

CITY OF SEATTLE MAYOR'S GREEN BUILDING TASK FORCE
Existing Buildings Committee Meeting
Tuesday, October 7, 2008, 2:30 pm – 5:30 pm
 Seattle Downtown Central Library, 1000 4th Avenue
 Washington Mutual Foundation Room (Level 4, Room 1)

MEETING SUMMARY
Prepared by Triangle Associates, Inc.

Attendance

Green Building Task Force				
Last	First	Organization	Committee	In Attendance?
Anderson	Jolene	Coldwell Banker Bain, Assoc., JMR Consulting, Member, Seattle King-County Association of Realtors	Existing	✓
Awad	Ash	McKinstry	Existing	✓
Barber	Kent	Keithly Barber Associates, Inc.	Existing	<input type="checkbox"/>
Bendix	Richard	Homestreet Bank	Existing	✓
Brombaugh	Rachel	ShoreBank Enterprise Cascadia	Existing	✓
Brooker	Kathleen	Historic Seattle	Existing	✓
Clark	Steve	Genesee Fuel & Heating, Board member, Washington Oil Marketers Association	Existing	<input type="checkbox"/>
Drury	Kim	Energy Consultant	Existing	✓
Fairchild	Aaron	Greenworks Realty	Existing	✓
Finley	Scott	Atmosphere IEM, Inc.	Existing	✓
Gent	Stan	Seattle Steam	Existing	✓
Gunter	Christian	Kennedy Associates	Existing	✓
Happel	Richard	University Mechanical Contractors	Existing	✓
Hoerler	Dusty	Sound Alliance	Existing	✓
Humphreys	Beth	King County Department of Natural Resources	Existing	✓
Jhaveri	Arun	Certified Sustainable Development Professional	Existing	✓
Kauffman	Rod	BOMA Seattle-King County	Existing	✓
Littel	John	Pacific NW Council of Carpenters	Existing	<input type="checkbox"/>
MacKintosh	Joanne	American Society of Home Inspectors	Existing	<input type="checkbox"/>
Lesley-Lloyd	Karen	Tenant's Union of Washington State	Existing	✓
Price	Stan	Northwest Energy Efficiency Council	Existing	✓
Putnam	Cynthia	Putnam Price Group, Inc.	Existing	✓
Shirley	Cal	Puget Sound Energy	Existing	✓
Tierney	Tom	Seattle Housing Authority	Existing	✓
Trafton	Chuck	WA Land Title Association	Existing	✓
Vasquez	Pedro	Jones Lang LaSalle Americas Inc.	Existing	<input type="checkbox"/>

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City of Seattle & Presenters			
Last	First	Department	In Attendance?
Antonoff	Jayson	Seattle DPD	✓
Atwood	Glenn	Seattle City Light	✓
Eichel	Amanda	Seattle OSE	✓
Hsu	David	Seattle City Light	✓
Mallory	Sandra	Seattle DPD	✓
Mann	Mike	Seattle OSE	✓

Consultant Staff			
Last	First	Organization	In Attendance?
Blair	Ellen	Triangle Associates	✓
Erickson	Peter	Cascadia Consulting Group	✓
Grant	Christine	Cascadia Consulting Group	✓
Grodnik	Ann	Seattle Northwest Securities	✓
Kern	Michael	Triangle Associates	✓

General Public (<i>several in attendance, none signed up to speak</i>)			
Last	First	Organization	In Attendance?
Indig	Harry		✓

Meeting Purpose

The purpose of this meeting was to provide the Committee with information about financing and incentive policy options and to get the Committee members' input on these policy options.

Welcome and Updates

Facilitator Michael Kern of Triangle Associates opened the meeting and noted there would be time available at the end of the meeting for public comment. Michael reviewed the agenda and meeting materials.

Jayson Antonoff, City of Seattle Department of Planning and Development (DPD), reported that the New Buildings Committee had discussed green investment fund and green building "feebate" policy options at its September 25 meeting. He said that there had been a lot of interest in a feebate system and in performance-based policies.

Michael said that DPD has agreed to create an online Task Force discussion forum by the end of October to facilitate communication among Task Force/Committee members who want to interact in a more in-depth manner than is possible at Task Force/Committee meetings.

Financing and Incentive Policy Options

Ann Grodnik, Seattle Northwest Securities, and Christine Grant, Cascadia Consulting, provided an overview of the following financing and incentive policy options:

Funding Sources

- Low interest loans
- Private financing pool
- Energy efficient mortgages
- Public financing pool

Innovative Repayment Mechanisms

- Add-on to property taxes
- On-bill financing.

Ann's and Christine's PowerPoint presentation and scorecards for the financing and incentive policy options are available on the Green Building Task Force website.

Ann noted that availability of financing had not emerged as the primary barrier to making energy efficiency improvements – that is, availability of financing alone is not sufficient to drive significant new investment in energy efficiency. However, she said that this might change as a result of the current economic crisis. She said that the most successful financing and incentive policies in other jurisdictions incorporate technical assistance, such as free energy audits or inspections or efforts to build contractor networks that promote energy efficiency programs.

