

ITEM #:	<u>45</u>
DATE:	<u>05-13-25</u>
DEPT:	<u>ELEC</u>

## **COUNCIL ACTION FORM**

**SUBJECT:     PAY AS YOU SAVE (PAYS) FEASIBILITY STUDY IN PARTNERSHIP WITH  
THE IOWA ECONOMIC DEVELOPMENT AUTHORITY**

### **BACKGROUND:**

The Climate Action Plan (CAP), [accepted by City Council in June 2023](#), includes Six Big Moves. Big Move #2, Building Retrofits, targets major retrofits to existing buildings to reduce energy consumption and associated GHG emissions. Energy efficiency retrofits provide many benefits including lower utility bills for consumers, reduced GHG emissions, and peak demand reductions. Buildings comprise 35% of the community's greenhouse gas (GHG) emissions footprint.

In the January 2024 [Staff Report on Climate Action Plan Seven Initial Action Steps](#), tariff on-bill financing, known formally as Pay As You Save (PAYS), was introduced as an innovative strategy to finance and scale building retrofits in the community. In the PAYS model, the utility provides no or low-interest funding for energy efficiency retrofits and is repaid through a customer's monthly utility bill.

There are approximately 100 tariff on-bill programs in the country. Data is not available for all of these programs, but a 2022 study collected performance data on 24 PAYS programs, including mostly electric cooperatives, with some investor-owned utilities and municipal utilities in ten states. Utility size ranged from 7,000 to over 1 million customers, and program inception dates ranged from 2002 to 2021. Cumulatively, there was over \$50 million invested in almost 6,000 projects, with charge-off rates ranging from less than 0.1% to 0.22%.

**Projects funded using the PAYS model will only qualify if they result in savings that exceed the monthly finance charge and result in a net savings for the consumer. An energy audit is typically conducted as part of the analysis to determine eligibility of projects.** The model has been successfully implemented in other communities across the country and has made energy-efficient upgrades more accessible to a wide range of households and incomes.

The Iowa Economic Development Authority (IEDA) recently approached staff, seeking to support the development of PAYS in Iowa. IEDA proposed a PAYS feasibility study for Ames Electric Services, conducted in partnership with the Energy Efficiency Institute (EEI). EEI invented PAYS and is among the foremost experts on the model. The project budget is approximately \$40,000, to be paid in full by IEDA to EEI, and is expected to conclude by October 2025.

The study would answer key outstanding questions and concerns about the PAYS model through the proposed scope:

- Determine any prohibitions or hurdles to implementing PAYS.
- Assess the value of energy and demand savings to participating customers and Ames Electric Services.
- Program design and operations.
- Exploration of potential capital funding sources.

The City's commitment includes staff time to form a working group and meet regularly throughout the project. The working group's purpose is to provide necessary information, review findings, and decide on key program components. The project will also engage contractors and other local stakeholders. **Conducting the feasibility study does not commit the City to implementing a PAYS program. If the study results are favorable, staff will return to Council for further guidance on implementing PAYS.**

Related to PAYS, but not directly tied to the feasibility study, in November 2024, Council [authorized staff to submit a letter of intent](#) to apply for the Rural Energy Savings Program (RESP) as a potential funding source for PAYS. Administered by the US Department of Agriculture's Rural Utilities Service (RUS), this program provides zero percent interest loans to utilities that, in turn, provide loans to consumers to implement energy efficiency measures. **On May 2, 2025, RUS confirmed the City of Ames' eligibility and invited the City to submit a full RESP loan application by July 31 for an amount up to \$15,000,000 to be repaid within 20 years.** Staff will return to Council in late June/early July for a decision regarding whether to submit a full RESP loan application.

Given this recent news about the City's eligibility to apply for a RESP loan, staff will work with IEDA to try to expedite the feasibility study or structure the phases of the study so the City can better evaluate by July whether to apply for the RESP loan. Staff intends to provide an update in late June/early July as to the status of the study and the RESP loan opportunity if the Council decides to proceed with the study.

#### **ALTERNATIVES:**

1. Authorize City staff to partner with the Iowa Economic Development Authority to complete a Pay As You Save (PAYS) feasibility study.
2. Do not authorize City staff to partner with the Iowa Economic Development Authority to complete a Pay As You Save (PAYS) feasibility study.

#### **CITY MANAGER'S RECOMMENDED ACTION:**

The PAYS model has considerable potential to lower costs for consumers, reduce GHG emissions, and benefit the utility through peak demand reductions. PAYS and similar models have been used in several cities or utilities such as the City of Maquoketa in IA, the City of Hayward in CA, Ouachita Electric Coop in AR, and Midwest Energy Coop in KS, among others, and has been effective.

Additionally, a PAYS program can result in significant progress toward the CAP goals. Currently there are some uncertainties around how the program could be designed and implemented. The City would benefit from pursuing this feasibility study, as the study will seek to answer any outstanding questions by fully exploring the model's feasibility. In addition, IEDA is offering to cover the cost of the study. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.