





Office of the City Manager

CONSENT CALENDAR
April 22, 2008

To:  Honorable Mayor and Members of the City Council
From:  Phil Kamlarz, City Manager
Submitted by: Dan Marks, Director, Planning Department
Subject: Revenue Contracts: Sustainable Energy Financing District

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to execute revenue contracts and any amendments with a) the Bay Area Air Quality Management District for the approximate period May 1, 2008 through December 31, 2009 in the amount of \$75,000 and b) the US Environmental Protection Agency for the approximate period May 1, 2008 through April 31, 2010 in the amount of \$115,000 for the development of a Sustainable Energy Financing District program (aka, Berkeley FIRST [Financing Initiative for Renewable and Solar Technology]).

SUMMARY

This item authorizes the City to accept grants from the Bay Area Air Quality Management District (BAAQMD) and the US Environmental Protection Agency (EPA). The purpose of the grants is to develop a program that would enable the City to assist private property owners to finance improvements in building energy efficiency and the installation of solar electric and solar thermal systems, pursuant to Council approval of the concept on November 6, 2007.

These grants will fully fund the two-phase launch of the Berkeley FIRST (Financing Initiative for Renewable and Solar Technology) project. The scope includes developing all the necessary components of the program, running a Phase I pilot that is likely to involve at least 25 residential properties, and depending on the outcome of that pilot, a larger scale Phase II demonstration project involving approximately 75 residential and 25 commercial properties and producing a program evaluation and a replication guide.

This scope is part of a broader program funded by an existing grant from the US Department of Energy and supported by UC Berkeley's Renewable and Appropriate Energy Laboratory. The broader scope includes increasing the installation and use of solar and energy efficiency measures.

The intent of the FIRST initiative is to enable property owners to initially finance solar installations by allowing owners to pay for the improvements through a voluntary 20-year special tax on their property tax bills. The Sustainable Energy Financing District is a market-based approach that utilizes the existing business and service providers and

provides them with a potentially more effective financing mechanism only available through a partnership with government.

The first phase of the program will be a pilot test of the financing mechanism and will be limited to residential solar photovoltaic projects. This phase will require that properties comply with the existing Residential Energy Conservation Ordinance (RECO).

The second phase of the project is contingent upon successful execution of the first phase and will consider integrating energy efficiency improvements as eligible measures for financing.

The program is expected to be available on a pilot basis this year. Until the program is available, persons interested in installing solar power are strongly encouraged not to wait for this program to be established. By delaying projects, clients risk likely reductions in the State rebates and the possible loss of Federal tax credits, which are scheduled to expire at the end of 2008.

FISCAL IMPACTS OF RECOMMENDATION

The total budget for this project is \$227,141 over two calendar years. This includes \$190,000 in grant revenues and \$37,141 in matching funds, consisting of existing staff time and associated indirect charges.

The revenue budget by fiscal year is presented in the table below. It includes a new, temporary half time Senior Management Analyst for 12 months, increasing an existing 0.5 FTE Community Services Specialist I to .6 FTE for 12 months, professional services for legal and financial consultants, indirect charges and miscellaneous expenses.

BAAQMD revenues will be established in the Bay Area Air Quality Management Fund, budget code 613-8204-331-80.85. EPA revenues will be established in the Climate Protection Campaign Fund, budget code 252-8204-331-10-98. These contracts have been set up the City Contract Management System; the CMS number for the BAAQMD grant is N7RY6; the EPA grant is CMS number MLQAG. The following project codes have been established for these grants: BAAQMD - 08SE05; US EPA - 08SE07.

Project Budget

		Fiscal Year		Total
		2008	2009	
EPA				
	Personnel	9,029	45,144	54,173
	Professional Services	0	49,600	49,600
	Misc	392	2,359	2,751
	Indirect	1,413	7,063	8,476
	Subtotal	10,833	104,166	115,000
BAAQMD				
	Personnel	5,179	33,524	38,703
	Professional Services		28,400	28,400
	Misc	261	1,580	1,841
	Indirect	810	5,245	6,056
	Subtotal	6,250	68,749	75,000
City Match				
	Personnel		31,923	31,923
	Indirect		5,218	5,218
	Subtotal	0	37,141	37,141
Total				
	Personnel	14,208	110,591	124,799
	Non Personnel	653	81,939	82,592
	Indirect	2,223	17,527	19,749
	Total	17,084	210,057	227,141

CURRENT SITUATION AND ITS EFFECTS

With current state and federal subsidies, installation of solar thermal systems are cost effective for many residential and commercial property owners and solar electric is often cost-effective when coupled with energy efficiency improvements. However, many disincentives to installation remain, particularly the high upfront cost and other financial hurdles. FIRST could help address those disincentives.

