

# Designing Virginia's Statewide C-PACE Program: Local Government Considerations

January 26, 2022



# Objective and Housekeeping

- Objective: For Virginia Energy and VPA to present the proposed program structure for the statewide C-PACE program and get your input on key decision points
- Housekeeping:
  - We are recording
  - Chat comments will be noted. Put your name in the chat if you would like to make a verbal comment

# Agenda

- Introduction: Virginia Energy and Virginia PACE Authority
- C-PACE 101
- VA's Existing C-PACE Landscape
- Overview of Statewide Program and State Statute
- Role of Local Government in C-PACE Process
- Discussion of High Priority Topics
- Other Topics / Open Discussion
- Next steps

# Virginia Energy

- [§ 15.2-958.3 of the Code of Virginia](#) authorizes local governments to enact C-PACE ordinances
- Chapter 664 of the 2020 Acts of Assembly adds language to §15.2-958.3 that provides authority for Virginia Energy to offer a statewide C-PACE program option for localities
- Virginia Energy competitively selected the Virginia PACE Authority to design and administer the statewide program, with technical support from Slipstream

# Virginia PACE Authority

- Formed in 2019 as a 501c3 nonprofit serving Virginia
- Key staff have over nine years of experience
  - National program administrative and project development expertise
  - Providing outreach/education on C-PACE in Virginia since 2015
- Slipstream provides technical support
  - Provides program administrative in Wisconsin, Illinois and Oklahoma
- Currently administers nine localities under contract
- RISE Challenge grant recipient led to development of innovative project development tool, PACEfi

# C-PACE 101 *Commercial Property Assessed Clean Energy*



## Social Equity

C-PACE expands access to capital in particular for affordable housing, places of worship, and community-based organizations.



## Job Creation

Infused \$2.5+ billion nationally into local economies in 2,600+ projects, creating over 24,000 jobs.



## Resource Conservation

Funds clean energy, water efficiency, and resiliency projects, reducing GHG, improving air and water quality.

# C-PACE 101 *Innovative Financing Tool*

- Property Assessed Clean Energy is assessment-based financing . . . Not a new concept
- C-PACE stands for Commercial Property Assessed Clean Energy - excludes residential under 5 units
- Enabled by Statewide legislation; Virginia perfected in 2015; PACE is enabled at the local level via an ordinance
- For most states including Virginia, C-PACE is available for both new construction and existing buildings
- C-PACE is a special assessment enforced like any other property tax or assessment
- C-PACE assessment survives sales, including foreclosures; future assessments are paid by future building owners
- C-PACE is senior to mortgages - but only the past due assessment payments



Ben created the 1<sup>st</sup> assessment district in 1776

# How does it work ? *Public Private Partnership*

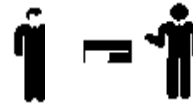
## PUBLIC



C-PACE loan secured by special assessment on property

Locality enforces C-PACE loan in case of foreclosure

## PRIVATE



Funding provided by private Capital Providers for private owners

VPA is hired by public entity and paid through closing fees

Public/Private: C-PACE loan installments are paid back to Capital Providers either directly or through PA



