

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company for Approval of 2013-2014 Energy Efficiency Programs and Budget (U39M).	Application 12-07-001 (Filed July 2, 2012)
Application of San Diego Gas & Electric Company (U902M) for Approval of Electric and Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014.	Application 12-07-002 (Filed July 2, 2012)
Application of Southern California Gas Company (U904G) for Approval of Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014.	Application 12-07-003 (Filed July 2, 2012)
Application of Southern California Edison Company (U338E) for Approval of Energy Efficiency and Demand Response Integrated Demand Side Management Programs and Budgets for 2013-2014.	Application 12-07-004 (Filed July 2, 2012)

**COMMENTS OF THE
LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION
ON PROPOSED DECISION IMPLEMENTING 2013-2014
ENERGY EFFICIENCY FINANCING PILOT PROGRAMS**

JODY S. LONDON
Jody London Consulting
P.O. Box 3629
Oakland, California 94609
Telephone: (510) 459-0667
E-mail: jody_london_consulting@earthlink.net

For THE LOCAL GOVERNMENT
SUSTAINABLE ENERGY COALITION

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ATTACHMENT B: DESCRIPTION OF SoCaIRENMULTIFAMILY FINANCING PROGRAMS

I. INTRODUCTION

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“CPUC” or “Commission”), the Local Government Sustainable Energy Coalition¹ (“LGSEC”) submits these comments on the Proposed Decision of ALJ Darling Implementing 2013-2014 Energy Efficiency Financing Pilot Programs (“Proposed Decision”).

The LGSEC restates its support of the Commission’s efforts to transform the energy efficiency marketplace through a centralized agency (referred to herein as the HUB) that will administer a portfolio of financing mechanisms responsive to the diversity and needs of the State’s energy consumers. We also recognize that the HUB is an equally promising and complex organization that, to be operationally and functionally successful, must still actualize a number of executive, fiscal, legal, regulatory, procurement, and structural requisites. A number of those still-open threshold elements are identified in the Proposed Decision, and the LGSEC will recommend others in its Opening Comments to follow.

At the same time, the LGSEC shares the Commission’s determination – repeated throughout the Proposed Decision – that all financing mechanisms must be deployed as soon as possible to obtain and track their performance data. Timely implementation and analysis of the impact of credit enhancements and other financing tools in the marketplace are also essential to development and optimal function of the HUB. Regional Energy Networks (“RENs”)² have submitted Program Implementation Plans (“PIPs”) proposing continuation of existing financing programs, and authorization of pilots that have been platformed over the past 18 months for rapid

¹ The LGSEC is a statewide membership organization of cities, counties, associations and councils of government, special districts, and non-profit organizations that support government entities. Each of these organizations may have different views on elements of these comments, which were approved by the LGSEC’s Board. A list of our members can be found at www.lgsec.org.

² For the 2013-2014 Energy Efficiency Program Cycle, two RENs have been recognized and funded: the Bay Area Regional Energy Network (or BayREN), and the Southern California Regional Energy Network (SoCalREN); herein referred to either collectively as RENs, or individually as the specific reference may require.

deployment and implementation. Santa Barbara County was also awarded 2013-2014 funding through Southern California Gas Company to continue and regionally expand its (formerly) residential financing program funded through the American Recovery and Reinvestment Act (“ARRA”).

The LGSEC applauds the Commission’s approval of certain REN and local government financing programs, and urges reconsideration and authorization of the BayREN Single Family Loan Loss Reserve (“LLR”) and the SoCalREN and Santa Barbara County Multifamily LLR in order to (1) ensure responsible, tangible, and data-driven demonstration of programs, and (2) advance the Commission’s financing goals for the 2013-2014 Energy Efficiency Transition Period. The REN programs were denied funding in the Proposed Decision with no explanation provided.

In addition, the LGSEC requests the Commission’s clarification that all eligible Energy Efficiency Measures (“EEEMs”) shall be eligible for financing under REN and other local government administered financing programs. Section 3.3 of the Proposed Decision appears to support this interpretation; an Ordering Paragraph directing this specifically for REN and local government ARRA financing programs would remove any question and mitigate further delays in existing programs. Given the need to transform the energy efficiency financing market, more flexibility for existing, operating financing programs is essential. This is also critical based on the LGSEC’s contention that the HUB will take longer than anticipated to become viable.

