




CITY OF COLUMBIA, MISSOURI

WATER AND LIGHT DEPARTMENT

COLUMBIA TERMINAL RAILROAD

MEMORANDUM

TO: Water and Light Advisory Board

FROM: Tad A. Johnsen, Director, Water and Light 

DATE: January 28, 2013

SUBJECT: Energy Efficiency Financing

Water and Light's Utility Services Division is tasked with overseeing the energy efficiency programs as well as finding the mechanism or services for customers to be engaged in the programs. There are many factors that determine whether or not a customer will participate in a program and it varies by customer sectors. Columbia's large percentage of rental property has presented some obstacles for implementation. The ongoing disconnect between the owner of the building paying for the improvements or the tenant paying the reduced energy bills is one of these obstacles. The Home Performance with Energy Star loan program has been a great tool for getting customer participation. However, the majority of the loan recipients are property owner occupied structures. A few landlords have taken advantage of the Water & Light loans to make improvements in their rental properties, but those numbers are relatively small. Staff has researched two programs that would complement the current loan program.

The first program is Property Assessed Clean Energy (PACE) and the second program concept is Rental Energy Efficiency Loan (REEL). PACE was discussed at a Water and Light Board meeting over a year ago. PACE allows property owners to enter into a special assessment contract in exchange for financing of a qualified improvement. The special assessment constitutes a lien on the property in question and will be collected in the same manner and priority as ad valorem property taxes. In July, 2010 the Missouri legislature enacted the "Property Assessed Clean Energy Act." The act allows municipalities (county, city, or incorporated town or village) to create or participate in Clean Energy Development Boards, which in turn are permitted to develop local PACE programs to finance energy efficiency improvements or renewable energy improvements.

In 2011, the Mid Missouri Clean Energy Board was formed in Jefferson City, Cole County, Missouri. Recent conversations with the board representatives have prompted further investigation of the program and its benefits. The PACE law is in general very broad and permissive in terms of how these entities may define their programs. Energy efficiency improvements include but are not limited to HVAC measures, building and equipment insulation, energy recovery systems, energy controls, caulking and weather-stripping, efficient lighting, day lighting, and certain windows and doors. Renewable energy improvements include but are not

limited to solar photovoltaic's (PV), solar thermal, wind, biomass, and geothermal energy systems.

Improvements must have a positive economic benefit over the term of the financing contract and contracts are limited to 20 years in length. In order to participate in a program, property owners will enter into a special assessment contract with a clean energy development board where the property owner agrees to pay a special assessment in exchange for financing of a qualified improvement. The special assessment constitutes a lien on the property in question and will be collected in the same manner and with the same priority as property taxes.

Clean energy development boards are invested with a variety of powers. As follows the general PACE model, the board is permitted to enter into assessment contracts with property owners and levy and collect special assessments under an assessment contract. A clean energy development board is also permitted to issue bonds or borrow money from any other private or public source. A board may also specify application and qualification criteria necessary to administer a program, including minimum energy efficiency standards, energy audits, and post-installation verification requirements.

The residential PACE as stated above is currently suspended in the residential markets due to concerns raised by Federal Housing Financing Agency. However, the commercial sector is not subject to these same concerns. PACE would work well with this target sector. Commercial properties are typically the most difficult to reach in terms of creating energy efficiency. The "triple net leases" which exist between the landlord and the tenant, require that the tenants make the improvements such as lighting, HVAC, etc. The owner of the property is usually is not willing to make an investment due to length of lease agreement and the tenant may not get their Return on Investment due to the length of lease. With the opportunity to extend the payment of the improvements over a 20-year period and be assessed on a tax bill, landlords have a new mechanism to increase the value of their property's energy efficiency.

Several tasks must be completed before PACE can be implemented in Columbia. First, the Mid Missouri Clean Energy Board and all participating entities (City of Columbia, Boone county officials) must meet and discuss the relationships to be established, criteria for projects, how the assessment fees are collected and the interface between the county and the Clean Energy Development Board.

Once all parties are in agreement, the City of Columbia must pass an ordinance enabling Columbia to become a member of the Mid Missouri Clean Energy Board. There are no membership fees or dues.

The second program researched is the Rental Energy Efficiency Loan program. This model has shown good participation levels for rental property owners in other communities. The program model allows the energy efficiency loan repayment to be tied to the meter/ tenants. The monthly payments established are equal to or lower than the savings seen from the improvements. This loan program could be offered in concert with the existing loan following all of the same parameters of the Home Performance with Energy Star Loan program. The energy assessment

would serve as the estimate used to determine the energy savings and the repayment schedule/costs. Loans made for the cost effective measures would be secured by a lien on the property but repaid by the tenants through their monthly utility bill. This arrangement could prove beneficial to residential and commercial property tenants alike.

Potential Parameters for Rental Energy Efficiency Loans (residential & commercial)

- An assessment by a Columbia Water & Light certified contractor would be required
- Approval of the loan would be based on the landlord's and tenant's bill payment history
- The landlord would be eligible for any applicable rebates
- The same improvements covered under the HPwES rebate/ loan program or the commercial rebate/loan programs would be covered although they must meet the cost savings parameters.
 - COST - MONTHLY PAYMENTS: measure costs less than 3/4 of estimated annual savings
 - PAYBACK PERIOD: needs to be established based on the retrofit measure to be incorporated
- Utility will provide sample language for the landlord's lease explaining the loan payments on the utility bill
- Payments for the loan would be tied to the customer's meter. Payments made by the customer would be applied to the utility bill first and then to the loan.
- Delinquent loan payments would be subject to the normal non-payment disconnect procedures established by the Finance Department's Utility Customer Service Office.
- If the rental property is vacant for more than one billing period, the landlord will be charged the loan payment until the building is leased again.
- The loan must be paid off before the property is sold. (or transfer to new owner)

These parameters are provided as discussion points and may change as the program is developed. A couple of necessary steps before implementing the program are: discussions with the IT and Finance departments to verify that the current and the future billing systems will be able to include the loan payments, handle non-payment issues and process the loan payment charges when a tenant moves (landlord reversion ordinance changes).

This report is for information only.