DEPARTMENT OF FINANCE
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Transmitted via e-mail

October 7, 2011

Mr. Robert Oglesby, Executive Director
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

Dear Mr. Oglesby:

Performance Audit—Review of State Energy Program Funded from the American Recovery and Reinvestment Act of 2009

At the request of the California Energy Commission (CEC), the Department of Finance, Office of State Audits and Evaluations (Finance), completed a review of the anticipated expenditure of funds awarded to CEC from the American Recovery and Reinvestment Act of 2009 (ARRA). The review's objective was to evaluate the ability of grantees and loan recipients to fully expend ARRA funds awarded for the State Energy Program (SEP) by the April 30, 2012 deadline.

Except as explained in the following paragraph, Finance conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. Finance is not independent of the audited entity, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this letter to rely on the information contained herein.

Results

While CEC is working to ensure the timely expenditure of all SEP ARRA funds by the deadline, there are programs and projects in jeopardy of not meeting that goal. We reviewed a total of 46 projects, of which, 7 projects are likely to be completed but not fully expend project funds (15 percent), and 14 projects are in jeopardy of not meeting the deadline and not fully expending project funds (30 percent). The 14 projects impact all programs reviewed.

Our results are based on the assessments and assumptions stated in this letter.

Background

The U.S. Department of Energy established an April 30, 2012 deadline for the expenditure of all SEP ARRA funds awarded to CEC. Anticipating that deadline, CEC asked Finance to provide an assessment of the likelihood that projects within SEP will meet completion dates and all allocated grant and loan funds will be reimbursed or drawn down, respectively.

Six separate programs are administered within SEP. The amounts shown below represent the allocated program totals provided by CEC:

1. Energy Conservation Assistance Act Revolving Loan Program ($25,000,000)
2. Clean Energy Business Financing Program ($30,600,000)
3. State Energy Efficient Property Revolving Loan Program ($25,000,000)
4. SEP 113 Energy Efficiency Retrofits Program ($113,000,000)
5. Green Jobs Workforce Training Program ($20,000,000)
6. Program Implementation (Administration) ($12,493,000)

In general, SEP is focused on increasing energy efficiency to reduce energy costs and consumption, cutting reliance on imported energy, and shrinking energy impacts on the environment. SEP takes a multi-faceted approach, with each program approaching the overall goal from a different perspective. For example, the Green Jobs Training Program provides training and entry-level skills for workers in the clean energy economy. Other programs provide loans or rebates, and target either residential or commercial consumers.

Nearly all expenditures are recorded when the grantee or loan recipient requests reimbursement. Funds were advanced to just two grantees and transferred to one state department through statute.

Scope and Methodology

Finance met with CEC contract managers for most projects in programs one through five above to gain an understanding of the programs and projects. Project files, project status reports, grant and loan agreements, and schedules of invoices were reviewed. Using a risk-based approach, 33 projects were identified as potentially at risk. Thirteen additional projects were also evaluated.

Assessment of Project Completion

To determine the likelihood that each project would be completed timely, a combination of the following procedures were performed and factors assessed, as appropriate to each specific project:

- Met with project managers and contractors at the local level (i.e. grantees and loan recipients).
- Reviewed the following to assess project completion feasibility and reasonableness:
    - Contracts were approved and signed
    - Purchase orders had been approved and placed
    - Schedules of anticipated delivery dates
    - Installation schedules
    - Numbers and rate of applicants
    - Numbers of approved applications to applications received
- Performed site visits.
- Assessed whether preparation work was progressing timely for equipment installation.
- Determined if federal compliance requirements were met:
    - Davis-Bacon Act prevailing wages
    - Buy America Bonds
    - National Environmental Protection Act
    - Waste Management Plan
    - State Historical Preservation Office

Assessment of Full Expenditure of SEP ARRA Funds

To determine the likelihood that all invoices, project status reports, and supporting documentation would be submitted timely so that grant and loan funds could be expended and drawn down by the deadline, the following assessments were made:

- Existence of an established process for invoicing
- Awareness of timeframe for timely reimbursement
- Availability of sufficient and knowledgeable staff

Limitations and Assumptions

This audit assessed the likelihood that the future events of projects being completed and remaining SEP ARRA funds expended timely, would occur. We relied on management's assertion that funds recorded as spent, were in fact, expended and performed no procedures to verify those expenditures. As a result, we also accepted management's assertion that certain projects were complete or nearly complete (based on recorded expenditures), eliminating those projects from our review. Our review also did not address management's disposition of the $7,313,358 difference between the allocated total ($226,093,000) and the total agreement amounts ($218,779,642).