//. REQUISITES AND ADDITIONAL DEVELOPMENT ARE NECESSARY FOR THE HUB TO MEET GOALS AND BECOME OPERATIONAL

As noted above, the LGSEC supports the Commission’s assumption that a portfolio of financing mechanisms holds transformative promise for the marketplace, and that centralized oversight of a statewide financing program can provide unique efficiencies, consistency, and

reliability. We are not, however, confident that the HUB can be effectively launched in a timely fashion, due to a number of significant, unresolved requisites and necessary operational refinements, including:

A. *HUB Design Does Not Support Current Market Needs and Practices of Financial Institutions.*

The HUB may struggle to attract financing institutions (referred to herein as FIs or Lenders) and establish those necessary partnerships. Lenders take a conservative approach to the introduction of new loan products, based primarily upon universal factors that include projected loan volume and simplicity of loan enrollment and processing. Where loan products rely upon partnerships, FIs look for program continuity and certainty, optimal mitigation of risk to the FI, and a set of streamlined (but responsible) processes to govern operation of the partnership. As presently structured, the HUB does not yet meet the observed criteria of FIs for loan products partnerships:

1. *Program Continuity:* As currently envisioned, loan products can be discontinued and LLR funds can be retracted by the HUB at any time (particularly after Energy Efficiency Program cycles), and this injects a high level of risk into any FI partnership. Because LLR programs require FIs to invest a great deal of time and resource into developing products and processes, FIs will require some level of predictability and stability in order to determine whether such an investment will be profitable. Therefore, we recommend that LLR funds should be available beyond Energy Efficiency Program budget cycles, and should belong to the financing program on a long-term basis. This needs to be addressed in the agreements with FIs. The LGSEC recommends that LLR funds could be treated as they were by the U.S. Department of Energy under ARRA where the funds

would be considered “spent” as long as they are committed for intended purposes (i.e., “spent” reserve funds belong to the program administrator beyond the original ARRA agreement). Funds need not be held in perpetuity; for example, the funds could belong to the program as long as performance objectives are being met.

Further, not considering the funds “spent” means LLR funds may have to be returned to the CPUC - even after they are applied towards loans - if they are not used to cover lender losses resulting from defaults. This situation is very different than the LLR process established under ARRA and leads to substantial concerns and uncertainty with respect to the accounting and ownership of those funds and the role of administrator (either CAEATFA or So Cal Gas as Hub administrator, or REN and local governments as LLR administrator).

The issues raised above must also be addressed by the Commission for the ARRA financing programs currently funded for the 2013-14 Energy Efficiency Transition Period (the 2013-2014 Energy Efficiency Program). Barring further guidance, the IOUs have indicated that unallocated loan reserves must be returned at the end of the program cycle. This will effectively halt loan programs because no loans can be issued until the next program cycle funding. In addition, it has not even been made clear that loan reserves *committed to approved loans* will stay in the program as the loans are paid off. If indeed the HUB will take some time to implement, the ARRA programs should remain operating, uninterrupted, until they can be transitioned into the HUB.

2. *The HUB Design Does Not Provide Streamlined Processes and Documentation:*

A HUB model has been proposed to address standardization of performance data, centralized program administration, and competition in the marketplace, but its proposed structural and procedural design could discourage engagement of lenders and partners necessary to create a competitive landscape that optimizes the use of ratepayer dollars:

- a. The current HUB design promotes centralized activities for administrators, but actually creates a decentralized system for necessary partners. Lenders must engage different players for each program element, i.e., different contacts for loan processes (HUB), reservation and acquisition of reserves (HUB Account managers), availability of pooled credit enhancements (HUB or IOUs), data and performance reporting (multiple IOUs), contractor engagement (multiple partners), and marketing, outreach and education (multiple partners). This disaggregated partnership with Lenders may frustrate their ability to conduct a reasonable analysis or expectation of loan product demand and program costs, and have a chilling effect on interest by Lenders. Under ARRA programs, ALL of these functions are managed between two parties: the loan program manager and the lender.
- b. The HUB model does not permit lenders to hold funds, a benefit that served to attract FIs to local government LLR programs and allowed for simple, effective and timely processes for approving loans and loan reserves. Instead, the Proposed Decision recommends a “single credit enhancement pool for each pilot program made available to all pre-qualified FIs to draw down from on a first-come-first-served basis....” (see Proposed Decision, p. 15)
- c. Lenders are required to enter into a series of contractual relationships in order to implement a single loan product. This complexity can severely restrict Lender interest, and will increase fees and costs necessary to execute any formalized offering. These costs will be passed through to consumers.

