City of Alexandria, Virginia
FY 2020 Proposed Operating Budget & CIP
Budget Questions & Answers

April 17, 2019

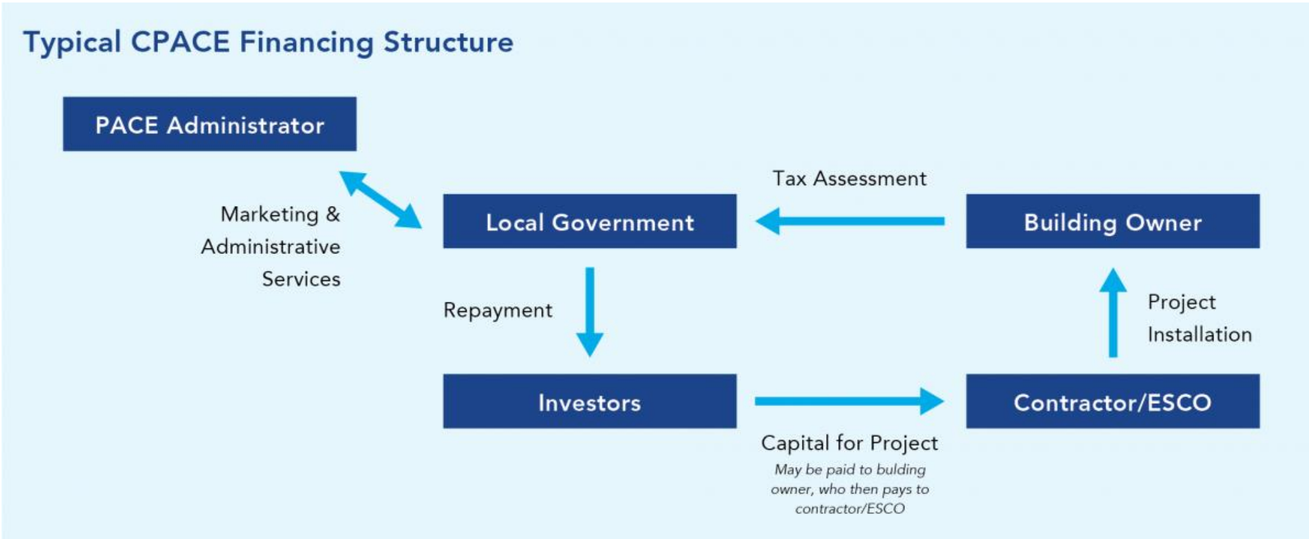
Question:

What are the financial benefits to the City implementing a C-PACE program? What can be achieved by C-PACE through a city tax attachment that cannot be accomplished through the private market? What environmental impacts can a C-PACE program provide that the government cannot achieve through legislation? (Councilman Seifeldein)

Response:

A Commercial Property Assessed Clean Energy program is referred to as C-PACE. C-PACE is a financing mechanism designed to promote energy efficiency, water efficiency, shoreline resiliency, stormwater management improvements, and installation of renewable energy systems for commercial, institutional and non-profit, and multi-family buildings with 5 or more dwelling units. C-PACE programs are voluntary and allow property owners to obtain financing for eligible projects, through private lenders, and make repayments via an extra charge on their property tax bill or through a private sector entity. C-PACE programs may be applied to existing buildings as well as new construction.

Implementation of a C-PACE program is authorized by §15.2-958.3 of the Code of Virginia, and is a featured recommendation of the Commonwealth of Virginia's 2018 Energy Plan.[1] C-PACE uses the financial assessment authority of government to carry out what is usually a private sector lending and payment activity, and as such it is reasonable to question whether or not a government's tax collection authority via special assessment lien should be used for such private purposes. The City Manager has concerns about this program for this reason. If Council wishes to fund a C-PACE program the City Manager recommends the monies be placed in contingency until staff have developed a specific program design by determining a specific implementation strategy which best aligns with City priorities and best practices. Arlington County apparently also had similar concerns and worked out a C-PACE program without the use of its tax collection system or through the County's issuance of a special assessment. Rather, the County delegated the issuance of special assessment liens and the collection of loans to a third party. The County is working on completing its first loans.