To determine that a project would be completed timely, we used February 2012 as the last month for project work to be finished. In doing so, we assumed two months, March and April 2012, would provide grantees and loan recipients sufficient time to pay invoices, submit reimbursement requests, and receive grant funds or draw down loan funds.

It was assumed that all Program Implementation funds ($10,293,000) would be expended, as CEC works diligently to expend SEP ARRA funds appropriately and timely. No audit procedures were performed on this amount.

These limitations were agreed to by CEC because of the need to focus audit resources on project status at the local level.

Outstanding Unresolved Issue—Third-Party Administered Funds

On March 14, 2011, the U.S. Department of Energy (U.S. Energy) issued SEP Program Notice 10-008C, superseding SEP Program Notice 10-008B. In part, the notice provides that funds drawn down and administered by a third party are considered expended and should be reported as expenditures in the quarter the transfer occurs.

Hotline updates issued by the U.S. Energy's Office of the General Counsel on July 11, 2011 provided further guidance that as these programs provided sufficient leverage of private capital; all underlying loans need not be made by the deadline.

This guidance would impact the State Energy Efficient Property Revolving Loan Program, allowing CEC to record all allocated funds as expended. However, there is no consensus among U.S. Energy program and financing staff regarding the guidance. While quick resolution was proposed, this issue remains unresolved.

The following tables identify the audit results from each of the six SEP programs.

The following legend applies to the tables on the following pages:

Definition of Likelihood Column:

L: ARRA funds will likely be spent by April 30, 2012. Project is completed or is likely to be completed by April 30, 2012.

L1: Excess ARRA funds identified. Project is completed or is likely to be completed by April 30, 2012. However, project costs will probably come in under budget because actual costs were less than expected (e.g. low bids received from subcontractors). Our scope of work did not permit a determination of the excess amounts.

U: Not all ARRA funds will be spent by April 30, 2012. Project is unlikely to be completed and/or all objectives are unlikely to be met.

	Color = not selected for review.
	Color = CEC Contract Manager interviewed. Assessment based on information obtained and documents reviewed at CEC.
	Color = CEC Contract Manager interviewed and site visit conducted if warranted. Assessment based on information obtained at CEC and interviews with contractor and documents reviewed during site visit.

Energy Conservation Assistance Act

The Energy Conservation Assistance Act provides low interest financing for energy efficiency and energy generation projects. Eligible loan recipients include cities, counties, public care institutions, public hospitals, public schools/colleges, and special districts. CEC accepts loan applications on a first-come, first-serve basis for eligible energy projects from all eligible entities (source: energy.ca.gov). We interviewed CEC contract managers and reviewed pertinent documents for 20 of the 22 (90 percent) active loans.

