STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/15)

Fiscal Year	Business Unit	Department	Priority No.
2016/17	3360	California Energy Commission	

Budget Request Name	Program	Subprogram
3360-004-BCP-DP-2016-GB	ENERGY RESOURCES CONSERVATION	ENERGY PROJECTS EVALUATION AND ASSISTANCE

Budget Request Description
Federal Fund Expenditure and Transfer Authority for ARRA Third Party Funds

Budget Request Summary
The California Energy Commission (Energy Commission) requests $8 million in federal fund expenditure authority in Fiscal Year (FY) 2016/17, and ongoing federal fund expenditure authority of $2.5 million in FY 2017/18 through FY 2026/27 to effectively implement both voluntary and mandatory programs to increase energy efficiency in existing buildings and conduct a competitive grant program to facilitate more effective use of local government knowledge and authority to promote and conduct energy efficiency improvements in existing buildings. This proposal also requests federal fund transfer authority to shift $5 million in Federal American Recovery and Reinvestment Act (ARRA) funds to further fund the Department of General Services (DGS) Energy Efficient State Property Revolving Fund loan program.

Requires Legislation	Code Section(s) to be Added/Amended/Repealed	
☐ Yes ☒ No		
Does this BCP contain information technology (IT) components? ☐ Yes ☒ No *If yes, departmental Chief Information Officer must sign.*	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

☐ FSR ☐ SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
		MWaif	12/21/15
Department Director	**Date**	**Agency Secretary**	**Date**
[signature]	12-21-15	[signature]	12/30/15

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
Original Signed By: Ellen Moratti	1/7/16

BCP Fiscal Detail Sheet

BCP Title: Expenditure Authority for ARRA Third Party Funds

DP Name: 3360-004-BCP-DP-2016-GB

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Budget Request Summary						
Operating Expenses and Equipment						
5340 - Consulting and Professional Services - External	0	8,000	2,500	2,500	2,500	2,500
Total Operating Expenses and Equipment	**$0**	**$8,000**	**$2,500**	**$2,500**	**$2,500**	**$2,500**
Total Budget Request	**$0**	**$8,000**	**$2,500**	**$2,500**	**$2,500**	**$2,500**
Fund Summary						
Fund Source - State Operations						
0890 - Federal Trust Fund	0	5,000	0	0	0	0
9741 - Energy Efficient State Property Revolving Fund	0	-5,000	0	0	0	0
Total State Operations Expenditures	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Fund Source - Local Assistance						
0890 - Federal Trust Fund	0	8,000	2,500	2,500	2,500	2,500
Total Local Assistance Expenditures	**$0**	**$8,000**	**$2,500**	**$2,500**	**$2,500**	**$2,500**
Total All Funds	**$0**	**$8,000**	**$2,500**	**$2,500**	**$2,500**	**$2,500**
Program Summary						
Program Funding						
2385019 - Energy Projects Evaluation and Assistance	0	8,000	2,500	2,500	2,500	2,500
Total All Programs	**$0**	**$8,000**	**$2,500**	**$2,500**	**$2,500**	**$2,500**

Analysis of Problem

A. Budget Request Summary

The California Energy Commission (Energy Commission) requests $8 million in federal fund expenditure authority in Fiscal Year (FY) 2016/17, and ongoing federal fund expenditure authority of $2.5 million in FY 2017/18 through FY 2026/27 to effectively implement both voluntary and mandatory programs to increase energy efficiency in existing buildings and conduct a competitive grant program to facilitate more effective use of local government knowledge and authority to promote and conduct energy efficiency improvements in existing buildings. This proposal also requests federal fund transfer authority to shift $5 million in Federal American Recovery and Reinvestment Act (ARRA) funds to further fund the Department of General Services (DGS) Energy Efficient State Property Revolving Fund loan program.

B. Background/History

The Energy Commission administered a $314.5 million portfolio of innovative energy efficiency and renewable energy pilot programs under ARRA. Through 2013, the State Energy Program (SEP) funds were authorized through Assembly Bill 262 (Bass, Chapter 227, Statutes of 2009) and Assembly Bill 11 (Evans, Chapter 11, Statutes of 2009). Funds were also awarded directly to the Energy Commission from the United States Department of Energy (US DOE) through a block grant. The market transformational portfolio of programs informed the development of the Existing Buildings Energy Efficiency (Action Plan) program in response to Assembly Bill 758 (Skinner, Chapter 470, Statutes of 2009) for achieving energy efficiency in existing residential and nonresidential buildings.

