Memo

City of Kelowna

Date: April 6, 2011

File: 0280-40

To: City Manager

From: George King, Revenue Manager

Subject: Local Improvement Charge Financing for Energy Efficiency and Renewable Energy Improvements

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Recommendation:

THAT Council receives, for information, the Report from the Revenue Manager, dated April 6, 2011 regarding local improvement charge financing for energy efficiency and renewable energy improvements;

AND THAT Council directs staff not to pursue this type of property tax financing at this time.

Purpose:

In response to service request # 148879 which Council has directed staff to examine the possibility of allowing property owners to finance energy efficiency and renewable energy improvements to their homes with local improvement charges (LICs). Landowners who benefit from the improvements will have the LIC added to their property taxes each year until their share of the improvements is paid for.

Background:

Municipalities typically use LICs to help cover the costs of infrastructure investments that benefit a specific neighborhood, for example storm drainage and sidewalks. Using LICs for energy efficiency and renewable energy improvements is a new application in line with widespread interest in reducing greenhouse gas[1] emissions[2]. In the United States[3], these programs are often called Property Assessed Clean Energy (PACE) programs[4].

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[1] The City of Kelowna's greenhouse gas emissions target is 33% by 2020.

[2] The province of British Columbia has committed to reducing total provincial emissions to 6% below 2007 levels by 2012, 33% below 2007 levels by 2020, and 80% below 2007 levels by 2050.

[3] In July 2008, the California Legislature approved Assembly Bill No. 811, which granted all California municipalities the ability to create special districts in which residents or businesses can access loans for renewable or energy efficiency projects. For the complete bill, please see: http://info.sen.ca.gov/pub/07-08/bill/asm/ab_0801-0850/ab_811_bill_20080721_chaptered.pdf

[4] PACE programs in the United States have been suspended following a letter from the Federal Housing and Finance Agency on July 5, 2010. The letter indicates that Federal Housing Financing Agency (FHFA) will not back any mortgages on properties participating in any PACE program. Until this matter is resolved, all PACE programs in the United States have been suspended.

➢ Advantages of Municipal LIC Financing Model[5]

Municipal LIC financing model has three key advantages for participants over other financing options:

Longer repayment period: Municipal LIC Financing offers a longer term of up to 20 years, compared to the standard 5 to 7 years of many utility financing programs and conventional loans, thus allowing participants to do more comprehensive work and more closely match their payments with the energy savings.

Repayment transfers with ownership: Many property owners do not want to invest in energy efficiency or solar energy improvements if they plan to sell their property in a few years. Municipal LIC financing allow the current owner to invest today, knowing that the repayments and the financed improvements will transfer to the new owner if he or she decided to sell the property.

Low interest rates: Low rates may be available due to the lower interest on municipal bonds and other sources of financing to local governments.

➢ Limitations of Municipal LIC Financing Model

There are certain limitations Council should recognize that may prevent or impair the programs viability:

Program available to property owners: This program is available only to property owners; renters cannot access this program directly. The main issue is split incentives – the owner would need to invest in the improvements but tenants generally pay the utility bills.

Expected life of the installed improvement: The limitation here is that the expected life of the installed improvements must be at least as long as the repayment period and be attached to the property. Thus, when a property changes hands, the new owner will continue receiving energy generation or savings.

Demand for the program: Despite the potential for reducing energy consumption in buildings, a wide range of barriers limit investment in building energy efficiency. Some of these barriers are:

- Lack of Information: Many property owners do not know how to implement energy efficiency or solar energy, and may not understand the benefits of a project.
- Uncertainty of savings: Property owners may not trust that the improvements will save them money or have the other benefits claimed.
- Split incentives: Split incentives occur when the decision-maker does not receive many of the benefits of the improvements. An example is the case of

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[5] The City of Berkeley, California have developed a Guide to Energy Efficiency & Renewable Energy Financing Districts for local governments

rental property owners who lack incentives to invest in building efficiency upgrades when the tenant pays the utility bill.

- Transaction costs: The time and effort required to get enough information to make a decision, apply for financing, and arrange for the work to be done may simply not be perceived as worth the return in energy savings and other benefits.
- Capital Investment: While the property owner may be able to amortize the initial cost over many years, they may choose to make other higher-priority investments.
- Length of paybacks: Homeowners may not want to invest in comprehensive retrofits if they do not plan to stay in the building long enough to recoup their investment.