Agreement Number/ Recipient Name	Agreement Amount	Likelihood	Comments
004-09-ECE-ARRA City of Los Angeles	$3,000,000	L	• Contracts are in place • Installation schedule reviewed and reasonable • Estimated completion date by December 2011
006-10-ECE County of Alameda	$3,000,000	L1	• Contracts are in place • Actual progress of project is greater than recorded expenditures indicate • Installation schedule reviewed and reasonable • County will likely not use all funding as actual energy savings are lower than estimated
008-09-ECE-ARRA City of Fairfield	$3,000,000	L1	• Contracts are in place • Actual progress of project is greater than recorded expenditures indicate • Contractors have reduced prices to obtain work, beating budget estimates
006-09-ECE-ARRA City of Chula Vista	$2,051,600	L1	• Reviewed purchase order/shipment invoice • Installation schedule reviewed and reasonable • Contract amount is less than loan amount due to a contingency that is not needed
020-09-ECE-ARRA Sonoma Valley Health Care District	$1,966,762	U	• No contract in place • Equipment not purchased • No installation schedule available
003-09-ECE-ARRA City of Carlsbad	$1,543,000	L1	• Project is complete • Site visit conducted June 2011 • Actual costs are less than contract amount
015-09-ECE-ARRA City of Monterey	$1,510,510	U	• No contract in place • Equipment not purchased • No installation schedule available
008-10-ECE-ARRA City of Clovis	$953,239	L	• Contracts are in place • Installation schedule reviewed and reasonable
002-09-ECE-ARRA Town of Hillsborough	$908,700	L	• Actual progress of project is greater than recorded expenditures indicate • Installation schedule reviewed and reasonable
005-09-ECE-ARRA City of Clovis	$867,200	L	• Contracts are in place • Actual progress of project is greater than recorded expenditures indicate
022-09-ECE-ARRA Butte Glenn Community College District	$766,231	L	• Contracts are in place • Actual progress of project is greater than recorded expenditures indicate • Installation schedule reviewed and reasonable
012-09-ECE-ARRA City of Dinuba	$611,334	L	• Contracts are in place • Installation schedule reviewed and reasonable
011-09-ECE-ARRA City of San Buenaventura	$500,000	U	• Prevailing wage documentation and certification still pending • No installation schedule available • Equipment not purchased
010-09-ECE-ARRA City of Grover Beach	$444,951	L	• Project is complete • CEC is waiting on retention invoice from the City
003-10-ECE-ARRA City of Duarte	$226,666	L	• Contracts are in place • Actual progress of project is greater than recorded expenditures indicate
013-09-ECE-ARRA McKinleyville Community Services District	$165,100	L	• Project is complete • All invoices received October 2010 • Compliance issue solved (Davis-Bacon Act) and expenditures should be recorded soon
002-10-ECE-ARRA City of Arroyo Grande	$158,156	L	• Contracts are in place • Installation schedule reviewed and reasonable
025-09-ECE-ARRA County of San Benito	$125,000	L	• Contracts are in place • Installation schedule reviewed and reasonable
009-10-ECE-ARRA City of Calimesa	$65,292		
023-09-ECE-ARRA City of Seaside	$59,404	L	• Contracts are in place • Installation schedule reviewed and reasonable
007-10-ECE-ARRA Town of Hillsborough	$37,812	L	• Recently approved loan for lighting upgrades and pump replacement • ARRA compliance requirements have been met • Preparing package for bid
027-09-ECE-ARRA City of Hollister	$30,868		
Total	**$21,991,825**		
Allocated Total	**$25,000,000**		

Clean Energy Business Financing Program

The Clean Energy Business Financing Program provides low interest financing for clean energy manufacturers seeking to build or expand clean energy manufacturing projects. Eligible loan recipients include clean energy manufacturers in multiple industries including wind, solar, etc. (only solar manufacturers have participated in the program) (source: energy.ca.gov). CEC accepted project applications for a one-month window and used criteria to rank applicants for participation in the loan program. Some factors used in ranking applicants included location of manufacturing site and impact of employment in region of manufacturing. There has been slow program start-up due to requests for proposals, pre-approval of all participants prior to award, and a long loan underwriting process due to the use of a third party loan underwriter. We interviewed CEC contract managers and reviewed pertinent documents for all seven (100 percent) recipients.

Agreement Number/ Recipient Name	Agreement Amount	Likelihood	Comments
002-10-CEB Stion Corporation	$5,000,000	L	• Prevailing wage documentation and certification still pending • All contracts in place • Planned draw down of all funds by September 2011
010-10-CEB SoloPower, Inc.	$4,997,169	L	• Prevailing wage documentation and certification still pending • All contracts in place • Planned draw down of all funds by September 2011
005-10-CEB Quantum Fuel Systems Technologies Worldwide, Inc.	$4,356,500	U	• Prevailing wage documentation and certification still pending • All contracts in place • Scope of project has been substantially reduced and will not require full loan amount • Management citied profitability concerns as reason for scale back of production plan • CEC seeking possible termination of award due to change of scope
006-10-CEB Energy Innovations, Inc.	$3,493,797	U	• Prevailing wage documentation and certification still pending • All contracts in place • All funds are at risk as management is disputing loan agreement clauses and will not draw funds if loan agreement is not modified
008-10-CEB Morgan Solar Inc.	$3,305,000	L	• Prevailing wage documentation and certification still pending • All contracts in place • Planned draw down of all funds by February 2012
009-10-CEB Solaria Corporation	$2,768,122	L	• Prevailing wage documentation and certification still pending • All contracts in place • Planned draw down of all funds by January 2012
600-09-011 California Business, Transportation and Housing (BTH)	$1,601,000	U	• BTH will not spend all funds • Documentation fees are projected to be under budget • Loan Service fees are projected to be under budget due to late start of loans • Loan Loss Account has not started and is projected to be under budget • Loan and tech support is projected to be under budget
Total	**$25,521,588**		
Allocated Total	**$30,600,000**		

State Energy Efficient Property Revolving Loan Program

The State Energy Efficient Property Revolving Loan Program and fund was established pursuant to California Public Resources Code section 25470, et seq. Twenty-five million dollars was transferred into the fund to be used for loans for projects in state-owned buildings and facilities that will improve long-term energy efficiency and increase energy use savings. The Department of General Services (DGS) administers the fund and program. DGS also serves as project manager for many, but not all, of the projects for a number of state departments. All loan amounts include a prudent contingency equal to 5 percent of construction costs. We interviewed CEC, DGS' contract managers, Department Project Managers, and reviewed pertinent documents for $14,104,988 of the $25,000,000 (56 percent).