3. *The proposed HUB model is costly and imposes numerous burdens on Lenders.*

As currently structured, Lender transactions with the HUB on any single loan requires more than half a dozen documentation processes, including four separate actions necessary to document any loss coverage reimbursement (a pre-

reservation action, reservation process at post-installation loan-closing, a debt service coverage attachment process in the event of delinquency, and a loss filing in the event of default). Also, each additional stage of loan enrollment processing - notification of loan approval, notification of LLR reservation, notification of closed loan, and notification of actual transfer of LLR to Operating Account - represents potential risk for lenders.

- a. Time Delays/Lags in Processing – The approval process requires multiple steps, and introduces multiple opportunities for delays that cut into lender’s 60-90 day pre-qualification period.
- b. Uncertainty of Administration – As noted above, CAEATFA’s ability to serve as the HUB Administrator is subject to legislative action. In the interim, Southern California Gas Company (Sempra) is directed to assume the duties of the HUB Administrator. It is unclear, however, whether limits to Sempra’s authority have been established, or if a process for mutual authority between CAEATFA and Sempra has been created to provide transparency and participation by CAEATFA over agreements and structures it will inherit. Lenders, as well as most market players, require certainty and stability in partnerships. For example, under the ARRA financing programs, it was discovered that IOUs (such as the Gas Company) could not (or would not) own or manage the various accounts that held unallocated and allocated loan reserves.
- c. Uncertainty of Lender Cash Flow – CAEATFA (or if CAEATFA is not legislatively authorized, the long-term HUB Administrator) may ultimately disapprove loans, LLR fund reservations, LLR fund requests, and debt service credit requests. More importantly, it is difficult for a statewide apparatus that is partnered with multiple Lenders to calculate fund balance and availability in real-time. Therefore, Lenders may be subject to risk of non-projected depletion of funds at any stage.
- d. Uncertainty of Other HUB Process – Processes are still being developed to address events of delinquency or default, and it is yet unresolved whether IOU processes will be uniform, or customized from IOU to IOU. Again, Lenders value systems that are streamlined, complete, and uniform. The LGSEC believes it is not practical to expect that lenders will be willing to create multiple products or multiple processes at different levels of an LLR enhancement.

- e. Handling Reserves in Publicly Owned Utility Territories – It is not clear how loan reserves will be allocated in split IOU/POU territories. Under ARRA programs, ARRA funds are being used to cover the POU LLR contribution for each loan (where a POU has not committed any reserves funding). Unless this practice is continued, the Commission must address whether loan products will have restricted access in POU territories. Also, it is expected that the IOUs, or the HUB, will create a notification mechanism to assure FIs, contractors, and others are put on notice as available credit enhancement funds are drawn down.
- f. Technology Challenges – the current model imposes unique requirements upon FIs, including internal system data security, design engineering, and data transfer protocols. Further, it is presumed that Lenders wishing to market loan products statewide would be compelled to enter into system data security agreements with each IOU and adopt each IOU’s data protocols, systems that are not likely to be identical among the four IOUs.³ The LGSEC expresses its concern that this requirement erects a number of significant market barriers to the competitive scenario envisioned under the HUB.
- g. Data Collection – Local program experience reveals that FIs are highly regulated in the areas of data and privacy. Reporting requirements should be carefully constructed to avoid placing impossible demands on FIs. For example, FIs may not be able to provide details regarding an individual’s financial information. ARRA financing programs typically use a unique identifier instead of personal information in order to attain information on each loan (underwriting information, loan attributes, installed project information). CAEATFA, as a government entity, may also have restrictions in place to assure private or confidential information is not retained or shared.