Authority for Energy Financing through LIC: According to a legal opinion produced by *Lidstone, Young, Anderson* for the District of Central Saanich in 2007, local improvement charges can be used to support investments in energy efficiency and renewable energy. This has proved to be a controversial legal opinion; staff from the Ministry of Community, Sport and Cultural Development (MCSCD) have indicated that their interpretation of the Community Charter does not give local governments the jurisdiction to use LICs to finance energy efficiency and renewable energy on individual buildings[6].

Conclusion

The above advantages make Municipal LIC Financing an attractive option for property owners; nevertheless there are definite hurdles to overcome before such a program will become a viable option for taxpayers. Questions like those listed below have motivated staff to recommend that Council not pursue this type of property tax financing at this time:

1. Is there research currently underway in B.C. which could help better understand possible financing options? Currently the Pembina Institute is completing research for BC Hydro about the potential of Local improvement charges to finance energy efficiency and renewable energy in B.C. When released, this document is intended to facilitate conversation between the provincial government, local governments and key stakeholders by outlining key differences between the different kinds of innovative financing options.
2. What legislative or regulatory changes are necessary to implement a LIC Financing Model? This type of financing has not been used in B.C. for energy efficiency and renewable energy upgrades on individual properties as there are dissenting opinions as to if it is permitted under the Community Charter.

[6] Draft: Financing Energy Efficiency And Renewable Energy report to be released in 2011. Research by Pembina Institute for BC Hydro

3. Are there other financing options that have similar characteristics to LIC financing? On-Meter financing[7] is currently being explored as it has the same advantages as LIC financing.

4. What are the liabilities created by the LIC financing Model? Additional research is required to articulate the liability for the following entities: property-owners, program administrators (i.e., local governments), provincial government, and the providers of program capital.

5. What are the current and projected future demands for a LIC program? Prior to investing time and energy into developing a program for Kelowna property owners to use, it would be important to determine current and projected future demand, as the administration fees may push the cost of Municipal LIC Financing above conventional options such as a home equity loan or second mortgage.

6. What are the initial costs estimates if Council were to proceed with exploring further the LIC Financing Model? If Municipalities could overcome question # 2 (legislation Issue) it would take approximately one year to implement at an initial cost estimate of $71,724. Changes to the timeline and cost estimate may need to be considered at step 4 when Council reaffirms its support in the program (See Appendix A).

Internal Circulation:

Don Degen, Utilities Manager
Signe Bagh, Director, Policy & Planning
Tracy Guidi, Sustainability Coordinator
Michelle Kam, Sustainability Coordinator

Existing Policy:

The following are excerpts from the current 2020 OCP policy:

✓ Section: 7.6.1 Greenhouse Gas Emissions. The City of Kelowna will, in partnership with: senior governments; local residents and businesses; NGOs; external agencies; and utility providers, work towards reducing community greenhouse gas emissions by 33% by 2020. The City of Kelowna's efforts will be focused on creating more mixed-use neighbourhoods (as identified on the OCP Future Land Use map) and on ensuring that residents can conveniently and safely travel by bus or by foot, bicycle and other forms of active transportation to get to major community destinations while ensuring the efficient movement of goods and services. The City will support the reduced use of fossil fuels in buildings by encouraging renewable energy supplies, district energy systems and energy efficient technologies in new and existing buildings. By working with senior government partners, regulated utilities and others, the City will lead through example and strive to meet the BC Climate Action Charter targets for the reduction of GHG emissions from municipal infrastructure."

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[7] With this type of program, the loan is tied to the energy meter (rather than to the individual utility customer), and therefore stays with the residence if the customer moves prior to paying back the full loan. Under existing B.C. Legislation, on-meter financing that is transferable upon change of ownership is not currently permitted.

✓ Section: 7.7.2 Energy Management Committee. Continue to encourage energy conservation and actively pursue corporate and community energy use reduction opportunities through the Energy Management Committee.