(Source: US Department of Energy, Better Buildings Initiative)

C-PACE programs generally work as follows. A C-PACE administrator conducts marketing and outreach to identify and originate projects with potentially interested building owners. The C-PACE administrator conducts a project evaluation and seeks all necessary approvals. Once third-party, private financing is secured, contractors install the project equipment and systems, and the customer begins to realize project savings. Subsequently, a C-PACE special assessment lien is placed on the property, and the private financing is repaid in the form of charges added to the building owner's property tax bill or through private collection. The repayment may extend to a period of 10 to 20 years. If the property is sold during the C-PACE repayment period, the lien securing the assessment remains with the property and becomes an obligation of the new building owner. The lien cannot be reduced or discharged through a bankruptcy filing. Non-payment of a C-PACE assessment results in the same set of repercussions as a failure to pay any other portion of the property tax bill.

Question: What are the financial benefits to the City implementing a C-PACE program?

An analysis of specific and detailed financial benefits to the City has not been developed. However, C-PACE programs across the United States have demonstrated numerous benefits that include furthering economic development goals such as job creation, improving building owner cash flows for reinvestment in businesses and properties, and stabilizing building ownership and tenancy[2],[3]. Furthermore, as a C-PACE program provides building owners the opportunity to upgrade their buildings – which may include substantial deferred maintenance needs – and implement permanent energy efficiency, water efficiency, shoreline resiliency, and stormwater management improvements that are affixed to the building, the result is an overall improvement to the building's value. Finally, as a C-PACE program supports implementation of energy efficiency, water efficiency, and stormwater management improvements in commercial, institutional and non-profit, and multi-family dwellings, this necessarily supports the City's goals identified in the Environmental Action Plan.

A preliminary analysis of City's publicly-accessible property tax assessment records, performed by the Virginia Energy Efficiency Council (VAEEC)[4], estimates the number of buildings in Alexandria that may benefit from energy and water efficiency improvements enabled through a C-PACE program may exceed 2,000 buildings totaling over 24,000,000 square-feet of floor area.

In Virginia, Arlington County and the City of Fredericksburg currently have operating C-PACE programs, and Loudoun County and Fairfax County are in process of implementing C-PACE programs in their respective jurisdictions. The District of Columbia, Montgomery County, and Prince George's County have operating C-PACE programs. Arlington's C-PACE program minimizes the role of the County government and does not use its tax system or any other County system for collection of loan repayments by utilizing a private third-party contractor to perform enforcement and collections of the program. Both Arlington and Loudoun Counties have included language in C-PACE enabling legislation to financially protect the jurisdictions from liability in the event of any and all defaults for loan repayments, fees, other charges and penalties.

Question: What can be achieved by C-PACE through a City tax attachment that cannot be accomplished through the private market?

A C-PACE program, and the use of a City lien attachment, serves as a mechanism to enable the benefits of what is typically accomplished through the private financial lending markets. C-PACE programs are voluntary and allow property owners to obtain financing for eligible projects, through private lenders, and make repayments via the city tax attachment on their property tax bill. As a result, a C-PACE lien is placed on the property. If the property is sold during the C-PACE repayment period, the lien securing the assessment remains with the property and becomes an obligation of the new building owner. Non-payment of a C-PACE assessments results in the same set of repercussions as a failure to pay any other portion of the property tax bill.

