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Briefing Note: Property Assessed Clean Energy Financing

December 2020

Purpose

This note aims to update government on the benefits of, and support for, new measures that would enable local governments to offer Property Assessed Clean Energy (PACE) financing programs for residential and commercial properties - a policy measure we are pleased to note was included in the November 2020 Mandate Letter to the to the Minister of Energy, Mines, and Low Carbon Innovation and the Minister of Municipal Affairs. Such programs lower barriers for home and business owners to access energy-efficiency retrofit financing.

Background

PACE programs allow property owners to finance the up-front cost of building energy efficiency upgrades—such as more efficient heating systems, or windows—by paying the costs back over time via a voluntary property tax assessment. The assessment is attached to the property, not an individual; if, and when, the property is sold, the financing carries on with the new owner.

- Though British Columbia governments have been requesting PACE-enabling legislation since 2014, no programs are operating in the province.
- Alberta, Ontario, and Nova Scotia have all implemented PACE legislation, but programs remain limited in scope and sophistication.
- PACE programs are commonplace south of the border. In the United States, private PACE program administrators partner with either individual local governments or multiple localities working through joint-powers authorities. Some local jurisdictions operate their own programs independently.
- Administration costs are modest for local governments, provided their role is limited to collection through property taxes and a third party, such as a utility or public agency, handles implementation.
- PACE programs generally fall into two categories: Commercial PACE (C-PACE) and Residential PACE (R-PACE).
- Local governments offer C-PACE programs to property owners who generate income from lease payments or revenue from business tenants. Administrators generally require owners to demonstrate that the investments will save them money. Owners must also demonstrate that they can repay the assessment. Local governments also offer R-PACE programs to owners of small residential properties.

- PACE financing is an important tool that local governments could use to encourage building owners to make upgrades that they might not otherwise have made—either because they lack access to capital from other channels or they have concerns about long payback periods.
- The September 2020 BC Economic Recovery Plan included $2 million for the province to support the development of a PACE financing tool
- The November 2020 Mandate Letters to the Minister of Energy, Mines, and Low Carbon Innovation and the Minister of Municipal Affairs include direction for the ministers to enhance energy efficiency programs and incentives for residential and commercial buildings, including PACE financing.

The Evidence Basis

- Studies demonstrate that U.S. PACE-financed projects have saved nearly 2.974 billion kilowatt hours (kWh) of energy while averting the release of 7.44 million metric tonnes of CO_2 equivalent greenhouse gas emissions.[1]
- In the United States, 20 states plus the District of Columbia run commercial-property PACE programs. These programs have financed more than USD$1.5 billion in capital project upgrades across more than 2,400 properties. They've also created more than 17,000 jobs.
- On the residential side, U.S. homeowner PACE programs have yielded USD$6.2 billion in capital project upgrades for more than 280,000 homes. These residential PACE projects have created more than 108,000 jobs while slashing climate pollution.

Jurisdictional Scan

Commercial PACE (C-PACE)

- Governments generally consider C-PACE program less risky than R-PACE ones, because the projects financed are generally relatively large in scope and are carefully vetted by professional project finance managers on both sides of the agreement.
- Since C-PACE financing is charged through property taxes, owners can pass along the cost of these improvements to tenants who have signed a conventional "triple net lease" agreement. This is an important benefit for commercial property owners who are often challenged to recoup the cost of energy retrofits financed through traditional mechanisms, because the triple net lease agreement only requires the tenant to pay for operating expenses related to the building (e.g., utility charges, insurance, property taxes, and maintenance).
- This transitional contractual arrangement disincentivizes energy retrofits because the building owner bears the capital cost of the upgrade, but the tenant captures the energy savings.
- A second benefit to building owners is that C-PACE financing is generally considered to be an "off balance sheet" loan. This means that the loan does not

[1] PACE Nation, "2019 PACE Facts." Retrieved from: https://pacenation.org/2019-pace-facts/

impact a property owner's debt-to-equity ratio and is therefore less likely to compete with a property's other capital priorities that must be financed through more conventional mechanisms.

Residential PACE (R-PACE)

- In the United States, R-PACE programs in California, Florida, and Missouri finance more than USD$6.2 billion in capital project upgrades for over 280,000 homes.[2] The programs have created more than 108,000 jobs in these states.[3]
- For homeowners, a well-designed R-PACE program will simplify and streamline the financing processes for home energy retrofits. The programs welcome lower-income homeowners who may lack access to conventional financing; many do not perform credit checks when evaluating an application, but instead consider the homeowner's property tax payment history.
- Unique features lower credit risk for R-PACE investors, which in turn typically allows program administrators to access lower-cost capital. This can subsequently lead to more favourable terms and conditions and more attractive interest rates than conventional financing mechanisms.[4]

British Columbia – Current State

- On four separate occasions—in 2014, 2016, 2017, and 2019—local governments at the Union of BC Municipalities conference passed resolutions in support of legislation that would enable PACE programs.
- In its response to the 2019 UBCM resolution, the Ministry of Municipal Affairs and Housing stated that the province was open to PACE discussions, but also cautioned about mixed experiences with the program in other jurisdictions.
- The September 2020 BC Economic Recovery Plan included $2 million for the province to support the development of a PACE financing tool
- The Minister of Energy, Mines, and Low Carbon Innovation and the Minister of Municipal Affairs were issued Mandate Letters in November 2020 that include direction for the ministers to enhance energy efficiency programs and incentives for residential and commercial buildings, including PACE financing.
- The BC Ministry of Environment and Climate Change Strategy is currently working with a private consultant, Dunsky Energy Consulting, to review PACE financing and other financing mechanisms to support building decarbonisation in BC.
- A limited form of residential PACE (R-PACE) financing may already be permissible for certain measures under the B.C. Community Charter using Local