While ARRA ended in 2013, over $30 million of funds remain with sub-recipients who administer programs that continued past the ARRA time period, mainly revolving loan funds (RLFs) that continue to recirculate after loans are repaid and new loans are issued. The Energy Commission re-evaluated these programs and by means of this proposal, is making recommendations based on the underperformance of the remaining contracts/programs. The Energy Commission is requesting authority to repurpose the funds that are being underutilized for (1) the DGS Energy Efficient State Property Revolving Fund for cost-effective energy efficiency retrofits to state-owned buildings and (2) a competitive grant program to facilitate more effective use of local government knowledge and authority to promote and conduct energy efficiency improvements in existing buildings.

The California Rural Home Mortgage Finance Authority (CRHMFA) Homebuyers Fund (CHF) contract offered a successful finance program called the Moderate Income Sustainability Technology (MIST I) program, which was a below market interest rate (0-3 percent) RLF, and made over 1,000 loans to low-to-moderate income homeowners from 2010-2012, for comprehensive whole-house energy efficiency retrofits. Post ARRA, MIST I closed and MIST II was implemented, which is a loan loss reserve (LLR) model and has $300,000 available to cover losses associated with third-party market rate financing for single-family energy efficiency and renewable generation retrofits. MIST II has had little uptake due to ARRA requirements, competing funding sources, and other financing options.

Since the MIST I revolving loan fund program ended, servicing the ongoing MIST I loans and servicing the loan loss reserve for CHF must continue through 2027. Currently, CHF collects on average $240,000 per month in principal and interest payments, which is enough to cover the monthly loan servicing of $38/loan. A substantial surplus of repayments has accumulated from MIST I loans, and will continue to accumulate in future years until all remaining loans have been repaid through 2027. MIST I's RLF has approximately $13 million in available funds today, with additional principal and interest loan repayments being made monthly.

C. State Level Considerations

Repurposing and reinvesting these ARRA funds in both voluntary and mandatory programs to increase energy efficiency in existing buildings in support of the Existing Buildings Energy Efficiency Action Plan (Action Plan) strategies is an important component of:

- Implementation of Senate Bill 350 (DeLeõn, Chapter 547, Statutes 2015), which requires the Energy Commission, among other things, to establish targets and meet goals to double energy efficiency in buildings.

- Assembly Bill 802 (Williams, Chapter 590, Statutes 2015), which requires the Energy Commission, among other things, to implement a statewide benchmarking programs for nonresidential buildings; and repeals as of January 1, 2016, the Nonresidential Building Energy Use Disclosure Program authorized in Assembly Bill 1103 (Saldaña, Chapter 533, Statutes of 2007) and Assembly Bill 531 (Saldaña, Chapter 323, Statutes of 2009).

- Governor Brown's 2015 State-of-the-State address, which calls for doubling the efficiency of existing buildings by 2030.

- Executive Order B-18-12, which sets a target of zero net energy consumption for 50 percent of the square footage of existing state-owned buildings by 2025, and reduce greenhouse gas emissions by 20 percent by 2020 for state agencies.

- The AB 758 Existing Buildings Energy Efficiency program, which requires the Energy Commission, in collaboration with the California Public Utilities Commission (CPUC) and other stakeholders, to develop a comprehensive plan to achieve greater energy efficiency in the state's existing buildings. The Existing Buildings Energy Efficiency Program provides the impetus and direction for the Existing Buildings Energy Efficiency Action Plan and to implement radical improvements in the energy performance of existing buildings required to achieve California's energy and climate goals.

- The Nonresidential Building Energy Use Disclosure Program as authorized in Assembly Bill 1103 (Saldaña, Chapter 533, Statutes of 2007) and Assembly Bill 531 (Saldaña, Chapter 323, Statutes of 2009), which requires nonresidential building owners to benchmark and disclose general building information and energy usage data to prospective buyers, lessees, or lenders, and to the Energy Commission, using the United States Environmental Protection Agency's (US EPAs) ENERGY STAR Portfolio Manager. *AB 1103 program is repealed as of January 1, 2016, as authorized in AB 802.*

- The California Long-Term Energy Efficiency Strategic Plan (Strategic Plan), drafted in 2008 and updated in 2011, provides an overarching plan and "Big Bold Goals" to achieve California's energy efficiency and greenhouse gas reduction goals. The Strategic Plan was jointly developed by the CPUC and the Energy Commission and calls for reducing energy consumption in existing residential buildings by 40 percent by 2020, and reaching zero net energy in 50 percent of California's existing nonresidential buildings by 2030. It also advises moving away from a single-measure approach and toward a building-as-a-system approach to achieve deep energy savings. The Strategic Plan is currently being updated and the Existing Buildings Energy Efficiency Action Plan is intended to become the existing residential and nonresidential buildings strategy sections.

- The Energy Commission's Integrated Energy Policy Report (IEPR) provides a comprehensive assessment of essential energy issues in California along with recommendations for how to address market and regulatory challenges. In addition, the IEPR provides a forecast of energy supply and demand that is used as baseline planning data by key state agencies including the Energy Commission, CPUC, and the California Independent System Operator Corporation (CAISO). AB 758's Existing Buildings Energy Efficiency Program implementation findings will be incorporated into future IEPR reports.