FIRST is modeled after existing Underground Utility Districts where a group of homeowners in a neighborhood work in coordination with the municipality on a plan to place utility poles and wires underground. All property owners in the designated area vote on the proposal and the City works with the utility to bid a contract with the entire cost paid for with a non-tax exempt bond. Homeowners repay the bond as a line item on their property tax bills, generally over a 20-year period. The assessment is in "second position" on the property – behind property tax and in front of the mortgage – giving excellent security and therefore providing a low interest rate. FIRST would be similar except that the City Council would decide to establish a citywide district. Individual property owners could voluntarily opt in to finance the specific improvements

to their property, and the property owners would then be responsible for contracting directly with a solar installer to install their system.

BACKGROUND

On November 6, 2007, Council approved the concept of creating a sustainable energy-financing district. Staff prepared proposals to BAAQMD and EPA to fund the initiative.

The City was notified of EPA's interest in awarding a grant in October 2007 and notified of the BAAQMD award in December 2007. Staff is now finalizing the scopes of the agreements with the funding agencies.

Increasing the number of homes and commercial properties with solar power, and improving the energy efficiency of existing buildings are important components of the community-wide effort in Berkeley to reduce greenhouse gas (GHG) emissions. If effective, the FIRST program could address some obstacles to these initiatives. The grants would support the creation of a citywide voluntary Sustainable Energy Financing District where property owners (residential and commercial) can install solar systems and make energy efficiency improvements to their buildings and pay for the cost as a 20-year assessment on their property tax bills. No property owner would pay an assessment unless they chose to participate in the program. Those who choose to participate would pay only for the cost of their project and fees to administer the program.

This program has the potential to solve some of the financial hurdles facing property owners. First, there would be little out of pocket cost to the property owner. Second, the total cost of the system may be less when compared to financing through a traditional equity line or mortgage refinancing because the bond will be secured by the homeowner's property and commitment to pay property taxes, and thus should provide lower interest rates than are commercially available. Third, the tax assessment is transferable between owners. Therefore, if one sells a property prior to the end of the 20-year repayment period, the next owner takes over the assessment as part of their property tax bill.

Legal Counsel has advised staff that the City of Berkeley has the ability to create this Financing District under its authority as a Charter City. Council will be required to take a series of actions including passing an enabling ordinance, establishing a citywide district and authorizing the issuance of a bond. There are several administrative requirements as well. The most critical element now is negotiating terms with potential financing lenders. Senior staff has been meeting with financial institutions and expects to have terms negotiated this spring. Other elements include determining how and when disbursements are to be made, establishing eligibility for clients and contractors, terms of participation, etc.

The pilot program is expected to be available this year.

RATIONALE FOR RECOMMENDATION

FIRST is a component of the community-wide effort to achieve the GHG reduction targets established by ballot Measure G. The financing program is also an element of a broader solar and energy efficiency project, which is being funded by the US Department of Energy and the City of Berkeley.

ALTERNATIVE ACTIONS CONSIDERED

None.

CONTACT PERSON

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Attachments:

1: Resolution

RESOLUTION NO. ##,###-N.S.

CONTRACTS: CITY OF BERKELEY FOR DEVELOPMENT OF THE SUSTAINABLE ENERGY FINANCING PROGRAM

WHEREAS, Measure G on the November 2006 ballot requests the City to prepare a plan to reduce community-wide greenhouse gas emissions; and

WHEREAS, local thermal and photovoltaic solar power systems have the potential to reduce greenhouse gas emissions; and

WHEREAS, financing and the inability to fully recover long-term investments in energy improvements upon sale of a property are barriers to the installation of clean energy technologies; and

WHEREAS, on November 6, 2007 Council approved the concept of a sustainable energy financing district that would enable energy projects to be financed through voluntary special property taxes; and

WHEREAS, the solar financing district, if successful, could potentially be expanded to finance other energy efficiency improvements for existing buildings; and

WHEREAS, the City submitted proposals to the US Environmental Protection Agency and the Bay Area Air Quality Management District to develop the financing program; and

WHEREAS, the US Environmental Protection Agency is negotiating the award of a \$115,000 cooperative agreement with the City and the Bay Area Air Quality Management District has awarded the City a \$75,000 grant for the program; and

WHEREAS, funds are expected to be available in the FY 09 and FY 10 General Fund for match purposes.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is authorized to execute contracts and any amendments with a) the Bay Area Air Quality Management District for the approximate period May 1, 2008 through December 31, 2009 in the amount of \$75,000 and b) the US Environmental Protection Agency for the approximate period May 1, 2008 through April 31, 2010 in the amount of \$115,000 for the development of a Sustainable Energy Financing District program.