



PASADENA WATER AND POWER

MEMORANDUM

October 27, 2009

To: Environmental Advisory Commission

From: Eric R. Klinkner, Assistant General Manager

Subject: Solar and Energy Efficiency Financing (AB 811)

This report is being provided to the Environmental Advisory Commission ("EAC") to provide and update on Pasadena's progress towards developing a low cost financing option for customers to install solar systems and energy efficiency. No action is requested at this time

Assembly Bill 811 (AB 811) was signed in to State law on July 21, 2008. The purpose of AB 811 is to promote energy conservation by providing a low-cost, transferrable financing option for property owners who want to install renewable energy systems (such as solar) or energy efficiency improvements on their private property. Under AB 811, a city or county can loan funds to a property owner and recover the payments on the property's tax bill.

Staff anticipates seeking council authority to participate in a forthcoming AB 811 program that will be administered by Los Angeles County. The benefits of participating in the County's program include:

- Substantial reduction in administrative burden and associated costs for the city;
- Use of the County's energy efficiency block grant funding as "seed funding" to initiate the program;
- Leverage the County's efforts to develop and monitor workforce for program to assure quality control;
- Consistent program design with other programs in the region; and,
- Reduced risk and cost by taking advantage of due diligence being undertaken by County.

After the County files its Resolution to adopt the program and other legal documents to form the assessment district with the Board of Supervisors, a process that is anticipated to conclude around December 2009, staff will recommend that the City Council adopt a resolution to participate in the County's program. The earliest date that program funding is likely to become available to Pasadena residents would be in the late spring or summer of 2010.

BACKGROUND

Energy efficiency improvements and solar installations can be expensive and the initial up-front cost has become a barrier for property owners interested in installing this type of improvement. AB 811 authorizes cities or counties to provide up-front financing loans to voluntary property owners to pay for certain improvements that will reduce energy consumption. Property owners pay back the loans in the form of increased property tax assessments. The loan is secured by the property through a lien filed with the county assessor's office. Each city or county determines interest rates and administrative fees to be charged. The lien stays in place until the loan is paid in full and would be transferred to a new owner if the property is sold. All improvements must be permanently attached to the property; therefore, any energy efficient appliances that are mobile are not eligible to be financed under this program.

ANALYSIS

In February 2009, the City hired the consulting services of Norne, Inc., to evaluate the potential development of an AB 811 program for Pasadena, specifically evaluating the cost benefit analysis, public financing options, potential legal issues and other recommendations. In providing its analysis and recommendation, Norne, Inc. met with staff from the City's Finance Department, City Attorney's Office and the Water and Power Department, as well as a Los Angeles Countywide coalition that is currently being developed by the County

AB 811 Program Benefits:

Energy efficiency improvements and solar electric generation installed by Pasadena residents and businesses can benefit Pasadena by:

- Removing up front financial constraints encountered by property owners interested in installing solar systems;
- Reducing the customers electricity bill;
- Reducing the City's energy consumption (Less power for Pasadena to buy);
- Reducing greenhouse gas emission (supports compliance with Assembly Bill 32 requirements);
- Increasing Pasadena's solar generation to meet Senate Bill 1 "*California Million Solar Roof Initiative*" requirements;
- Contributing to meet the City's Green City Energy Action goals.

AB 811 Program Concerns:

Though the concept behind AB 811 is commendable, there are still many unresolved issues going forward that Pasadena should consider before committing to such a program:

- 1) Very little meaningful experience exists:

- One small county (Sonoma) and two small cities (Berkeley and Palm Desert) have undertaken this program
 - Fewer than 300 parcels have been approved for funding
 - Fewer still have actually completed the installation process
- 2) The original AB 811 legislation has a flaw that has gotten early movers such as the City of Palm Desert into potential legal trouble (lien priority).
 - 3) A judicial validation of the establishment of AB 811 districts will resolve the lien priority problem.
 - 4) No entity has yet to use AB 811 as a borrowing mechanism to secure a municipal bond.
 - 5) At least one knowledgeable Bay Area consulting firm is a major advocate of the AB 811 type program, unfortunately reducing its ability to serve as an unbiased policy advisor.
 - 6) There is a huge leap in size from actual AB 811 deals to the announced deals.
 - 7) Other unresolved issues going forward such as maintenance and solar technology requirements, city program administration and risk management, unpaid property taxes, and collections.

THE LOS ANGELES COUNTY ENERGY PROGRAM

On April 14, 2009, the Los Angeles County Board of Supervisors directed staff to begin establishing a County-wide energy efficiency and renewable energy financing program pursuant to AB 811. A County-wide program provides the following benefits:

- Achieves economy of scale, saving time and costs for Cities from having to develop their own financing districts;
- Advances a consistent program design across a large area and population;
- Develops a regional network for workforce development, quality control and results measurement;
- Achieves consistent regional messaging, marketing and education;
- Allows regional coordination with other stakeholder

The County has been hosting various meetings with regional Council of Governments (COGs) to receive input on a number of questions and establish more details for the County-wide program. So far, Pasadena has participated in two meetings through the San Gabriel Valley COG.

The County held its initial stakeholder meetings with COGs, Cities and other regional groups within the County on September 24, 2009 to receive additional input.