



DATE: May 13, 2019

TO: Council Sustainability Committee

FROM: Director of Public Works

SUBJECT: PAYS® Pilot Program Review

RECOMMENDATION

That the Committee reviews and comments on this report and considers recommending to Council that the Green Hayward PAYS® be terminated effective December 31, 2019.

SUMMARY

The Green Hayward PAYS® (Pay-As-You-Save) pilot program has been available to multifamily property owners since the summer of 2015. To date, six projects have been completed using the PAYS® on-bill repayment program. The Bay Area Regional Energy Network (BayREN) is developing a Regional Water Bill Savings Program (RWBSP) intended to replace and expand on the existing on-bill repayment programs offered by Hayward and other water agencies. Staff recommends that the Green Hayward PAYS® program be terminated effective December 31, 2019 and that consideration be given to the City's participation in the RWBSP.

BACKGROUND

The Green Hayward PAYS® (Pay-As-You-Save) On-Bill Conservation and Efficiency Financing Pilot Program was designed to allow multifamily property owners to have energy efficiency and water conservation improvements installed with low to no upfront costs. Participating owners pay for the improvements with a surcharge on their water bill. To qualify, installed improvements must provide for at least \$1.00 in savings for every 80 cents of the surcharge so that participants will see a net reduction in their bill when the surcharge is added.

The Green Hayward PAYS® program was established with assistance from the Bay Area Regional Energy Network (BayREN). BayREN also supports two other similar programs: the Town of Windsor's Efficiency PAYS® and the East Bay Municipal Utility District's (EBMUD) On-Bill Program. Windsor's program was active in 2012 through 2015 and is currently on hold while program changes are being considered. EBMUD's program was a small pilot

program with a \$150,000 budget and only three projects installed since 2016. More information about the PAYS® Program is available on the City's website ¹.

On February 18, 2014 ², Council approved the Green Hayward PAYS® (Pay-As-You-Save) On-Bill Conservation and Efficiency Financing Pilot Program, including authorization for agreements with suppliers and a contractor to provide products and installation services. On June 23, 2015 ³, after staff determined a private bank loan was not feasible, Council approved an allocation of \$1,000,000 from the Water Improvement Capital Fund to cover the upfront costs associated with installing conservation and efficiency measures at multifamily properties. The City contracted with Bottom Line Utility Solutions (BLUS) to develop project proposals and perform installations and with Frontier Energy to serve as the certification agent for the program.

The Committee received updates on PAYS® implementation on December 10, 2015 ⁴, May 9, 2016 ⁵ and July 10, 2017 ⁶. On July 10, 2017, in an effort to stimulate interest in the program, the Committee recommended that Council approve changes to the program terms to allow participants to choose a repayment period of less than ten years and to allow for prepayment without penalty. The Committee also asked that staff reevaluate the effectiveness of the program in a year to ensure that the participation outweighs the cost to the City to implement the program.

On September 19, 2017 ⁷, Council approved modifications to the program to 1) allow customers to select a repayment term of three to ten years, so long as the customer's surcharge will be no more than 100% of their bill savings, and 2) to allow customers to prepay their repayment amount without penalty.

DISCUSSION

Program Participation – Since July 2017, only two properties have completed upgrades, totaling 23 units and using \$13,199 of program funds. In the almost four years since the program launched, six properties have completed upgrades, totaling 161 units and using \$143,651 of the \$1,000,000 dedicated to the program. In addition, two multifamily properties totaling 23 units completed upgrades on their own due in part to the marketing efforts of the PAYS® Program. These properties received assessments from the PAYS® contractor and

¹ www.Hayward-ca.gov/PAYS

² <https://hayward.legistar.com/MeetingDetail.aspx?ID=454164&GUID=34203B70-D1D1-47E2-A455-1C467FC19D91&Options=&Search=>

³ <https://hayward.legistar.com/MeetingDetail.aspx?ID=454193&GUID=7ED2DCF4-519F-4221-A360-E0B421549F4E&Options=info&Search=>