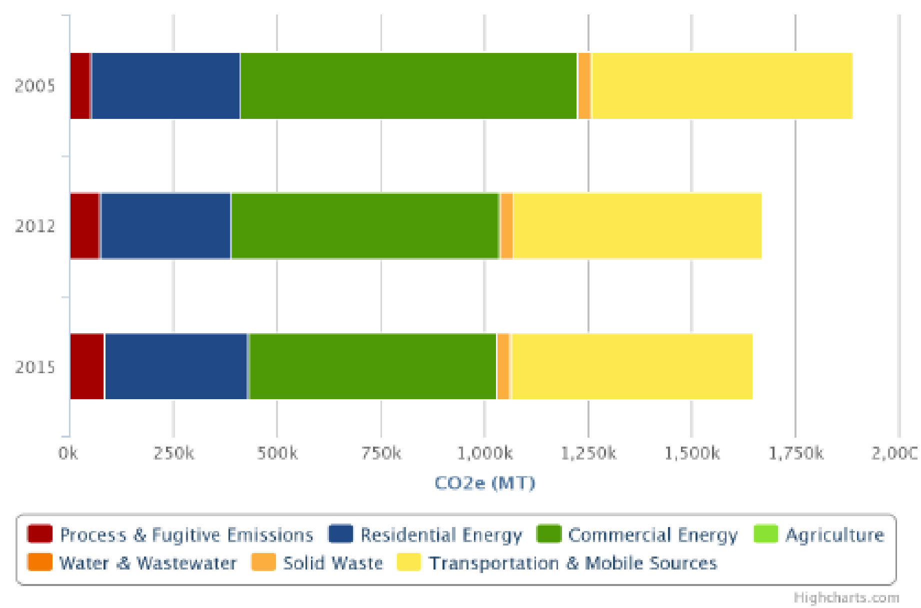
Financing through a C-PACE program is typically structured to cover 100% of project cost with long 10 - 20-year terms that is not to exceed the useful life of the installed equipment. This results in lower annual payments that are typically less than project savings which provides cash-flow for repayment. Financial risk management provisions are also a key feature of a C-PACE program, including mortgage lender consent and the ability to include evaluation metrics such as savings-to-investment ratio and loan-to-value ratio. In addition, a C-PACE program provides a government sponsorship with a level of program oversite that adds a layer of integrity, an independent program administrator is responsible for project technical underwriting, commissioning, and performance measurement and verification. As a result of these C-PACE program features, a building owner may achieve more favorable loan terms (i.e. better interest rates and long repayment terms) through competitively-sourced financing as there is strong financial security for investors. Moreover, C-PACE can align incentives for landlords and tenants, as both the tax assessment and cost-savings from the project can be shared with tenants under most lease structures.

Alternatively, absent a C-PACE program, as an example, a commercial, institutional, or multi-family building owner may elect to use cash payment or seek out a conventional commercial loan which most often do not have the same features or benefits due to the lack of financial security for investors of the government's lien and collection authority which has been extended to C-PACE. Moreover, the technical facilitation and oversite may not be available in a strictly private market circumstance.

Question: What environmental impacts can a C-PACE program provide that the government cannot achieve through legislation?

As a result of Virginia's Dillon Rule and statutory restrictions, the City of Alexandria has many limitations on what environmental impacts it may achieve through legislation. This is especially true of privately-owned existing buildings. The City's Green Building Policy provides a mechanism to support achieving environmental impacts for any new construction seeking a Development Special Use Permit (DSUP) or Development Site Plan (DSP). The City's Green Building Policy does not currently have a similar mechanism for existing commercial, institutional, or multi-family buildings.

According to greenhouse gas inventory analysis performed by the Metropolitan Washington Council of Governments (MWCOG), in partnership with City of Alexandria staff, nearly 40% of the Alexandria community's greenhouse gas emissions are attributed to existing commercial, institutional, and multi-family dwellings.



(Source: City of Alexandria, Metropolitan Washington Council of Governments)[5]

In order to achieve environmental impact goals outlined in the City's Environmental Action Plan 2040 (EAP), programs and tools that provide opportunity for commercial, institutional, and multi-family buildings to reduce their greenhouse gas emissions through energy efficiency and renewable energy are necessary. In fact, the City's implementation of a C-PACE program is identified as an EAP Phase 1 action. The City's Green Building Advisory Group's forthcoming Green Building Policy update also recommends the City's implementation of a C-PACE program to reduce greenhouse gas emissions from existing commercial, institutional, and multi-family buildings. This recommendation has been supported by numerous Alexandria building owners and real-estate developers. A C-PACE program also provides opportunity for building owners to implement water efficiency, shoreline resiliency, and stormwater management improvements to achieve beneficial environmental impacts. **Because of the proposed use of the City's lien attachment to ensure collection of private C-PACE payments from property owners, the City Manager has not decided whether or not he will be recommending that the City adopt a C-PACE program. Given the Arlington model, which staff needs to further explore, if Council decides it wants to fund C-PACE the City Manager recommends that the monies be put into contingency until the details of how the program would work in Alexandria could be worked out.** It should be noted that SRS who has written the City advocating C-PACE and whose representative advocated for C-PACE at Council's April 13th public hearing is a for profit company who would likely directly benefit from Council adopting a C-PACE program.

Sources:

[1] https://www.dmme.virginia.gov/DE/VirginiaEnergyPlan.shtml

[2] https://pacenation.us/case-studies/

[3] https://betterbuildingsinitiative.energy.gov/financing-navigator/option/cpace#case-studies

[4] https://vaeec.org/

[5] https://www.alexandriava.gov/uploadedFiles/tes/eco-city/Alexandria%20GHG%20Factsheet_Apr2018%20-%20FINAL.pdf