective roofs and coatings
- Windows, doors, and skylights

### **Pool Equipment**

Given the preponderance of pools in Palm Desert the following prescriptive standards must be upheld for Efficiency Track funding:

- Pool circulating pumps (must be Variable Flow and/or Multi-speed with controllers)
- Natural gas pool heaters (must have a thermal efficiency of 84% or greater)

## **Solar Equipment**

Solar Track funding is available for a wide range of solar equipment. EIP Loans will be available for photovoltaic equipment and installers listed by the California Energy Commission. Solar thermal equipment must be rated by the Solar Rating Certification Council (SRCC). As with efficiency measures, the property owner maintains the discretion as to whether to prepay a portion of the gross loan with any solar rebates and tax credits.

Eligible solar equipment includes:

- Solar thermal systems (hot water)
- Photovoltaic systems (electricity)
  - Battery back-up systems will be allowed
  - Funding for off-grid systems will be allowed
  - PV systems can be sized to accommodate plug-in electric vehicles

## **Custom Measures**

The City of Palm Desert encourages innovation in saving energy to meet its energy-savings goals. Custom Measures will only be funded for EIP Loans if sufficient proof of energy savings is provided to the Office of Energy Management that the measure will reduce usage by 20%. The Director reserves the right to defer funding until he deems the evidence sufficient to verify this performance requirement.

The following types of measures – among others – will be considered for EIP Loans through the Custom Measure Track:

- Building Energy Management controls
- HVAC Duct zoning control systems
- Irrigation pumps and controls
- Lighting controls
- Motors and controls
- Natural gas fuel cells
- Water heating equipment
  - Tank-style
  - Tankless
  - Central water heating system

As these “Custom Measures” become Energy Star rated they will be included in the Efficiency Measure Track.