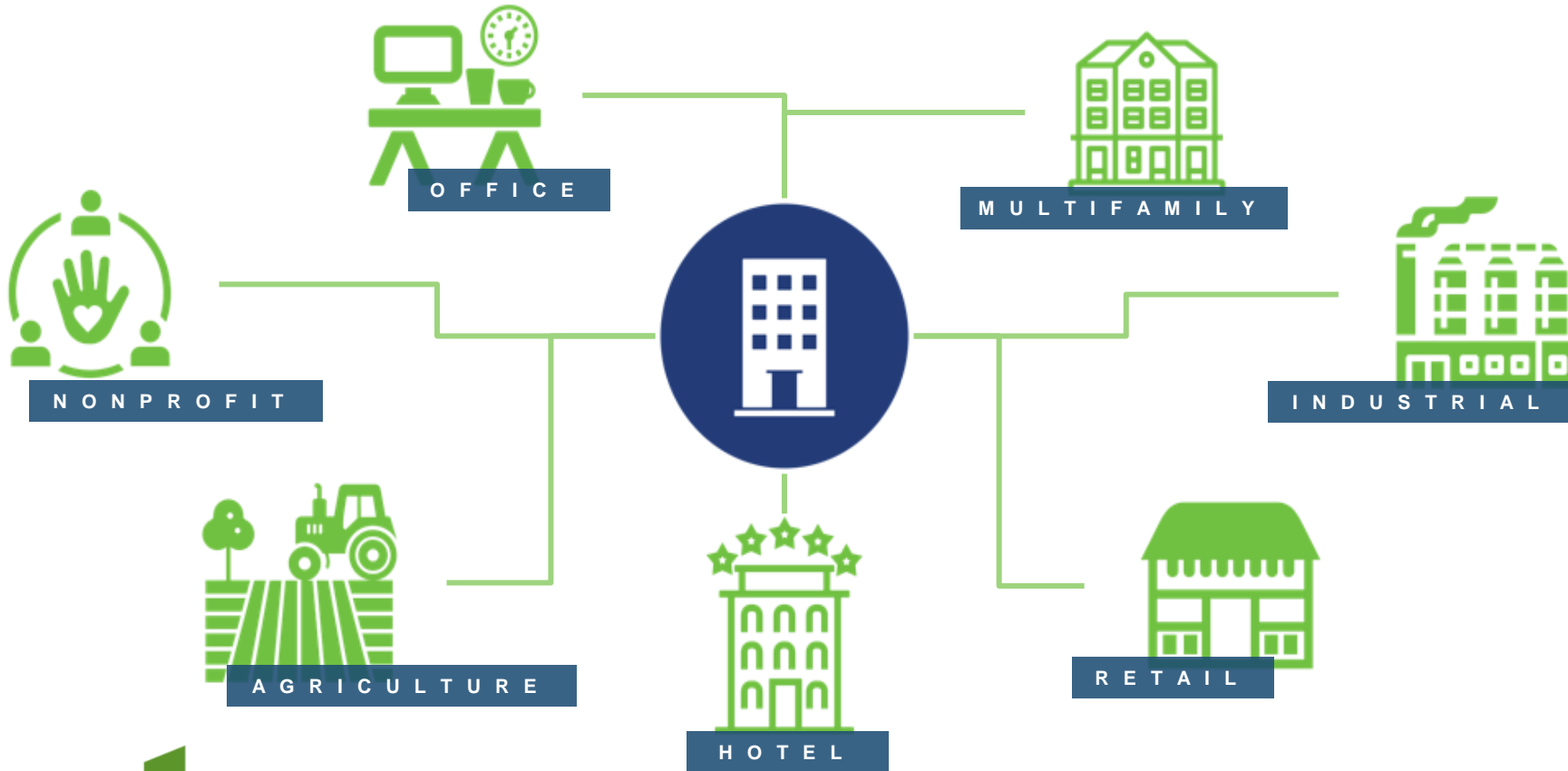
# Benefits of C-PACE *For Property Owners and Developers*

- 100% financing of retrofit project and portion of new construction project
- Long financing terms up to 30 years/based on estimated useful life of improvements
- Fixed interest rates
- Reduces operational expenses due to high performing equipment
- Non-recourse -property-based security
- Investment tax credit benefits for solar and wind remain with property owner
- Appears as an operating expense, not liability
- Landlords and tenants both benefit
- Automatic transferable and pre-payable

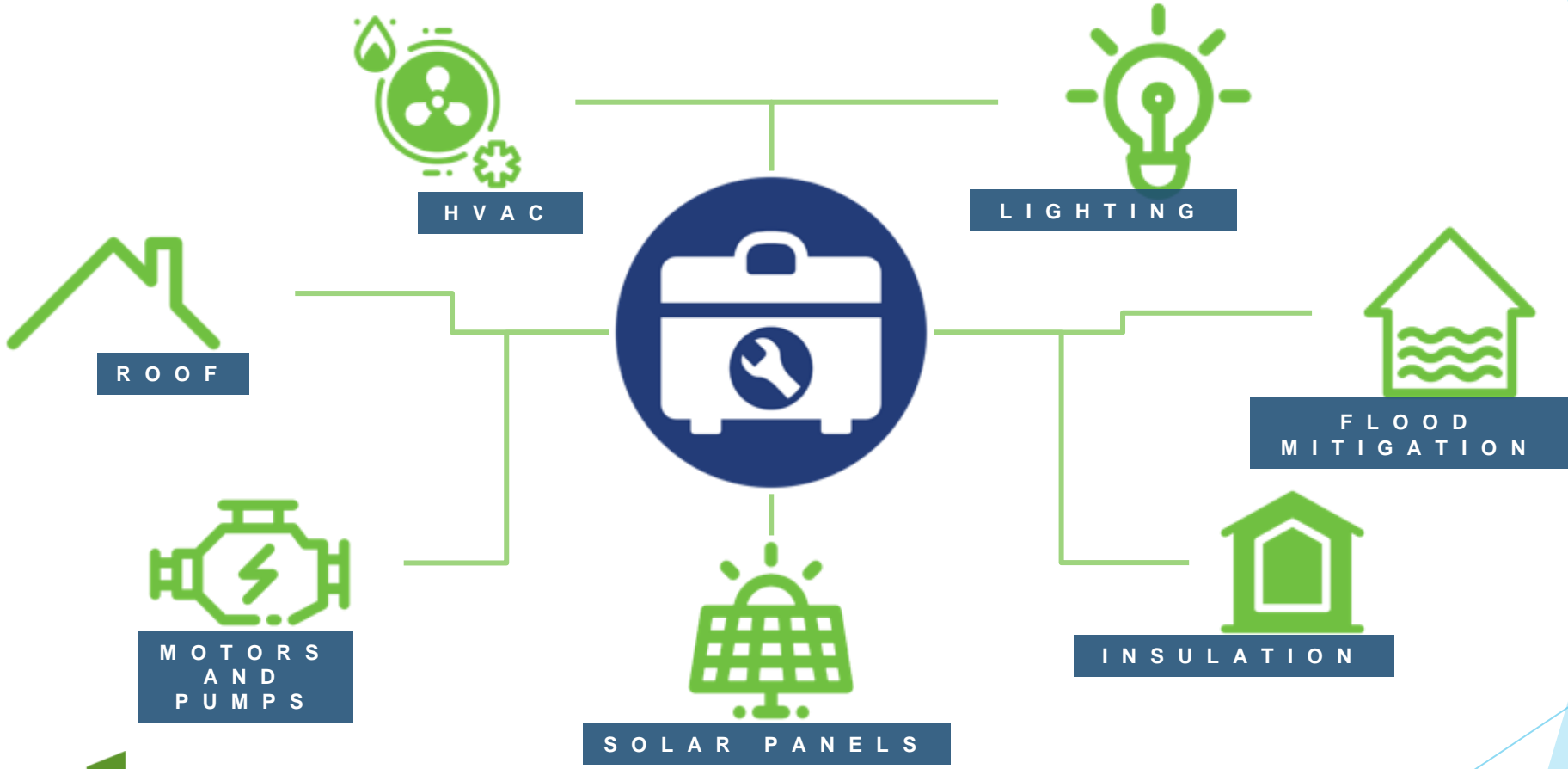
# Benefits of C-PACE *For the Community*