D. Justification

The Energy Commission requests repurposing these ARRA funds to more effectively facilitate energy efficiency in existing buildings. To accomplish this, the Energy Commission needs federal fund expenditure authority to repurpose the funds for other activities that align with the original purpose of ARRA.

Analysis of Problem

The Energy Commission can use these funds more effectively by providing the DGS Energy Efficient State Property Revolving Fund with $5 million to fund additional cost-effective energy efficiency retrofits in existing state-owned buildings. Participating state agencies use the savings realized through the retrofits to service their debt to the Loan Fund. The DGS Energy Efficient State Property Revolving Loan Fund was created in 2009 with ARRA funds, and has a proven track record for funding cost-effective energy efficiency retrofits in state-owned buildings, such as lighting, HVAC, chillers, and boilers. This program is an example of making existing nonresidential buildings more energy efficient, saving the state money in reduced energy costs, and leading the private sector by example. Transfer language will be included in the Budget Act to provide a one-time transfer of $5 million from the Federal Trust Fund to the DGS Energy Efficiency State Property Revolving Fund.

The remaining funds ($8 million) would be used as a tool for motivating local governments across the state to effectively utilize their authority over the built environment, as well as their knowledge of their populations and economies, to motivate improvements in their existing building stock. This realignment of the Energy Commission's partnerships with local government reflects and promotes the goals of the Existing Buildings Energy Efficiency Action Plan: local governments have unique connections to their constituents and can effectively implement both voluntary and mandatory programs to increase existing building energy efficiency, not only in their own government buildings but also in the residential and nonresidential buildings in their communities.

During public workshops held in summer of 2015 to collect stakeholder feedback on the Action Plan, the Energy Commission received support from local entities, such as local governments, regional energy networks, and local government coalitions, for this effort. The CPUC also expressed support for efforts such as this which can fill gaps in ratepayer-funded programs (such as providing support for innovative local ordinances). Lack of reliable, consistent funding was recognized as the biggest challenge by local governments who want to pursue energy efficiency programs.

The competitive grant effort will provide continuity of the Energy Commission's longstanding work with local governments across the state. Impact of these repurposed ARRA funds will be optimized through two processes: first, a competitive grant process making awards to the most innovative jurisdictions, and second, smaller fixed grants to smaller, disadvantaged communities. In complementary ways, these grants will stimulate local government innovation and gather evidence of success needed for wider efficiency deployments, focusing on performance-based efficiency improvements. Grants will be structured to reward measured savings and can be spent on effective approaches to confirm project savings. Examples of possible project areas are:

- Aggressive efficiency retrofits for public buildings;
- Early implementation of nonresidential benchmarking programs;
- Innovation in building permitting and code enforcement systems;
- Data-driven, community-wide and/or regional energy planning;
- Audit/assessment requirements at specific trigger points (e.g., business license renewals); and
- Significant increase in projects and project flow for residential and small nonresidential retrofits with efforts such as:
    - Financing;
    - Incentives and incentive promotion;
    - Direct installs;
    - Bulk purchasing;
    - Energy advising;
    - Scoring, labeling, and certifying;
    - Workforce development and contractor engagement;

- Targeted outreach (e.g., to highest energy users);
- Energy action data tracking, aggregation, analysis, and reporting;
- Plug-in load and do-it-yourself assistance; and
- Auditing, benchmarking, and technical assistance.

The competitive grant effort will:

- Enable cities of all sizes to participate, and encourage geographic and demographic diversity. Proposal selection criteria will ensure inclusion of small cities and disadvantaged communities, while larger government organizations with more substantive internal resources are encouraged to invest in the most innovative solutions.
- Provide a special focus on lifting up disadvantaged communities with populations under 150,000 people through technical assistance and grant funding for citywide efficiency improvements consistent with Climate Action Plans or Energy Action Plans.
- Focus on new, innovative efficiency deployment models. Cities, counties, joint power authorities, metropolitan planning organizations, councils of governments, and other local government consortia will be eligible.

This effort reflects direct feedback from local governments. Going forward, the Energy Commission will continue to seek proposals for approaches that are consistent, scalable, beyond minimum code, and encourage measured energy efficiency gains.

E. Outcomes and Accountability

The Energy Commission will manage the contracts, programs, and the performance of the work under each effort, along with sub-recipients who will assist in program implementation and tracking. The US DOE also provides another layer of oversight on the programs by requiring quarterly reports to include financial and goal metrics. The Energy Commission's Efficiency Division conducts regular briefings of these programs to the Energy Commission's Executive Office and the assigned Lead Commissioner to these programs.

