Property assessed clean energy enabling legislation

Recommendations to the Province of British Columbia

by Madi Kennedy and Tom-Pierre Frappé-Sénéclauze | July 28, 2020

Background

- Property assessed clean energy (PACE) is an innovative tool that provides access to long-term financing for energy efficiency, water conservation, renewable energy, and resiliency measures for owners and developers of residential, commercial, industrial, institutional, and multifamily properties. PACE loans are repaid through an addition to property tax bills and are transferred from one owner to the next when properties are sold.
- PACE is widespread in the U.S., generating billions in economic activity. However, only three provinces in Canada have implemented PACE enabling legislation (Alberta, Ontario and, Nova Scotia).
- A limited form residential PACE (R-PACE) financing may currently be permissible in B.C. using local improvement charges (LICs) with the rationale that reduction in GHG emissions or reduced risk of oil spills constitute direct community benefits and services and warrant the use of LICs.[1] However, local government's authority for using this tool for energy efficiency remains unclear, and all commercial buildings and most energy efficiency measures would be ineligible without legislative change. The City of Saanich intends to pilot this limited PACE model.
- Past clean energy financing programs in B.C. (i.e. BC Hydro and FortisBC's On-Bill Financing Pilot and the City of Vancouver's Retrofit Energy Efficiency Financing Pilot) have had limited success because of program design features and inability to scale.[2] The province cancelled the On-Bill Financing pilot early due to low uptake and high costs. The low uptake was attributed to the small pilot area, lack of buy-in from contractors, an uncompetitive interest rate, restrictive eligibility criteria, and the energy audit requirement. Although high costs for pilots are not unusual, it was determined that this pilot could not be rolled out across the province because costly billing system upgrades would be needed to proceed.[3] [4]

Discussion

- To create a successful PACE program in B.C., enabling legislation should allow:
  - The use of private investment to finance projects
  - Third parties to administer the program (at the local, regional, or provincial level) for economies of scale and to allow smaller municipalities to offer PACE
  - A broad range of measures including energy efficiency, renewable energy, and resilience.
- PACE enabling legislation should provide clear authority for program implementation and be broad enough to enable a range of program designs so that programs can evolve over time. The details of program design can be advanced concurrently with enabling legislation.
- Enabling legislation will signal the government's commitment and willingness to support a provincial-scale PACE program. Experience from the U.S. indicates that it takes time to create a PACE ecosystem where property owners, underwriters, appraisers, financiers, and contractors understand PACE and are comfortable with its promotion and use.[5] Engaging with these stakeholders at an early stage (and considering the distinct needs of commercial and residential owners) is critical for buy-in and program uptake.

Recommendations

We recommend the province implement enabling legislation for R-PACE and commercial PACE (C-PACE) programs. PACE programs can be phased in but need to be set up for scale at the outset to be successful. For this the province should:

1. Amend the Community Charter and Vancouver Charter to create enabling legislation for PACE.[6]
2. Support the creation of working groups (led by the province or a third party) to design R-PACE and C-PACE programs, provide recommendations to local governments on how to structure PACE bylaws, and identify a potential provincial third-party administrator for a coordinated province-wide approach. Stakeholders to be included are the construction industry (e.g. UDI), the renovation industry (e.g. Home Energy Performance Council), financial institutions, institutional investors (e.g. Canada Infrastructure Bank), mortgage insurers (CMHC), building owners and managers (e.g. BOMA), environmental groups, local governments, and the Federation of Canadian Municipalities.[7]
3. Signal its interest in creating a loan loss reserve fund to support and reduce risk for a provincially scaled PACE program, and use the stakeholder engagement processes described above to validate the benefits of such a fund and clarify its terms.

[1] LICs are used when a municipality provides improvements to one or more properties (e.g. road paving or sidewalk construction). The municipality pays for the improvements and arranges for the work to be carried out. An LIC is then assessed and assigned to each property that benefits from the improvement, and is paid back through an addition to property tax.

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

[3] Ibid., 30.

[4] Seref Efe, Inam ur Raheem, Tingting Wan, and Cater Williamson, *Cheaper Power Bills, More Jobs, Less CO_2 :How On-Bill Financing Done Right can be a Quick Win for British Columbia* (Pacific Institute for Climate Solutions, 2015), 11. http://pics.uvic.ca/sites/default/files/uploads/publications/On-Bill%20Financing%20FINAL.pdf

[5] U.S. Department of Energy, *Lessons in Commercial PACE Leadership: The Path from Legislation to Launch* (2018), 15. https://www.energy.gov/sites/prod/files/2018/03/f49/Lessons_in_Commercial_PACE_Leadership_Final.pdf

[6] See Pembina's report *Property Assessed Clean Energy in Canada: Design considerations for PACE programs and enabling legislation* for a summary of recommended legislative changes based on industry consultation; proposed legislation amendments are forthcoming. Madi Kennedy, Tom-Pierre Frappé-Sénéclauze, and Betsy Agar, *Property Assessed Clean Energy in Canada: Design considerations for PACE programs and enabling legislations* (The Pembina Institute, 2020). https://www.pembina.org/reports/property-assessed-clean-energy-2020.pdf

[7] An example of an effective model is the Texas PACE Coalition, which used extensive engagement to create a PACE in a Box toolkit for local governments to implement PACE. https://www.keepingpaceintexas.org/pace-in-a-box/