Agreement Number/ Recipient Name	Agreement Amount	Likelihood	Comments
California Department of Corrections and Rehabilitation Loan 102	$4,108,998	L	• Projects will be completed • Project manager will work with CEC and DGS staff to expand scope of work and expend all loan monies, including contingency
Department of Developmental Services Sonoma Development Center Loan 120	$2,649,593	U	• Department management is uncertain of the safety of the project for its patients • Work is not progressing
California Technology Agency Loan 112	$2,299,562	L1	• Projects will be completed • May not draw down all loan funds with lower actual costs and not all contingency needed
California Department of Corrections and Rehabilitation Loan 124	$1,512,401	L	• Projects will be completed • Project manager will work with CEC and DGS staff to expand scope of work and expend all loan monies, including contingency
Department of Developmental Services Fairview Development Center Loan 120	$1,474,666	L	• Work is progressing • Installation schedule reviewed and reasonable • With scope enhancement, will likely use most/all contingency
Department of Developmental Services Porterville Development Center Loan 120	$817,171	L1	• All equipment is onsite • Contract is in place • Work not started, but installation schedule is reasonable • May not draw down all loan funds and unneeded contingency
Department of Mental Health Atascadero State Hospital Loan 108	$673,297	U	• Department management is uncertain of the energy savings • Work has not started
Department of Water Resources Bryte Maintenance Yard and Laboratory Loan 118	$439,647	U	• Project in process of scope change • Work is on hold, pending contract approval
Department of Water Resources Kelly Ridge-Lake Oroville Visitor Center Loan 118	$129,653	L1	• Project will be completed • Scope changed (reduced) • Not all loan funds will be drawn down

Total	**$14,104,988**[1]
Allocated Total	**$25,000,000**

[1] The remaining $10,895,012 ($25,000,000 - $14,104,988) includes 68 projects within 17 State Departments and DGS' administrative costs.

SEP 113 Energy Efficiency Retrofit Program

The SEP 113 Energy Efficient Retrofit Program (SEP 113) is designed to decrease California energy usage by retrofitting existing single- and multi-family residences and commercial buildings with energy efficient measures. Such measures would include light-emitting diode systems; wireless heating, ventilation, and air conditioning controls; refrigeration efficiency measures; insulation upgrades, etc. In addition to lowering the energy usage in California, SEP 113 was designed to create green technology jobs and bring emerging energy technologies to the market place. SEP 113 was designed to be a single-source program in which business owners, customers, vendors, and contractors can obtain all of the necessary information and resources to participate. We interviewed CEC contract managers and reviewed pertinent documents for eight of nine (89 percent) recipients.

