

Commercial Property Assessed Clean Energy (C-PACE) Requested Ordinance Adoption

September 12, 2023



Agenda

- ❖ C-PACE Program Highlights
- ❖ What Is C-PACE?
- ❖ C-PACE in Virginia
- ❖ Roles, Responsibilities, and Process

C-PACE Program Highlights

- C-PACE stands for Commercial Property Assessed Clean Energy. (More on the concept momentarily...)
- Allowing C-PACE in Harrisonburg will:
 - **Accelerate environmental improvements** to new construction and existing buildings that reduce greenhouse gas emissions and enhance building resilience to climate change impacts
 - **Make it easier for local businesses** and commercial property owners to make investments in energy efficiency, water conservation, and renewable energy



C-PACE Program Highlights

- Program seeks to make property improvements **cost neutral** so that benefits match or outweigh the property assessment.
- Projects could include installing solar panels, improving insulation, upgrading to energy-efficient windows and lighting, or automating building mechanical controls.



C-PACE Program Highlights

- A local business, for example, might use C-PACE financing to install rooftop solar panels or electric vehicle charging stations.
- Ultimately, the program will incentivize the private sector to participate in local climate action and realize savings on their energy costs.



What Is C-PACE?

- C-PACE is one type of Property Assessed Clean Energy (PACE) program.
- PACE programs create a **financing mechanism** for clean energy, energy efficiency, and other environmentally beneficial investments during new construction, renovations, and retrofits.
- These improvements reduce greenhouse gas emissions and strengthen resilience to climate change.

What Is C-PACE?

US Department of Energy:

“PACE programs allow a property owner to finance the up-front cost of energy or other eligible improvements on a property and then pay the costs back over time through a voluntary assessment. The unique characteristic of PACE assessments is that the **assessment is attached to the property** rather than an individual.”

More information: [Property Assessed Clean Energy Programs | Department of Energy](#)

What Is C-PACE?

C-PACE programs overcome two common obstacles to property owners making clean energy, energy efficiency, and other environmental improvements to their properties:

1) Lack of financial capital for up-front costs

2) The payback period between the up-front investment and when the improvements finish paying for themselves

What Is C-PACE?

How does C-PACE help?

1) Up-Front Costs:
C-PACE functions similarly to a loan, providing up-front financial capital



2) Payback Period: C-PACE payments are attached to the property rather than the individual owner or business (as in the case of a loan), so property owners will realize the benefits of the improvements even if they sell the property before the investment's payback period.

Additionally, due to the high security of the repayment structure, C-PACE programs generally offer lower interest rates than a conventional loan, reducing the overall costs to the property owner.



What Is C-PACE?

C-PACE

enabled in Virginia

- C-PACE is for commercial properties and large multifamily buildings
- Loans tend to be for \$100,000+ with business owners who have experience borrowing
- Lawyers usually represent the business and lender

Residential PACE

NOT *enabled in Virginia*

- For residential properties (mostly single-family)
- News reports of some consumer protection issues
- Focus of media coverage and government action is on residential PACE

What Is C-PACE?

C-PACE Loan Example

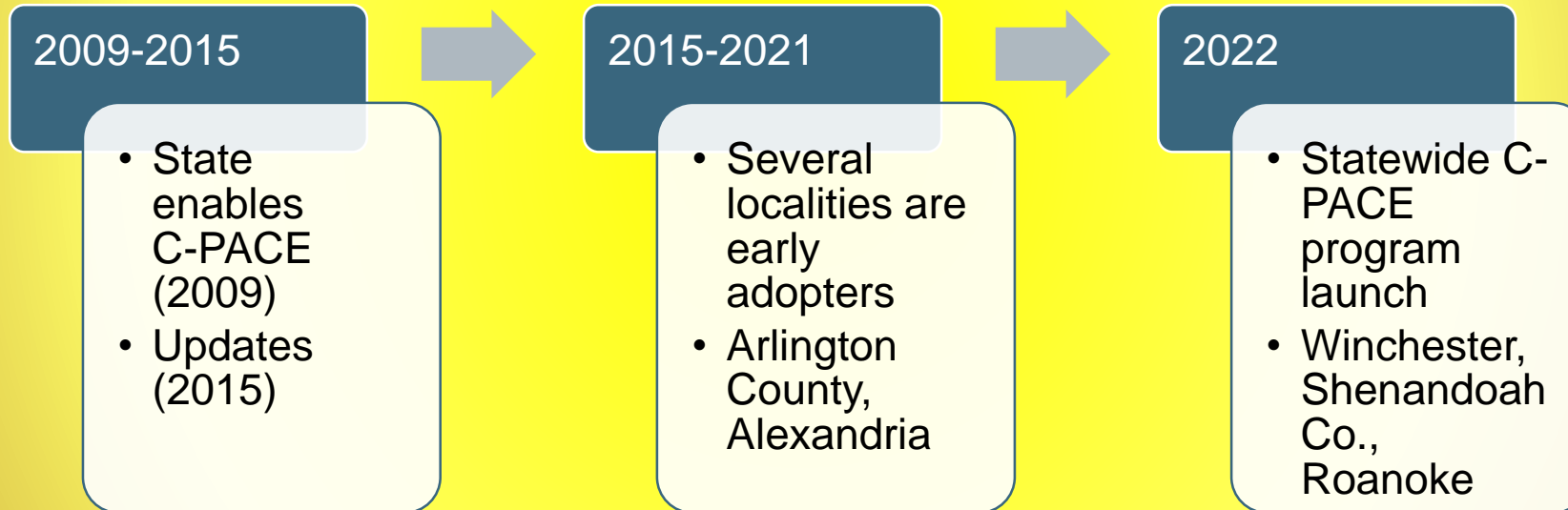
- C-PACE Total Financed Amount Estimated at: \$51,450,026
- Total Development Cost Estimated at: \$154,800,000
- Interest Rate: 6.45%
- Interest will be calculated on an actual/360-day convention.
- Term 27 years. The total term shall be equal to or less than the weighted average estimated useful life of the improvements financed
- Annual Payment
 - Years 1-3 (Interest-Only): \$3,365,217 annually
 - Years 4-27 (Principal & Interest): \$4,279,730 annually