Outcomes specific to the project include:

- State agencies receiving loans for cost-effective energy efficiency retrofits will have lower energy bills, and help the state meet its energy and climate goals.
- Local governments facilitate programs resulting in significant increases in residential and nonresidential building energy efficiency retrofits.
- State and local governments demonstrate leadership by accomplishing deep energy retrofits in government buildings.
- Government partnerships result in effective methods to track and publish energy efficiency project results.
- Businesses, homeowners, property managers, and other decision-makers look to their governments for energy and water efficiency solutions.

F. Analysis of All Feasible Alternatives

1. Do nothing

   Pros:

   - The CHF loan loss reserve will stay active and will be available for homeowners to secure market rate energy efficiency loans.
   - One more loan program will be available to homeowners.

Cons:

- The CHF revolving loan fund will remain underutilized and continue to accumulate principal and interest repayments, and funds will not revolve into new loans.
- The loan loss reserve fund will continue to underperform as long as other programs with different funding sources and fewer requirements are available.
- Funds will be underutilized instead of actively promoting and conducting energy efficiency in existing buildings through other, more direct channels.

2. Reallocate funds for existing buildings energy efficiency programs such as these efforts

Pros:

- These programs align with the original intent of the ARRA funds – to cause energy efficiency in existing residential and nonresidential buildings, and create green jobs.
- These efforts support the Governor's energy efficiency goals, and the targets and goals established as part of SB 350.
- These programs implement both voluntary and mandatory programs to increase existing building energy efficiency, not only in state-owned and local government buildings, but also in other buildings in their communities.
- Further funds the successful DGS Energy Efficient State Property Revolving Fund with a proven track record of cost-effective energy efficiency retrofits in state-owned buildings.
- The competitive grant program stimulates local government innovation and gathers evidence of success needed for wider efficiency deployments, targets performance-based efficiency improvements, and focuses on supporting new innovative efficiency deployment models. The initiative enables cities of all sizes to participate and is designed for geographic and demographic diversity, as well as disadvantaged communities with populations under 150,000 people to be able to participate through technical assistance and grant funding for citywide efficiency improvements.

Cons:

- An available finance program for homeowners under CHF will no longer be available in the market.

G. Implementation Plan

For the DGS Energy Efficient State Property Revolving Fund, transfer $5 million from the Federal Trust Fund to DGS to add to their existing revolving loan fund for state agencies to implement cost-effective energy efficiency retrofits in existing state-owned buildings.

For the competitive grant program, the Energy Commission anticipates commencing the grant process in 2016. To implement the competitive grant program:

- An existing local government partner will administer the solicitation and grant processes, in partnership with the Energy Commission.
  - If this proposal is approved, a portion of the unused CHF funds, plus future loan reflows, will be used for funding.
  - The Energy Commission and program administrator will help local governments leverage all appropriate resources, such as Climate Action Plans, Energy Action Plans, CivicSpark, the Statewide Energy Efficiency Collaborative, Local Government Partnerships, and Regional Energy Networks.
- The Energy Commission will define eligibility criteria to assure local success, such as:

- Signed commitments from government leaders.
- Baseline building energy use data made available, or signed commitments from local utilities to provide such data.
- Project savings tracking mechanisms in place or in development.
- Proposed projects consistent with Climate Action Plans or Energy Action Plans.
- Other funds and/or technical support resources to be leveraged.
- Strategic implementation partners identified.
- Local proposals target specific community need (e.g., low-income housing, pre-1970 buildings).
- Community buildings to receive retrofits have been identified as having the highest opportunity for energy efficiency improvements.

H. Supplemental Information

The Energy Commission's final adopted Existing Building Energy Efficiency Action Plan (Action Plan) (September 2015) is available on the Energy Commission website and can be downloaded at the link given below. These initiatives are part of Goal 1: Proactive and Informed Government Leadership in Energy Efficiency.

The Action Plan provides the comprehensive framework envisioned to achieve Governor Brown's goal of doubling energy efficiency of existing buildings by 50 percent by 2030, and meet the targets and goals prescribed in SB 350.

http://www.energy.ca.gov/ab758/documents/index.html

I. Recommendation

Approve Energy Commission authority to repurpose funds from the CHF loan fund to fund (1) the DGS Energy Efficient State Property Revolving Fund, and (2) the competitive grant initiative in order to empower local governments by providing reliable, consistent funding to lead innovation for achieving more energy efficiency in existing buildings.

These programs are not new, but rather a new iteration of the Energy Commission's collaboration with and support of state and local governments. These efforts support the Governor's energy efficiency goals, and implement both voluntary and mandatory government programs to increase existing building energy efficiency. These efforts will stimulate government innovation while gathering evidence of success needed for wider efficiency deployments, including programs targeting performance-based efficiency improvements, and focusing on new innovative efficiency deployment models.