Considerations not applicable to this report:

Financial/Budgetary Considerations:
Legal/Statutory Authority:
~~**Internal Circulation:**~~
Legal/Statutory Authority:
Legal/Statutory Procedural Requirements:
~~**Existing Policy:**~~
Personnel Implications:
External Agency/Public Comments:
Community & Media Relations Comments:
Alternate Recommendation:

Submitted by:

George King

G. King, CMA, Revenue Manager

Approved for inclusion: KG K. Grayston, Director, Financial Services

cc: General Manager, Corporate Sustainability

APPENDIX A

City staff have provided this timeline and cost estimate for **reference only** as staff from the Ministry of Community, Sport and Cultural Development (MCSCD) have already indicated that their interpretation of the Community Charter does not give local governments the jurisdiction to use LICs to finance energy efficiency and renewable energy on individual buildings.
In order to pursue Municipal LIC Financing Model, the following timeline and initial start up cost estimate[8] of $71,724 (detailed at end of document) would need to be approved through the budget process:

- **Summary Timeline**

Step Description	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
1 - Outlining Preliminary Scope												
2 - Developing Draft Bylaw												
3 - Refining Scope and Design												
4 - Reaffirming Council Support												
5 - Developing Monitoring Program												
6 - Developing Communications												
7 - Training Contractors and Advisors												
8 - Approving Ongoing Budget												
9 - Launching Program												

[8] In 2009, the City of Dawson Creek designed a pilot to test the use of local improvement charges for energy efficiency and renewable energy; however, this pilot was not implemented. The following "Summary Timeline" and initial "Cost of Program" are excerpts from the pilot.

- Step Descriptions

1. ***Outlining preliminary scope:*** Prior to beginning detailed discussions regarding program design, city staff and council will conduct a preliminary scoping exercise to define a rough budget, types of projects the city would like to support, conduct a survey to determine demand and identify partners that the community wants to work with (Example of partners: BC Hydro, Pembina Institute)

2. ***Developing draft bylaw:*** Assuming changes to provincial legislation allowing LIC financing are possible, city staff would prepare a draft bylaw to be reviewed by the staff from the Ministry of Community, Sport and Cultural Development (MCSCD) to ensure it meets with the intent of the new regulations.

   The process of developing the draft bylaw may raise other legal concerns that will be addressed in due course. See conclusion: Question # 4

3. ***Refining scope and design:*** This step will be one of the most significant in the process. A detailed design of City of Kelowna program will be created. Important questions to address include the types of improvements that will be supported, the available loans and repayment terms, how the City will handle program administration, and how the program will mesh with incentive programs that could serve to further encourage homeowners and developers.

4. ***Reaffirming council support:*** Once the program scope and design have been refined in September, council will be asked to reaffirm their support for the project.

5. ***Developing a monitoring program:*** A monitoring program will be developed so that the City and its partners can understand how effective the program is at encouraging renewable energy and energy efficiency improvements, and how effective those improvements are at reducing greenhouse gas emissions.

6. ***Developing communications:*** Considerable effort from a broad set of partners will be needed to develop this program. It will be critical to have a sound communications plan in place so that those efforts are rewarded. Communications tools will be developed to reach local homeowners and developers, and also to reach other communities that may be interested in City of Kelowna's experience.

7. ***Training contractors and energy advisors:*** To ensure that the program is successful once launched an adequate number of trained contractors and energy advisors will be critical. The capacity of current contractors and energy advisors to handle the expected work and to develop training plans as needed would be assessed.

8. ***Approving budget:*** The finalized program design and associated ongoing budget requirements would be considered by council for inclusion in the city budget.

9. ***Launching Municipal LIC Financing program:*** The program would be launched at the start of the 2012 budget. The monitoring program will also commence at that time and communications efforts will commence earlier in 2012. Residents should be advised on the expected costs and savings if they install efficiency measures or renewable energy under the program. The program should be rolled out with as much detail as possible about the cost of financing and availability of funds.

➢ Start Up Cost of Program

At this point city staff used costs obtained from a project report prepared by Dawson Creek (Attached). Based on this report and internal staffing requirements, the initial costs are estimated to be $71,724 which would need to be approved through the budget process:

Description	**Cost**
Consultant-The Pembina Institute	$17,750
City Staff Requirement: Accountant (6 month:68,568 x0.5FTE)	$34,284
Community engagement, communications strategy, monitoring program & update documentation	$19,690