⁴ <https://hayward.legistar.com/LegislationDetail.aspx?ID=2529562&GUID=61DFF8F1-0EB4-4425-A3E5-659F0FEA8A03&Options=&Search=>

⁵ <https://hayward.legistar.com/LegislationDetail.aspx?ID=2713025&GUID=5C104C99-DA16-49CF-8064-240F9A6E5374&Options=&Search=>

⁶ <https://hayward.legistar.com/LegislationDetail.aspx?ID=3096084&GUID=94E89CC9-F91E-4263-8CE5-343551966544&Options=&Search=>

⁷ <https://hayward.legistar.com/LegislationDetail.aspx?ID=3155403&GUID=D2B89D2E-243E-498E-AB9E-FFACD5E20975&Options=&Search=>

decided to complete the upgrades but declined to use the on-bill financing. While the pilot program has resulted in significant water, energy and bill savings for participating properties, the limited number of projects completed indicates that the program has been largely unsuccessful.

Bill Analysis for Four Participating Properties – Staff conducted bill analysis through February 2019 for properties one, three, and five which is summarized in the table below. Property two went through a transition of account to another owner in 2018 so staff did not calculate savings for this property beyond the end of 2017 as permission to access the property’s PG&E bill data has not been granted by the new owner.

Properties one and three have twenty-eight months of billing data. Property five has twelve months of billing data. Bills savings are calculated using an estimate of what the customer would have paid had they not completed the upgrades. This estimate is based on two years of historic billing data for each property. For properties one and five staff only reviewed water bills because staff did not have access to two-years of historic PG&E bills. For property three, staff considered water and energy bills.

Table 1 – Bill Analysis

Property #	# of Units	Cost of Upgrades	Surcharge /Bill	Projected Net Savings/Bill	Average Actual Net Savings/Bill
1	34	\$9,100	\$211	\$329	\$530
2*	24	\$12,261	\$285	\$230	\$575
3	12	\$6,483	\$151	\$434	\$170
4**	68	\$102,608	\$2,382	\$17,440	-
5	18	\$10,922	\$344	\$88	\$165
6***	5	\$2,277	\$53	\$13	-
Total	161	\$143,651	\$3,426	\$18,534	

* Property two went through a transition of account in 2018 so staff did not obtain bill analysis beyond the end of 2017.

** Did not obtain bill analysis for property four (a condominium homeowner’s association) due to difficulty obtaining the appropriate utility bill information.

*** Did not yet obtain bill data for property six.

Staff’s conclusions from the above data:

1. Properties one, two, and five have achieved actual bill savings higher than their projected bill savings.
2. Property three achieved lower actual savings than what the Program Contractor, Bottom Line Utility Solutions, had projected. This customer achieved reductions in their water usage, but the energy upgrades did not perform as well as expected. BLUS and Frontier Energy have adjusted their calculations so this error should not occur with future projects.

Toilet Rebates – A new constraint on the program that might further reduce participation in the program is the elimination of toilet rebates. Completed PAYS® projects have been able to utilize the \$100 per toilet rebate, which has helped make projects qualify for the 80% savings threshold. Most member water agencies of the Bay Area Water Supply and Conservation Agency (BAWSCA) have ended or are considering ending their rebates for toilet replacements. Hayward will end its toilet rebates this year. Applications for rebates must be approved by June 30, 2019 and the toilets must be installed by December 31, 2019, in order for a project to use the rebate. According to Frontier, the program (designing projects such that the installed improvements provide for at least \$1.00 in savings for every 80 cents of the surcharge) should still be viable without the rebates – even with smaller projects, which have smaller margins.

Survey Results – BayREN commissioned a study to evaluate the Green Hayward PAYS® program as well as the Windsor Efficiency PAYS® and EBMUD On-Bill programs. The study was completed in late 2018 and published in February 2019. Authors of the study contacted program participants as well as those who received offers from the program contractor but elected not to participate (“near participants”). Researchers talked four of the five participants in Hayward (representing 5 of 6 accounts). They also conducted brief interviews with 6 of 12 near participants representing 7 of 13 accounts). Below are some key findings of the study:

- All participants were highly satisfied with the program.
- The contractor said that for many busy multi-family rentals, water savings are “peanuts” relative to rents and the fact that entering a tenant’s unit can make them upset.
- Near participants commented that the proposed measures were too expensive, and the interest rate was too high.