Agreement Number/ Recipient Name	Agreement Amount	Likelihood	Comments
400-10-004 EUC - Local Government Commission (LGC)	$33,176,912	U	• A recent policy decision prevents the California Alternative Energy and Advanced Transportation Financing Authority from participating in the LGC program, funds will not be expended • With the abolishment of the California Redevelopment Agency-Los Angeles program, funds will not be expended
400-09-023 Sacramento Municipal Utility District	$19,969,421	U	• Single-family residence customers are not responding to program; participation is substantially less than originally estimated • Recently shifted market focus to multi-family residences; customer response/participation is weak • Compliance with Davis-Bacon Act requirement continues to slow the construction process
400-09-014 Portland Energy Conservation Inc. (PECI)	$18,808,717	L	• Administrative, implementation, training, and marketing expenditures are on track with estimates • A sufficient number of applicants are approved and waiting for installation • Based on current number of applicants and rate of installations, PECI will liquidate the entire grant by approximately November 2011
400-09-016 CRHMFA Homebuyers Fund	$16,500,001	L	• Target customers are responding well to program • Substantial progress is occurring with approved applications • Current rate of new loan applications being received will liquidate remaining funding
400-09-021 Association of Bay Area Governments	$10,750,000	U	• Funds allocated for rebates and incentives are at risk of not being liquidated • No rebates and incentives have been issued due to slow program start-up and lack of interested customers • Objectives to retrofit 11,250 single-family and 1,500 multi-family homes will likely not be met • As of 8/11/11, only 226 projects have been completed, with 158 projects in process • Funds allocated for workforce development tasks are at risk of not being liquidated • Contractor interest and participation may not meet anticipated numbers to ensure all projected costs will be met (e.g. funds allocated for contractor scholarships)
400-09-012 Cohen Ventures, Inc. (Energy Solutions)	$5,949,739	L	• Energy Solutions has more than enough active interest and participation from target customers to expend all available funding
400-09-011 Quantum Energy Services & Technologies, Inc. (QUEST)	$4,852,180	U	• Target customers are not responsive to new, emerging technology offered • Potential customers are restricted to small, geographic region severely limiting participation
400-09-019 San Francisco Mayor's Office of Housing	$2,993,029	U	• Program is focused on an untested, unproven market • Restrictive requirements limit the number of potential participants • No loans/projects have been completed • Majority of loans in "application" stage have not had an energy audit performed
400-09-032 City of Fresno	$1,899,899		
Total	**$114,899,898** [3]		
Allocated Total	**$113,000,000**		

[3] Total agreement amounts ($114,899,898) exceed the allocated amount ($113,000,000) due to funds being transferred from other ARRA state energy programs to SEP 113.

Green Jobs Workforce Training Program

The Green Jobs Workforce Training Program, or Clean Energy Workforce Training Program, provides training for hands-on green-collar jobs. These programs target retraining for unemployed or underemployed construction workers and entry-level skills for new workforce entrants in the clean energy economy. CEC has partnered with the Employment Development Department and the Employment Training Panel to provide grants for this training. We interviewed CEC contract managers and reviewed pertinent documents for both recipients.

Agreement Number/ Recipient Name	Agreement Amount	Likelihood	Comments
180-09-001 Employment Development Department (EDD)	$15,000,000	L	EDD has been more successful and CEC is in the process of amending the agreement to shift money from ETP to EDD to achieve full expenditure by the deadline
180-09-002 Employment Training Panel (ETP)	$5,000,000	L	As stated above, CEC is in the process of amending the agreement to shift money from ETP to EDD to achieve full expenditure by the deadline

Total	$20,000,000
Allocated Total	$20,000,000

Program Implementation

It was assumed CEC will expend all of SEP ARRA funds to administer and monitor the SEP program.

Agreement Number/ Recipient Name	Estimated Amount	Likelihood	Comments
Program Implementation (Administration)	$10,293,000		

Total	$10,293,000
Allocated Total	$12,493,000

This letter is intended for the use of CEC management to assist in identifying where additional actions are needed to ensure the timely expenditure of SEP ARRA funds by the April 30, 2012 deadline. As such, this letter is limited in its distribution.

We appreciated the assistance and cooperation of staff at CEC and the state departments and local entities whose projects were included in the audit. If you have any questions regarding this letter, please contact Susan Botkin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

cc: Mr. Mark Hutchison, Deputy Director, California Energy Commission

CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET
SACRAMENTO, CA 95814-5512
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September 16, 2011

Mr. David Botelho, CPA, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

Thank you for the Office of State Audits and Evaluations' (OSAE) September 8, 2011 letter assessing progress of the California Energy Commission's American Recovery and Reinvestment Act of 2009 (ARRA) State Energy Program (SEP). I want to acknowledge and thank OSAE for your responsiveness in assisting the Energy Commission's implementation of the ARRA SEP program. Your thorough review of project status will help ensure the expenditure of all funds by the April 30, 2012 federal deadline. The assessments provided by your audit team are extremely valuable and will help the Energy Commission identify projects most at risk so unused funds can be redirected to projects with demonstrated success. The following discussion responds to specific program assessments in your letter.

- **Outstanding Unresolved Issue – Third Party Administered Funds**
  OSAE accurately describes U.S. Department of Energy (DOE) written notice and General Counsel hotline guidance that third party administered funds are considered expended; however, OSAE concludes there is no consensus among U.S. Energy program and financing staff regarding guidance. Subsequent to DOE's written notice and hotline guidance, the Energy Commission has received written confirmation from our DOE Project Officer that such funds are considered expended upon transfer to the third party administrator.

