Sonoma County Efficiency Financing Program

Frequently Asked Questions

Q: Why is the SCEF program is unique among all other efficiency retrofit models?

A: Answer: There are multiple benefits to a school or city participating in the SCEF program.

1. **Working from a proven model.** The SCEF program takes advantage of the experience gained from the nationally recognized State of Delaware Sustainable Energy Bond completed last year. This program took two years to develop. If a school or city were to develop their own program, it would shoulder unnecessary costs of program design and implementation. The SCEF Program was created using the same group of experts that were involved in the successful Delaware program. The SCEF program documents are modeled on those that made the Delaware project successful, and will be recognizable and acceptable to lenders. The SCEF program also uses a Guaranteed Savings Agreement (GSA) that resulted from hundreds of hours of negotiations with ESCOs, and that contains terms favoring the host entity instead of the ESCO. By tapping into the experience of these nationally recognized experts, and by using proven, standard documents, the SCEF program allows a School or City to avoid significant effort and expense.

2. **Tailored to Local Needs for Benefit of Participants.** The Water Agency has refined the Delaware program to make SCEF responsive to the needs and characteristics of Sonoma County, in consultation with a host of stakeholders from municipalities, school districts, utilities, business and industry, and State agencies. The program benefits from this process of tailoring the Delaware program to meet local needs.

3. **Lower Cost Through Economies of Scale.** The SCEF program provides economies of scale. Since there will be more than one entity sharing program costs (that is, paying for bond counsel, the financial advisor, independent assessor of ESCO proposals, bond underwriter, etc.), program costs will be less than what a school or city would incur by itself. Even if a school or city could borrow at the same interest rate as the SCEF program, the True Interest Cost (TIC), i.e. the interest rate including all costs of issuance, would be much higher under a separate, individual municipal program than under the SCEF program.

4. **Flexibility to achieve deep retrofits.** Some other programs require that participants only access retrofits and upgrades that are eligible for utility rebates. Many potentially desirable measures do not qualify for rebates and are therefore excluded from these programs. The SCEF program encourages participants to look far beyond the typical “low hanging fruit” and access more significant measures and many of these are excluded from other programs.

5. **Freedom of choice of auditor.** Some other programs require that the local utility perform the audit which would exclude the opportunity to utilize a key factor of the SCEF program – the Guaranteed Savings Agreement, which is the cost savings guarantee.

The bottom line is that a school or city will benefit by participating in the SCEF program, by taking advantage of the considerable expertise of a team that has done this kind of program; a standard set of program documents already acceptable to lenders and ESCOs; a program refined to meet our specific local conditions and needs; and significant economies of scale.

Q: How is the SCEF program financing secured?

A: Participants will enter into a Payment Agreement, in which they will agree unconditionally to make payments on the financing, subject only to annual appropriations by the body that appropriates their budget each year. This promise to pay is the security for the financing from the perspective of the bondholder and the rating agencies. The participants will also enter into a Guaranteed Savings Agreement (GSA) in which the ESCO agrees to make the participant whole in the event that the dollar amount of energy and water savings expected under the program does not in fact materialize. The participant will look to the ESCO to reimburse the participant in the event that the debt service is greater than the savings realized as stipulated in the GSA based on the Investment Grade Energy Audit.
However, the participant will be wholly responsible for making payment on the financing subject only to appropriations, and the investor is only looking to that entity's pledge to pay.

Q: How are the efficiency upgrades funded?

A: The SCEF program will obtain financing through a collective debt issuance on behalf of the participants. The SCEF program will fund the cost of the school or city improvements to the ESCOs directly, and this debt will be paid back to the Program and the bondholders or creditor through the payments made by the participating school or city as described above.

Q: Can I install solar panels with the SCEF program?

A: Only fuel cells and CHP (combined heat and power) on-site power generation is included in the program.

Q: Will the SCEF program be available to private firms to use?

A: No. The SCEF program is only available to public and non-profit institutions as it is currently structured. As the program will be financed at non-taxable rates, only non-taxable entities can participate.

Q: If I go through the pre-contract audit, am I committed to participating in the program?

A: No. The purpose of the pre-contract audit is for the participant to determine if the scope of improvements and costs are suitable for them. It is only after the participants receive the results of the pre-contract audit will they determine if they want to move forward with the program or not.

Q: Can we choose any ESCO we want to perform the upgrades for this program?

A: A list of pre-qualified ESCOs has been formed based upon the company's ability and participants will be able to choose which ESCO they would like to work with.

Q: How are the provisions of the public contract code met?

A: The California Government Code contains special provisions exempting these kinds of energy retrofit projects from the usual public bidding requirements. The exemption is contained in the portion of the Government Code beginning at section 4217.10. The exemption requires that certain findings be made by your governing board and has certain notice and hearing requirements. You should consult with your agency's counsel about meeting the requirements for this exemption.

Q: Is this a performance contract program or a design/build contract program?

A: This program combines the best features of both. The Guaranteed Savings Agreement has all the usual features of a design/build contract: the program participant will own and operate the energy conservation measures that are installed, the agreement includes a well-defined scope, the participant will review design and control of disbursement of funds, and the conservation measures must pass acceptance tests. At the same time, the ESCO will guarantee energy savings that meet or exceed the installment or lease payments to be made by the participant under the program. The ESCO will conduct ongoing monitoring and verification for the life of the installment or lease payments, and pay for any shortfall in savings.

Q: Can we choose an ESCO outside of your pool?

A: The Water Agency screened potential ESCOs for their financial wherewithal and depth of experience to perform within the terms of the program. Many ESCOs were sent the RFQ and the RFQ was publicly available. Eight ESCOs submitted SOQs. All eight SOQs met the RFQ financial and experience requirements, and were ranked "excellent" by the Water Agency. Participants may use other ESCOs, but the SCEF program cannot endorse ESCOs that did not submit an SOQ and prove to meet our RFQ requirements.