Potential Regional Water Bill Savings Program – BayREN is developing a Water Bill Savings Program for Bay Area water utilities. The program has been made possible by SB 564, the Water Bill Savings Act, which was signed into law by Governor Brown in 2017. The law enables a Joint Powers Authority to issue bonds and loan the proceeds to local water agencies. On March 21, 2019, the Association of Bay Area Governments (ABAG) Executive Board received an informational report on the program and expressed interest. The program is expected to be ready to launch by the end of 2019. BayREN would fund the program, which would allow Hayward to offer a PAYS program requiring minimal City resources.

One concern is that the program will require participating utilities to submit repayment for installed improvements regardless of collections. In other words, if a Hayward property owner participates in the RWBSP and then does not pay their full water bill, the City would still be responsible for paying the surcharge to BayREN on their behalf. In lieu of requiring participating utilities to repay the program regardless of collections, the program could establish a loan loss reserve, however this would increase overall program costs and would require all participants to pay higher fees to fund the reserve. The program requires screening of potential participants and will only extend an offer to customers in good standing, which should limit the chances of a participant with delinquent payments.

While Hayward's participation in the RWBSP would free up City funds allocated to program, the City's involvement would be similar to the existing pilot program. The City would no longer have contracts with suppliers, contractors and the certification agent, but the City would still be responsible for assistance with marketing and for applying surcharges to water bills. Upon direction from the Committee staff could return to the Committee when details of the RWBSP are further developed.

ECONOMIC IMPACT

The Green Hayward PAYS® Program benefits residents and property owners who are able to take advantage of the opportunity to improve energy and water efficiency in their homes with no up-front costs and no increases in their overall utility bills.

FISCAL IMPACT

The funding for the program is \$1,000,000 from the Water Improvement Capital Fund, which will be paid back over time with interest through a surcharge on each participating customer's water bill. The City has an agreement with its selected PAYS® Program Certification Agent, Frontier Energy, not-to-exceed amount of \$100,000. An administrative fee is charged to each participating customer to cover Frontier's costs associated with managing the program.

STRATEGIC INITIATIVES

This agenda item supports the Complete Communities Strategic Initiative. The purpose of the Complete Communities initiative is to create and support structures, services, and amenities to provide inclusive and equitable access with the goal of becoming a thriving and promising place to live, work and play for all. This item supports the following goal and objectives:

Goal 1: Improve quality of life for residents, business owners, and community members in all Hayward neighborhoods.

Objective 4: Create resilient and sustainable neighborhoods

This agenda item also supports the Tennyson Corridor Strategic Initiative. The purpose of the Tennyson Corridor initiative is to develop an attractive, cohesive, thriving Tennyson Corridor through thoughtful engagement of residents, businesses and community partnerships. This item supports the following goal and objectives:

Goal 5: Increase Community Resiliency.

Objective 6: Reduce resident utility bills through efficiency

SUSTAINABILITY FEATURES

Water: Access to on-bill financing through the PAYS® program enables water upgrades, which reduce Hayward's per capita water consumption.

Energy: Access to on-bill financing through the PAYS® program enables energy efficiency upgrades, which reduce the community's reliance on fossil fuels.

PUBLIC CONTACT

Outreach related to the Green Hayward PAYS® program has been focused to owners and managers of multifamily properties. Since July 2017, staff has worked with Frontier Energy to conduct 664 communications (mailers, outreach calls, etc.) to Hayward multifamily owners and managers. In addition, two case studies were developed and shared with prospective participants.

NEXT STEPS

Upon direction from the Committee, staff will prepare a resolution for consideration by the full Council to terminate the Green Hayward PAYS® pilot program by December 31, 2019. Furthermore, staff could return to the Committee for consideration of the City's participation in the RWBSP.

Prepared by: Erik Pearson, Environmental Services Manager

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is written over a horizontal line.

Kelly McAdoo, City Manager