- **Energy Conservation Assistance Act**
  Of the 20 Energy Conservation Assistance Act (ECAA) projects reviewed by OSAE, 13 were deemed complete or likely to complete on time; 4 were deemed complete or likely to complete under budget; and 3 were deemed unlikely to complete by the federal expenditure deadline. We agree with your assessment of the 3 most at risk projects. In response, Energy Commission project managers are communicating more frequently and in greater depth with these recipients. For example, the $1.5 million loan to the City of Monterey, which you assessed as unlikely to complete, has made progress, completing the bike trail lighting component and a payment of $182,400 has been processed.

  Energy Commission project managers have identified additional fallout from other projects and are in process of redirecting these funds to other ECAA ARRA ready loan projects. The Energy Commission is committed to ensuring that all fallout will be redirected to and fully used by these other projects by the April 30, 2012 federal deadline.

- **Clean Energy Business Financing Program**
  Of the 6 loans and 1 support contract reviewed by OSAE, 4 loans were deemed likely to complete, 2 loans unlikely to complete and the support contract is unlikely to complete

by the federal deadline. We agree with your assessment; however, Energy Commission project managers have worked closely with each borrower to resolve all outstanding issues. Subsequent to OSAE's assessment, one of the loans at risk is canceling. The majority of the $4.4 million fallout is being redirected to 2 other projects, increasing their total funding to the $5 million program cap.

The Energy Commission project manager has confirmed approximately $800,000 fallout from the support contract. Contract expenditures will complete under budget due to: 1) fewer loans than anticipated, producing reduced servicing fees; and 2) not establishing a loan loss reserve fund because of less demand than expected. The balance of these funds and the residual amount remaining from the 1 loan cancelation will be redirected to other ARRA SEP programs, ensuring expenditure by the April 30, 2012 federal deadline.

- **State Energy Efficient Property Revolving Loan Program**
  This revolving loan program is a third party loan program administered by the Department of General Services (DGS). As discussed earlier, third party revolving loan programs are considered expended by DOE and no funds are at risk of reverting to DOE. However, the Energy Commission agrees with OASE's assessment that 3 of the 9 program elements are at risk. The Energy Commission continues to work with DGS to address barriers impeding progress. Additionally, Energy Commission management has communicated its concern to the Governor's Office who has provided its support through direct contact with DGS. The Energy Commission will continue to work with DGS to accelerate the progress of these projects and the benefits to the state resulting from project completion.

- **SEP 113 Energy Efficiency Retrofit Program**
  OSAE's assessment identified 5 of the 9 projects as unlikely to complete by the federal deadline. We agree with the projects identified at risk. Energy Commission project managers are working closely with recipients to determine degree of risk and the amount of likely fallout. Discussions continue to identify any barriers that can be addressed to increase the level of success and amount of funds expended. However, there will be a material sum of funds that must be redirected to other successful activities within the agreements or redirected to other existing agreements or new programs.

Recognizing that some projects will be completed under budget and some may result in fallout, the Energy Commission has identified the following options to effectively redirect and expend these funds by the April 30, 2012 federal deadline.

1. **Transfer Funds to DGS State Building Revolving Loan Program** –If approved by the Governor, AB 1392 (Bradford) provides significant flexibility to reallocate funds for expanded energy efficient retrofits in state-owned building and facilities, reducing energy consumption and costs to the state. Most significant benefit is the ability to transfer funds up to the federal deadline, ensuring no funds revert back to DOE.

2. **Reallocation to Existing Successful Programs/Projects** – existing, ongoing programs and projects with demonstrated success will be considered for augmentation using fallout from other SEP programs and projects.

3. **Augment the Existing Local Government Commission Contract** - funds a loan loss reserve supporting energy efficient retrofits in residences and commercial buildings throughout the state. OSAE deemed this project at risk; however, Energy Commission staff have determined this project can successfully accommodate additional funds for a loan loss reserve account.

4. **Augment the Existing CRHMFA (California Rural Home Mortgage Finance Authority) Homebuyers Fund** – funds a whole house energy efficiency third party revolving loan program, serving rural communities.

The Energy Commission appreciates the valuable work performed by the OSAE staff. The results of the OSAE work provide a clearer roadmap for the Energy Commission to improve the monitoring and managing of our $226 million of SEP projects. The Energy Commission will continue its diligent efforts to efficiently and effectively manage its ARRA SEP funds, ensuring all projects are completed and all funds expended by the April 30, 2012 federal deadline.

Sincerely,

Original signed by:

Robert P. Oglesby
Executive Director