What Is C-PACE?

C-PACE is an example of implementing our Environmental Action Plan in a way that facilitates local businesses to participate in the implementation.

C-PACE in Virginia

While C-PACE has been enabled in Virginia for over a decade, it is now a statewide program.

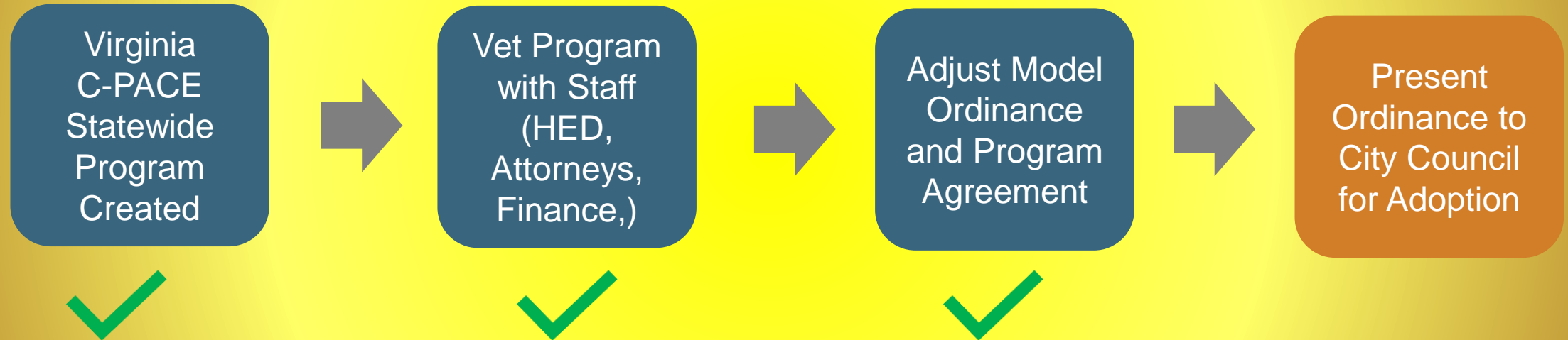


C-PACE in Virginia

- Virginia PACE Authority administers statewide program
 - Facilitates coordination between lenders and borrowers
 - Handles payment processing
- State program lowers the bar for entry for all parties involved:
 - Property owner
 - Financial institution
 - Local government