Ann reported the following the key findings of the policy analysis:

- The policy objectives of all of these options are to:
 - Provide low-cost, up-front capital for energy efficiency upgrades in existing buildings
 - To simplify loan repayment and attach repayment to the property, not the property owner
- Examples of the financing and incentive policy options are in only the early phases of implementation,
- As the current credit crisis continues, access to financing will be an important component of energy efficiency programs, and
- A mix and match approach will be necessary to address source of capital, repayment, and collection issues.

The City of Seattle provided discussion questions to solicit the Committee's input on the financing and incentive policy options.

Discussion Questions

1. How much is lack of financing a barrier to realizing energy efficiency gains in Seattle's existing building stock?
2. What type and level of incentives would truly make a difference?
3. Would attaching repayment to the physical structure (via property tax or utility bill) address the fundamental barriers to implementation, including, specifically, the split incentive?
4. Do the barriers to implementation and opportunities for investment differ by sector (single-family residential, multi-family residential and non-residential)?
5. What other thoughts, comments, ideas do you have on these policy options?

How much is lack of financing a barrier to realizing energy efficiency gains in Seattle's existing building stock?

Committee members made the following observations:

- Financing was definitely a barrier for the residential sector.
- An incentive such as lower interest rates on mortgages for energy efficient homes would spur activity and present a huge educational opportunity through the mortgage industry.
- It is an incentive for any property owner when it is easier to obtain and pay for financing.
- With the current volatility in interest rates, government needs to work to establish some kind of a revolving energy efficiency fund.

Committee members cautioned that any financing or incentive program must be simple to be effective, although it was noted that the commercial sector could manage more sophisticated mechanisms than could the residential sector.

What type and level of incentives would truly make a difference?

Committee members made the following comments and observations:

- Puget Sound Energy's residential incentive program is effective although the subsidies it provides are small, on the order of 15-30% of cost.
- For both residential and commercial properties it is necessary to determine the benefit to a property owner of energy efficiency improvements to determine the appropriate level of incentive.
- Incentives would have to make sense in terms of the internal rate of return for commercial property owners.
- Financing decisions should not be based on simple costs but on lifecycle costs.
- Providing technical assistance in the form of having an independent auditor, under public supervision to provide quality control, to help people identify the best options for their property could increase viability of the program.
- If public funding is used to identify and recommend appropriate strategies, it is possible that non-cost-effective measures might be recommended as appropriate energy efficiency work. Therefore relying on an independent auditor might be better received.

A Committee member expressed support for non-financial incentives such as providing information and case studies to building owners, noting that building owners typically realize a financial benefit from improving energy efficiency. This Committee member noted that energy efficiency investments with payback periods of two years or less are considered no cost measures.

Would attaching repayment to the physical structure (via property tax or utility bill) address the fundamental barriers to implementation, including, specifically, the split incentive?

The City described a "split incentive" as a situation in which a property owner may bear the cost of the energy efficiency improvements, while the tenant reaps the benefits of lower energy savings – therefore providing no incentive to the owner to complete the upgrades. A Committee member said that many commercial leases today require tenants to participate in capital improvements, thus eliminating the split incentive.

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Committee members considered the impact of repayment mechanisms:

- Attaching repayment to the utility bill could be unfair to residential renters, because the renters would be directly repaying the property owner's debt. It would be fairer to renters to attach repayment to the property tax or as a lien on the property at the time of sale.
- On-bill financing could get complicated for properties served by two or more energy utilities.
- On-bill financing could be difficult for multi-family residential or commercial buildings that are not sub-metered.
- Utility bill financing is a logical mechanism for repayment because it is directly connected to energy use.
- Treating repayment as a lien on a property, rather than attaching to property tax, could make repayment fairer between buyers and sellers of properties.
- Any financing or incentive programs should target building owners, not tenants. Tenants will not be motivated to improve a building.
- It might be possible to address the split incentive if a building owner could raise rents while tenants benefited from paying lower utility bills.
- Building owners would also benefit from increased property value and possibly an improved ability to attract tenants.
- Condominium homeowner associations can finance themselves by assessing themselves, and suggested that the renters union should educate renters who can push for landlords to make energy efficiency upgrades.
- Use of inefficient boilers in older multi-family residences needed to be addressed somehow.

Do the barriers to implementation and opportunities for investment differ by sector (single-family residential, multi-family residential and non-residential)?

The Committee agreed that the applicability of financing and incentive policy options depends on the sector. Comments included the following:

General

- There is more opportunity for energy savings in the non-residential sector than the residential sectors.
- The appropriate level of incentive and financing program complexity depends on the scale of energy efficiency improvements the city wishes to pursue. Relatively simple programs might suffice for residential improvements that cost a few thousand dollars per single family residence, but complex programs might be needed for improvements that cost up to \$50,000 per single family residence, like those contemplated in Berkeley, CA.
- Incentives are more applicable to the residential sector. Commercial building owners can profit off of energy efficiency improvements and improve a building's market position.