It should be noted that these are all issues that the ARRA financing program administrators dealt with in creating existing programs. For the most part, these issues have been resolved under the existing, operating program terms and conditions where a single program manager works with a single or multiple lenders under a single agreement.

³ In addition, the LGSEC notes, with much concern, that the financing network design in the Proposed Decision leaves only a marginal present role for local governments, and suggests an even lesser role in the future. This is inconsistent with the Commission’s recognition of local governments as effective and responsible implementers. In addition, the HUB further restricts data flow and reinforces the many significant challenges with access to data that presently hinder a number of local government activities, e.g., program design, program assessment and refinement, climate action plans, adaptation plans, energy action planning, etc.

B. *Additional Programmatic Certainty and Scheduling Variables.*

At present, there are additional unresolved fiscal, legal, regulatory, procurement, and operational requisites that are essential to launch and functionality of the HUB, including but not limited to:

1. Legal counsel must be procured to provide a Memorandum of Law that assesses whether program design is inconsistent with other State laws, e.g., real property and bankruptcy laws.
2. IOU database systems have not yet been re-engineered to manage loan repayment operations, partial payments, delinquencies, and defaults (local governments' experiences are that any change to an IOU IT system takes much longer than estimated).
3. Legal issues remain as to the character and nature of IOU on-bill repayment processes and the potential for other regulatory agencies to exercise some authority or control over this new role.
4. Procurement processes must be developed and conducted in connection with key program elements, e.g., master servicer, lease originator, and continuing financial/technical services.
5. The HUB will also rely on a series of carefully crafted agreements, some of which arguably must be developed in advance. For example, a standard form FI Partnership Agreement should be created in advance and made part of any FI procurement process. This provides clarity to Lenders and avoids post-procurement impasses that may arise in negotiation. In addition to standard contractual provisions, legal representatives will have to anticipate and provide for contingencies and risk mitigation measures unique to financing mechanisms

funded with ratepayer dollars, e.g., protections in the event of Lender breach, for both the HUB Administrator and ratepayers.

III. EXTENSION OF ARRA-INITIATED AND NEWLY-PROPOSED REN FINANCING OFFERINGS ARE IN THE BEST INTERESTS OF THE COMMISSION, RATEPAYERS AND THE STATE'S LONG-TERM ENERGY EFFICIENCY GOALS

It is vital to first acknowledge the deep appreciation of the RENs for the financing products supported and approved within D.12-11-015 and the Proposed Decision. Extension of successful financing programs initiated under ARRA (such as Los Angeles County's Single Family Residential LLR and Public Agency Master Lease Financing under the SoCalREN and Santa Barbara County's residential LLR), as well as 2013-2014 Energy Efficiency Program offerings (such as the BayREN's Multifamily Capital Advance Program), are dynamic examples of how financing tools lend momentum to uptake of energy efficiency portfolios. The parties are grateful for the Commission's support and are prepared to return that confidence with program performance.

As part of that undertaking, the parties respectfully ask for the Commission's reconsideration and approval of the SoCalREN Multifamily LLR, and the BayREN Single Family LLR, which have been similarly positioned for full, quickened starts, and are proposed to support single-family and multi-family upgrade pilots initiated under ARRA and continued under D.12-11-015. The LGSEC reaffirms the commitment of the RENs to maximize the performance and outputs of ratepayer funding, and to vigorously serve the Commission's primary interests in responsible *and* timely deployment of energy efficiency financing products, as well as data collection that will inform program improvements and expansions moving forward. We also respectfully submit that the RENs are uniquely positioned and structured to meet the finance program expectations and time-sensitivity of the 2013-2014 Energy Efficiency

Program, even as the HUB is developed.

A. The Local Government Program Record and Role in the Energy Efficiency Financing Proceeding.

The 2013-2014 Energy Efficiency Program was purposed by the Commission to serve as a testing ground for new pilots, innovative programs and products, and local government implementers, specifically the RENs. Local governments demonstrated during the 2010-2012 ARRA term a number of successful, innovative energy efficiency programs. Several involved lending institution partnerships stimulated performance of energy efficiency programs. Further, local governments demonstrated success in training and mentoring contractors, and harnessing the power of contractors to close energy efficiency transactions.⁴

B. Authorization of REN-Proposed Financing Programs Will Provide for Rapid Implementation and Data of Program Performance Throughout Development of the HUB, and Other Benefits.