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[2] PACE Nation. "Pace Programs." Retrieved from: https://pacenation.org/pace-programs/

[3] PACE Nation. "2019 PACE Facts." Retrieved from: https://pacenation.org/pace-market-data/

[4] National Association of State Energy Officials. "Residential Property Assessed Clean Energy (R-PACE): Key Considerations for State Energy Officials." 2018. Retrieved from: https://www.naseo.org/data/sites/1/documents/publications/NASEO%20R-PACE%20Issue%20Brief.pdf

Improvement Charges (LICs). For example, building improvement projects that reduce GHG emissions and the risk of oil spills from existing heating-oil systems arguably have significant direct community benefits and services, and therefore warrant the use of LICs.

- To date, only the District of Saanich is planning to use LICs to fund private building upgrades to reduce GHG emissions and lower risk of domestic oil spills. However, to operationalize the program the district would need to pass a specific bylaw for each LIC/PACE loan provided. This is cumbersome.
- In addition to local government interest, a coalition of industry and environmental organizations recently formed under the name PACE BC to advocate for and support enabling legislation.
- PACE enabling legislation would also help B.C. municipalities access funding from the Federation of Canadian Municipalities' (FCM) Community Energy Financing Programs. Municipalities may access this $300 million funding stream to create financing programs for energy efficiency retrofits.[5]
- Enabling C-PACE and R-PACE (for smaller rental properties) in British Columbia may need an additional amendment to the Community Charter to allow local governments to "aid a business." Section 25(1) of the Community Charter states that local governments "must not provide a grant, benefit, advantage or other form of assistance to a business." The only exception to this pertains to assistance given for actions that relate to heritage properties (as per Section 25(2) and Section 25(3) of the Community Charter). A C-PACE program could potentially be interpreted as aiding a business, and therefore out of compliance with Section 25(1).
- The province currently offers low interest financing through its CleanBC Better Homes program. However, the offer is only available for the cost of installing an electric heat pump system for homeowners switching from a fossil-fuel based heating system; it cannot be used in conjunction with the current CleanBC heat pump rebate offer. The applicability of this financing tool is therefore quite narrow and limits participation by lower-income homeowners.
- Past financing pilot programs in B.C. have met with minimal success (i.e. BC Hydro and Fortis BC's On-Bill Financing pilot, and the City of Vancouver's Retrofit Energy Efficiency Financing Pilot).[6] A study by the Pacific Institute for Climate Solutions attributes the low uptake to ineffective and inadequate marketing, lack of buy-in from contractors, overly stringent underwriting criteria,

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[5] Federation of Canadian Municipalities. "Community Efficiency Financing New Existing Residential Energy Financing Programs." Retrieved from: https://fcm.ca/en/funding/gmf/community-efficiency-financing-new-existing-residential-energy-financing-programs

[6] Duffy, Robert and Beresford, Charley. "This Green House II: Building Momentum on Green Jobs and Climate Action Through Energy Retrofits Across Canada." Columbia Institute. 2016. p.30. Retrieved from: https://www.columbiainstitute.ca/sites/default/files/Columbia_This_Green_House_II_web_Mar_22_final_0.pdf

and needlessly complicated requirements for energy audits and program applications.[7]

- The set of recommendations advanced by the UBCM Special Committee on Climate Action includes a provision for the province to develop a retrofit financing program that matches payments to energy savings.

Next Steps

Potential next steps for government include the following actions.

- Meet with local government representatives and other key stakeholders to establish a plan to remove legislative barriers for successful R- PACE and a C-PACE programs. “Property Assessed Clean Energy in Canada,” a recently published Pembina Institute report, summarizes industry consultations in identifying many of the needed changes.[8]
- Amend the Community Charter and Vancouver Charter to create enabling legislation for PACE or create standalone legislation.
- Create two working groups to design a R-PACE and a C-PACE program, and include representatives of the construction industry (e.g. the Urban Development Institute), the renovation industry (e.g. Home Energy Performance Council), financial institutions, institutional investors (e.g. Canada Infrastructure Bank), mortgage insurers (e.g. Canada Mortgage and Housing Corporation), building owners and managers (e.g. Building Owner and Managers Association), ENGOs, local governments, and the Federation of Canadian Municipalities.
- Leverage these working groups to provide recommendations to local governments on how to structure PACE bylaws, and to identify a potential provincial third-party administrator for a coordinated province-wide approach.
- Signal its interest in creating a loan-loss reserve fund that would support and reduce risk for a provincially scaled PACE program and use the stakeholder engagement processes described above to validate its benefits and clarify its terms.
- Ensure that British Columbians can seamlessly access PACE loans and CleanBC incentives through the same application.
- Establish program design and implementation supports to help ensure that all local governments across the province, regardless of their size and location, can take advantage of a PACE financing program.

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[7] Efe, Seref et al. “Cheaper Power Bills, More Jobs, Less CO2: How On-Bill Financing Done Right can be a Quick Win for British Columbia.” Pacific Institute for Climate Solutions. 2015. p.11. Retrieved from: http://pics.uvic.ca/sites/default/files/uploads/publications/On-Bill%20Financing%20FINAL.pdf

[8] Kennedy, Madi et al. “Clean Energy in Canada: Design Considerations for PACE Programs and Enabling Legislation.” The Pembina Institute. 2020. Retrieved from: https://pembina.org/pub/pace-financing-canada