Roles & Responsibilities

One-Time Setup Work



Roles & Responsibilities

City of Harrisonburg

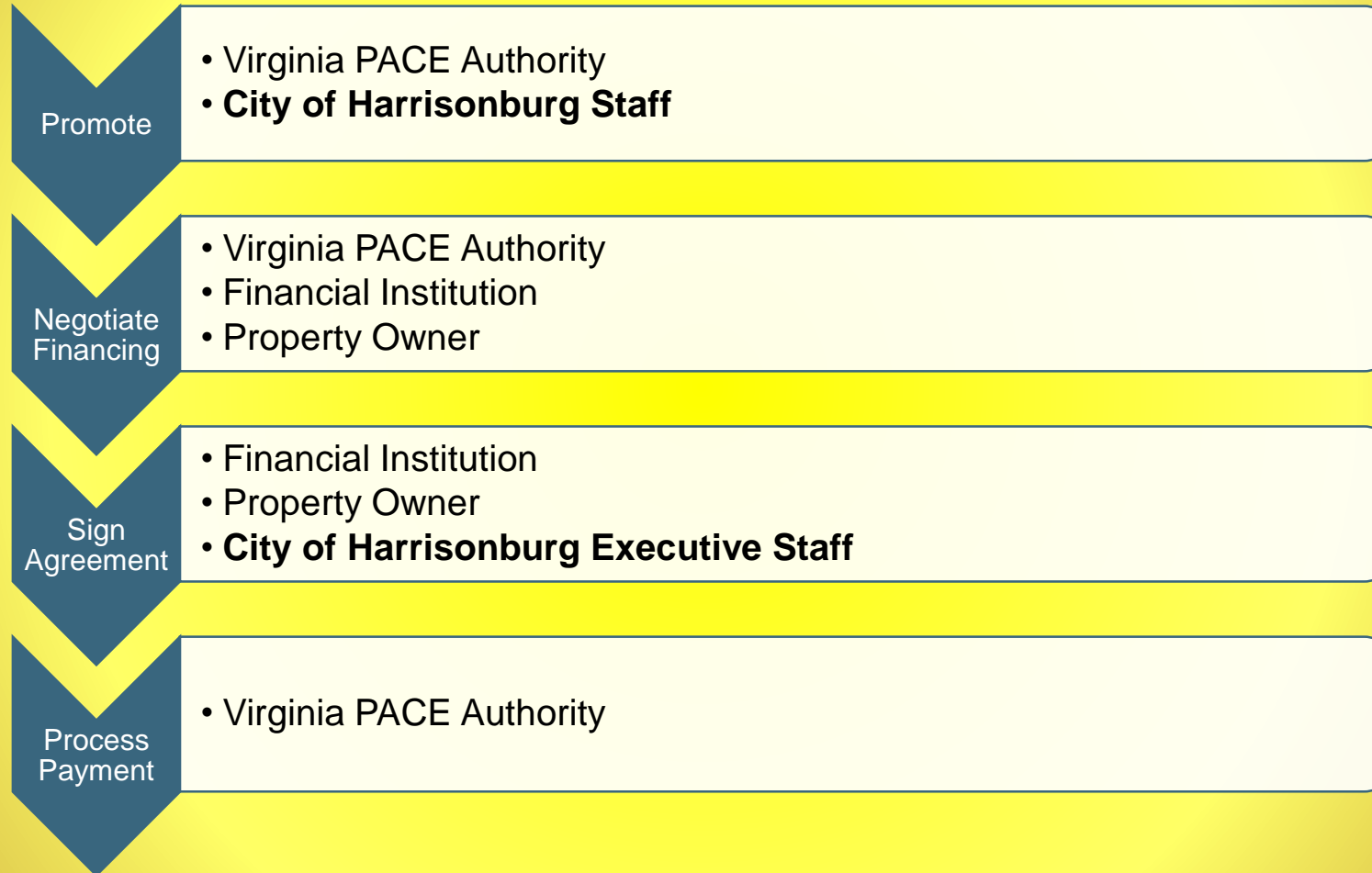
- City Staff: promote C-PACE
- City Manager & Finance Director co-sign each unique C-PACE Financing Program Agreement

*only ongoing obligation is staff time
(~20 hours/year)*

Virginia PACE Authority

- Promote C-PACE opportunities
- Broker agreements
- Manage program participation and payment

Process for Each Project



Frequently Asked Questions

Why does being a C-PACE city help property owners receive financing?

- The C-PACE agreement gives the lender more security to provide longer term financing (which is the key aspect of the program) because if the current owner defaults on the C-PACE loan, the property (in all likelihood) will transfer to a new owner who is committed by law to repay the C-PACE loan. Again, the C-PACE loan attaches to the property, and thus transfers to any new owner.

How does loan repayment work?

- Annual or bi-annual payments are typical. Lenders prefer to match the locality's property tax collection schedule. Lender does annual invoicing. Lender bills and collects.



Frequently Asked Questions

What if there is a default on the loan?

- The only time the city would get involved is if property owner goes delinquent on C-PACE loan payments. The lender can then request our delinquency process be started. This would trigger our same delinquency process – either tax sale or foreclosure. If the property goes to tax sale, the C-PACE loan pauses, and waits for the next property owner who then resumes the payments. Whoever buys the property agrees to commence C-PACE loan payment.

Staff Recommendation

Staff recommends that City Council adopt the local C-PACE ordinance, allowing the City of Harrisonburg to opt into the statewide C-PACE program.

Proposed Motion

I move that the council adopt the proposed C-PACE ordinance and authorize the City Manager to execute both a C-PACE agreement with the Virginia Department of Energy, and C-PACE program agreements with capital providers, once those agreements are approved as to form and substance by the City Attorney.