REN Financing Programs, including the SoCalREN Multifamily LLR and the BayREN Single Family LLR, are poised for rapid implementation, prompt accumulation of energy savings, demonstrable performance data and comparative analysis, and the broadening of Lender relationships established and cultivated during and since the 2010-2012 ARRA-Funded Cycle. These assets and outcomes will provide critical resources for the full and comprehensive development of the HUB. REN-based programs (including the SoCalREN Multifamily LLR and the BayREN Single Family LLR) represent an uncommon suite of benefits and assets, including:

1. Local government background and experience with Lenders in support of various government operations, services, and programs.
2. Market-conscious loan terms and rates.

⁴ The Proposed Decision recognizes the crucial role of contractors (see p. 23), but assumes that Lenders will assume the responsibilities necessary to cultivate, organize, and direct contractor influence. Again, this is a presumption of which we are not convinced. Lenders are willing to engage, along with other duties outside their well-established business model.

3. Market-reasoned processes that combine public accountability with Lender convenience, e.g., Lenders are permitted to hold funds under tightly-controlled Escrow Deposit Accounts, with the ability to track funds and balances in real time.
4. Existing programs that have already expanded service to larger regions.
5. Ability to quickly expand to include additional EEEMs in the list of financing eligible measures, e.g., a HVAC Reactive Measure Financing Program developed by the SoCalREN which leverages IOU incentives is ready to be immediately implemented by the RENs and Santa Barbara County and is included as Attachment A.
6. Streamlined data system protocols and management.
7. Multiple layers of community relationships compatible with energy efficiency programs, e.g., the development and contractor sectors, community-based organizations, water districts and agencies that complement the energy nexus, and commercial, entrepreneurial, and economic institutions and stakeholders.
8. Ability to stimulate membership acquisition for local Lenders through local marketing and demand generation.
9. Organizational structures that provide Lenders direct and centralized response regarding all elements of energy efficiency programs, such as contractor enrollment, quality assurance/quality control, project status, and marketing, outreach and education. This model also stimulates greater confidence in projecting loan product demand and profitability.
10. Ability to foster full and comprehensive development of the HUB, and flexibility

to readily link with the HUB, once established.

C. *Program Performance is Hindered by Excising Key Financing Elements of REN Programs.*

The Proposed Decision summarily dismisses the LLR element of the SoCalREN Multifamily Program, although this is identified as a critical market sector and the RENs and local governments have demonstrated their capacity to develop and administer financing mechanisms and multifamily upgrade programs. More information about this program is provided in Attachment A. In the same sentence, the Proposed Decision similarly dismisses the LLR element of the BayREN Single Family Program, depriving the BayREN of long-developed, well-prepared, and positioned catalyst to its Single Family Program, for which RENs and local governments already have capacity and performance. The LGSEC does not understand the logic that calls for implementation of single- and multi-family upgrade programs while denying the timely deployment of financing mechanisms that can benefit those market sector property owners and stimulate more robust program outcomes.

D. *LGSEC Summary Recommendations for Adoption of REN and Local Government Continued and Proposed Financing Programs.*

For reasons set forth in these Opening Comments, the LGSEC respectfully requests:

1. Approval of the SoCalREN and Santa Barbara County Multifamily LLR. The SoCalREN Multifamily LLR supports the existing, successful Multifamily Upgrade Program which was created under ARRA and funded under D.12-11-015. It will operate nearly identically to the Single Family LLR Program with about 80% of the proposed budget to be used as loan reserves (the remainder for administration and program labor).
2. Approval of the BayREN Single Family LLR.
3. Statement declaring parity among IOU and REN/Local Government programs

regarding the ability to finance all Eligible EE Measures (EEEMs) and ability to incorporate non-EE measures necessary to “maximize the benefits of EE improvements.”⁵

