



Office of the Mayor

ACTION CALENDAR
November 6, 2007

To: Members of the City Council

From: Mayor Tom Bates

Subject: Creation of Sustainable Energy Financing District

RECOMMENDATION:

Approve the concept of the “Sustainable Energy Financing District” to allow property owners to finance solar installations and energy efficiency improvements as a voluntary assessment on their individual property tax bills and direct staff to continue work developing the program.

BACKGROUND:

The Sustainable Energy Financing District is being developed as part of the City’s implementation of Measure G – last year’s ballot measure setting greenhouse gas reduction targets for Berkeley and directing the Mayor to lead the development of a plan to meet those targets. The first complete draft of the Climate Action Plan will to be released for public comment in mid-November.

The Mayor’s office initiated work on this financing system as a way to promote solar and energy efficiency projects in the City. A framework for the program was developed with significant assistance from the City Manager’s office, the Energy office, the City’s bond counsel and financial advisors, experts from UC Berkeley, and solar installers.

This framework has generated tremendous interest from other cities, the State officials, and others because it has the potential to dramatically change the market for solar and energy efficiency programs.

Installation of solar electric systems, solar thermal systems, and energy efficiency projects are cost effective for many residential and commercial property owners with the existing state and federal subsidies. The Sustainable Energy Financing District addresses the three remaining major financial hurdles to solar electric and solar water systems – the high upfront cost, the ability to amortize the costs over 20 years, and the possibility that those costs will not be recovered when the property is sold.

The financing mechanism is based on a voluntary assessment district where the City serves as the financing agent. In this case, individual property owners would contract directly with qualified private solar installers and contractors for energy efficiency and solar projects on their building. The City secures a pool of funds for the projects from a

bond or loan fund that gets repaid through assessments on participating property owners' tax bills. The assessment will be spread over 20 years, the approximate time it takes to recover the costs through energy savings. In other words, energy savings should match the cost of the annual assessment.

No property owner would pay an assessment unless they had work done on their property as part of the program. Those who choose to pay for solar and energy efficiency work through this program would pay only for the cost of their project, interest, and an administrative fee.

The Financing District solves many of the financial hurdles facing property owners. First, there would be little upfront cost to the property owner. Second, the total cost of the solar system and energy improvements may be less when compared to financing through a traditional equity line or mortgage refinancing because the well-secured bond will provide lower interest rates than is commercially available. Third, the tax assessment is transferable between owners. Therefore, if you sell your 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.

Property owners and their contractors would be required to agree to certain terms and conditions mandating energy efficiency steps, appropriate warranties, and other performance measures to take advantage of the financing.

This Council Item is mostly informational, but it does request that the Council to formally approve the general concept for the Sustainable Energy Financing District with the expectation that staff will return to Council next year with a detailed administrative plan to implement the program.

Several grant opportunities are being pursued for this project. The City is in negotiations with the U.S. Environmental Protection Agency grant that will cover a significant portion of program development costs. We expect the Council will be asked to formally approve this grant in the near future.

FISCAL IMPACTS: Staff time to analyze the plan. Consultants and legal expenses are anticipated to be covered by grants.

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ATTACHMENTS: None.