Residential

- There is a need to be clear about the types of improvements envisioned. Basic insulation and weatherization might be cost-effective, but replacing windows might not.

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- It will be necessary to go beyond standard weatherization type improvements to reach the Mayor's energy efficiency goal.
- If the City concentrates on relatively simple measures like lighting and insulation that have a payback period of five years or less, the cost will be no more than \$5-10,000 per single family residence, and it will still be possible to reach the Mayor's goal.
- The Mayor's energy efficiency goal should be viewed as a minimum. The City should aim for better than the minimum, which could cost up to \$35,000 per single family residence.
- Some lower cost improvements may still be infeasible for low-income households, and those are the households that have the most difficulty getting financing.
- The City needs to determine its target audience. Maybe households in the middle of the income scale are the target, not low income households. That would influence the policy used.

Non-residential

- It would be important to make financing available when commercial owners need it during their budget cycles, not just once a year for example.
- Any financing or incentive program must function during normal market conditions. Commercial owners will respond to access to capital and lower interest rates.

What other thoughts, comments, ideas do you have on these policy options?

Additional Committee member comments are grouped by topic below.

Appropriate Role for the City

- The City should not be directly involved in financing programs.
- Private financing should occur through energy service companies (ESCOs). Seattle City Light could monitor ESCOs work, but should not get involved with individual buildings.
- Many of the policy options reviewed today could be pursued through private ESCOs.
- Private developers would rather work with private financiers or private ESCOs. Public money is limited by a jurisdiction's bond capacity and typically has strings attached.
- There are investors who are interested in energy efficiency and would like more information about investment options.
- Commercial owners prefer to work with a utility versus the City.
- Perhaps the City could incentivize private financiers, such as banks, to provide special financing for energy efficiency work. (Ann Grodnik responded that the policy consultant had found few private financiers in other jurisdictions that work with energy efficiency. She said that private financiers would like to observe pilot programs with track records of participation and default rates before getting involved.)
- Perhaps the City could start a financing program, and then eventually transfer it to the private sector. (Glenn Atwood, Seattle City Light (SCL), noted that SCL's proposed five year conservation action plan includes a staff position to explore partnering with private financiers.)
- The City should study the successful models of private financing associated with the federal Department of Energy.

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Additional Policy Ideas

- Per the Western Climate Initiative, utilities will buy carbon credits in the future. That could provide a funding stream for energy efficiency improvements.
- Funding sources will be needed before the earliest Western Climate Initiative auction, which is scheduled for 2012.
- Perhaps a utility or municipality could help buy down loans for energy efficiency improvements, which would have the added benefit of supporting jobs in the private financial sector.
- Modeling has shown that buying down loans costs too much to be feasible.
- Denmark has set a national standard and uses an equation that links square footage with energy consumption. This equation is used to calculate a kind of energy rating for properties at the point of sale that can be compared against the national standard.
- If an energy efficiency standard were to be set, buildings could be rated based on the standard. Perhaps a mechanism could be developed to use these ratings to achieve a specific energy efficiency goal.

Affordability

- Be careful about making Seattle homes more expensive, forcing people to live farther from their jobs, which is not environmentally sound.
- Lower energy bills would make living in Seattle more attractive.
- Requirements at the point of sale could be seen as an impediment to sale and could penalize retiring, elderly, or low income homeowners for not upgrading their homes. How could a policy help people who are stressed-income?

Gaps among Existing Financing and Incentive Programs

- There are no conservation programs for oil-heated homes.
- Existing programs for the commercial sector are good, but they do not necessarily provide enough incentive to achieve the desired energy efficiency results.

Committee members identified the following pieces of information they think would be useful in targeting the biggest energy savings for the least investment:

- About how much energy savings is estimated to be available through behavior change. In 2001, commercial buildings used 10% less energy the week after the City of Seattle asked for conservation behavior.
- The breakdown of existing building stock in terms of age, building characteristics by age, and generic energy consumption by age.
- A survey of commercial building owners to find out whether they would prefer incentive dollars or loan dollars.

Open Discussion on Existing Building Issues

Amanda Eichel, City of Seattle Office of Sustainability and Environment, provided a list of ten topics that Committee members had suggested be added to the Committee's work plan for discussion. Amanda asked the Committee members to identify which of the suggested topics were most important

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for the Committee to address. The Committee identified the top three priorities for topics of discussion for the City to consider adding to the work plan as follows: 1) plug load; 2) education; and 3) continuous monitoring. It was discussed that plug load and education may be best addressed in tandem. The City agreed to determine how best to incorporate these additional topics into the work plan.

The Committee agreed that future Committee meetings may last longer than three hours if necessary to accommodate topics added to the work plan.

Wrap Up

Public Comment

There was no public comment.