4. In addition to 3. above (which clarifies EEEMs are financeable under REN and local government programs,), consider certain non-EEEMs as loan-eligible (e.g., single measure HVAC replacement only to code).
5. Allow the SoCalREN to allocate approved incentive funding toward multifamily and commercial building audits. This was proposed by the RENs in their PIPs and rejected, but appears to have been approved for other parties in the Proposed Decision.⁶
6. Direct the Energy Division to work with the RENs to develop comprehensive guidelines for LLR Programs (and to invite Santa Barbara County and other ARRA Financing Program administrators to participate in this process).
7. Consider and approve the Financing Program enhancements described under Section II.A.1 which resolves LLR funding continuity, accounting, and ownership issues across EE Program cycles and direct the IOUs to resolve these issues in their Agreements with ARRA financing program administrators before they expire.

IV. HOW RENS MIGHT COMPLEMENT AN OPERATIONAL HUB

The LGSEC respectfully suggests that there are substantive benefits to be realized through independent management of financing support programs by REN/Local Governments, in conjunction with the development of an established, fully viable HUB. This complementary

⁵ Proposed Decision Implementing 2013-2014 Energy Efficiency Financing Pilot Programs, pp. 20-21.

⁶ See Proposed Decision, p. 31.

approach provides ongoing supply for any initial market demand for financing prior to HUB operation, allows for additional lessons learned and performance data, and offers a well-founded basis for consideration of a transition of REN/Local Government LLRs to the HUB. It will also generate a substantive body of data that avoids prolonged delays and lugubrious processes involved in IOU-governed data, while still securing privacy and other interests of residential and non-residential consumers. Importantly, this model is not simply consistent with the Commission's recognition of local governments as innovators and implementers of effective energy efficiency programs, it enables RENs to meet the Commission's directive to demonstrate *value* in the 2013-2014 Energy Efficiency Program and prove *cost-effectiveness* in the succeeding cycle. This guarantees an environment for local government success that will only bolster and enrich the impact of the HUB as a transformative development in the State's energy efficiency arsenal.

V. CONCLUSION

The LGSEC vigorously supports the Commission's presumption that effective financing support mechanisms can reduce market barriers and improve performance of energy efficiency programs. Similarly, the LGSEC endorses a well-orchestrated, integrated statewide system for their administration, management, and/or oversight. The RENs, local governments, and the LGSEC share HUB objectives to generate better terms and rates for energy efficiency consumers, standardize data that demonstrate loan and program performance, establish responsible yet convenient borrowing processes that serve as magnets for both Lenders and consumers, and to protect and leverage ratepayer investments.

A statewide system is an ambitious, costly, and complex undertaking that, like energy efficiency financing modeling, has been and continues to be favorably-served through local government design and implementation of pilots. The RENs are prepared to launch responsible

financing pilots, originate savings, and accumulate the data necessary for the foundation of a strategically-effective and fiscally-prudent HUB. We urge the Commission to authorize REN pilots in their full and integrated form, and to support continued REN and local government contribution to the statewide energy efficiency financing programmatic objectives, including directing IOUs to clarify and improve the treatment of LLR funds awarded to both the HUB or REN/local LLR administrators and ensure the greatest chance for program success.

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Respectfully submitted,



Jody S. London
Jody London Consulting
P.O. Box 3629
Oakland, California 94609
Telephone: (510) 459-0667
E-mail: jody_london_consulting@earthlink.net

For THE LOCAL GOVERNMENT
SUSTAINABLE ENERGY COALITION

ATTACHMENT A:
DESCRIPTION OF SoCaIREN MULTIFAMILY FINANCING PROGRAM

This program supports the successful SoCaIREN Multifamily Upgrade Program which was developed using ARRA funding and was approved by the Commission under D.12-11-015. The availability of financing for multifamily upgrades is logically expected to increase participation.

The financing program will be developed and administered similar to the SoCaIREN single-family residential financing program. A solicitation for lenders is ready to be issued. Lender(s) will be qualified and selected. Loans and loan loss reserves will be processed between the lender and the program administrator (SoCaIREN).

Budget Details are provided below:

- Proposed Budget - \$1.5MM
- Administrative oversight and overhead - \$75K (5%)
- Program design, implementation, management, marketing and outreach - \$225K (15%)

LLR – \$1.2M (80%)