

Potential Economic Impacts of an AB 811 Program in the Sacramento Region

California Assembly Bill 811 (AB 811) creates a mechanism for financing energy efficiency and renewable energy property improvements and additions through long term loans at attractive rates that are fixed to the property. Residents and businesses can utilize the funding for a variety of property-based projects such as seals and insulation; windows and doors; HVAC systems; and solar electric systems. These types of projects have the potential to create a number of local benefits including reduced greenhouse gas emissions, increased property values, reduced peak utility demand, increased demand for energy efficiency- and renewable energy-related goods and services, and household and business cost savings.

The Green Capital Alliance (GCA) has been exploring options for AB 811 programs in the Sacramento Region (El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties). One current proposal is for a program that could support funding for *nearly 5,500 residential energy efficiency and renewable energy projects* for households in Sacramento County, according to Sacramento Municipal Utility District (SMUD) estimates. Two of the most straightforward *annual* economic benefits of this proposed AB 811-related program include:

1. *Jobs for property improvement and addition work*—completing the energy efficiency and renewable energy projects will support construction and installation jobs throughout the project period. SMUD estimates for the proposed program show that annual *project costs could total over \$109 million*. The related construction and installation activity will also create a ripple effect in the regional economy through linked suppliers of goods and services (e.g. insulation and solar panels) as well as employee spending (e.g. food and entertainment). These added benefits are known as indirect and induced effects, respectively.[†]
2. *Additional household consumption*—residents who undertake property improvements and additions will realize cost savings from reduced utility bills on an ongoing basis. After accounting for related loan payments, these cost savings will free up disposable income that can be used for additional consumption activities. Estimates from SMUD suggest that, on an annual average basis, households could see *net cost savings totaling nearly \$1.9 million*. The related spending could also create a ripple effect in the regional economy as the money is recirculated through indirect and induced benefits.

GCA engaged the Center for Strategic Economic Research (CSER), an economic research and consulting group affiliated with the Sacramento Area Commerce and Trade Organization (SACTO),[‡] to quantify the potential gross economic impacts of the above mentioned program resulting exclusively from the construction and installation activities and household spending. CSER utilized the IMPLAN input-output modeling system (with 2007 data parameters calibrated for the Sacramento Region) to calculate the indirect and induced impacts within the Sacramento Region based on assumptions of direct project costs and net cost savings developed by SMUD. It

[†] Even though the program focuses only on households in Sacramento County, it is appropriate to examine the indirect and induced effects in the broader regional economy (the six-county Sacramento Region) since a large amount of related construction and installation establishments, suppliers of goods and services, and consumer spending generally spreads beyond the County boundaries.

[‡] To learn more about CSER and its highly respected economic and demographic research services, visit www.strategiceconomicresearch.org.

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is important to note that this analysis is limited to only two economic elements—there are several other potential benefits that could result from an AB 811-related program that would be prudent to explore as the proposed program advances.

The work associated with residential property improvements and additions in the proposed AB 811-related program could support a total of approximately 710 jobs, \$171 million of output (total revenue from all sources of income), and \$30 million of employee compensation (inclusive of salaries and benefits) in the Sacramento Region economy, as shown in the table below. In addition, this work could also generate close to \$11 million of state and local taxes including sales, personal, and business taxes from all economic activity. These impacts, which include direct, indirect, and induced effects, would occur in the first year or two of the program and would end once the construction and installation work is complete.

The other economic impacts associated with the proposed program, additional household consumption from net cost savings, will occur on an ongoing basis as residents continue to experience the financial benefits of energy efficiency and renewable energy projects. As shown in the table below, on an annual basis, the related spending activity could support approximately 15 jobs, \$2 million of output, and \$542,000 of employee compensation in the regional economy.[§] State and local coffers could also benefit annually from over \$152,000 of tax generation.

Potential Annual Regional Economic Impacts of Proposed AB 811-Related Program				
Activity / Impact	Direct	Indirect	Induced	Total
Property Improvement & Addition Work (Short-Term)				
Employment	217	288	205	710
Output	\$109,000,000	\$36,473,726	\$25,221,783	\$170,695,509
Employee Compensation	\$10,334,750	\$11,887,885	\$7,512,263	\$29,734,898
State & Local Tax Generation	-	-	-	\$10,726,582
Household Consumption (Ongoing)				
Employment	10	3	2	15
Output	\$1,153,402	\$363,917	\$297,044	\$1,814,363
Employee Compensation	\$344,274	\$108,941	\$88,476	\$541,691
State & Local Tax Generation	-	-	-	\$152,428

Center for Strategic Economic Research, September 2009
 Data Sources: IMPLAN, 2007 Sacramento Region data parameters based on SMUD estimates
 Note: Differences due to rounding.

Overall, it is probable that the proposed AB 811-related program will generate a notable level of economic impacts both in the short-term and on an ongoing basis. Nearly every industry sector in the Sacramento Region could benefit in some way from the indirect and induced impacts associated with the construction and installation work and additional household consumption. The direct economic benefits examined in this analysis accrue to construction and installation establishments and households, but the associated ripple effect spreads these benefits throughout the regional economy, creating additional jobs, output, compensation, and tax generation capacity.

[§] Nearly \$701,000 of additional output could leak out of the regional economy on an annual basis through demand for goods and services outside the Sacramento Region as well as payments received by institutions inside and outside the Region that do not generate direct economic activity.