- Supports environmental goals
- Supports investment in a community's building stock
- Creates local jobs for contractors, energy auditors, and other service providers
- Meets economic development goals
- Increases community disaster resiliency
- No financial burden on local government; all fees to are paid out of closed projects
- Highly effective tool to build value during challenging times

# Property/Ownership Types



# Eligible Improvements



# Case Study: Building Retrofit



20-year, \$785K C-PACE loan for improvements to nonprofit social services center

- Allows for property owners to use cash for operations or other purposes vs. capital expenses
- Efficient measures result in lower costs, making C-PACE cash neutral or positive
- Building value enhanced with high performing improvements
- No personal or corporate guarantees
- Passed thru to NNN tenants as part of “property tax” (depending on lease terms)

# Case Study: New Construction



20-year, \$1.93MM C-PACE  
loan on new hotel

- Lowers overall cost of capital on development projects, improves ROI
- Flexible C-PACE loan structure - deferred payments and I/O for multiple years
- Funding soft costs in loan can improve construction cash flow
- Provides gap financing, replacing portion of equity or more expensive “mezz” debt

# Existing C-PACE Program in Virginia

\$40+MM

Projects in  
pipeline

22

Registered  
capital  
providers

80+

Registered  
contractors  
and service  
providers

# Existing C-PACE Program in Virginia

16

Localities that have adopted a PACE ordinance

10

C-PACE local programs either fully or “soft” opens

33%

Localities with PACE awareness or participation



# Statewide C-PACE Program

- Set of consistent program documents and processes for property owners, contractors and local governments
  - Legal: ordinance, program agreement, recording documents, etc.
  - Technical: Program Guide, centralized application and approval process
  - Marketing/Outreach: Website, marketing collateral, tutorials, training
- State program will have an opt-in for localities - Agreement signed between Virginia Energy and locality (under draft)
- Existing programs can opt-into the statewide but will remain operational as local programs in the meantime.

# Statewide C-PACE Program

- Offered statewide, C-PACE has potential to be a powerful economic development tool:
  - If 15% of buildings in VA were financed with C-PACE\*:
    - 250,000 jobs would be created
    - \$32 Billion economic impact
    - 17 million metric tons of reduced carbon

*\*From PACE NATION's A PACE Enabled World, January 20, 2022*

# Virginia C-PACE Statute

- Existing buildings and new construction are eligible, including raw land
- All commercial property types eligible (housing 5+ units), no condo units
- Project eligibility: energy efficiency, renewables, water conservation, resiliency, and stormwater management
- Open market: private capital providers provide C-PACE loans
- Loans may refinance eligible improvements
- Project minimum dollar amounts established by ordinance; no project maximum unless publicly originated

# Virginia C-PACE Statute

- Lender consent from all existing lienholders required
- Voluntary special assessment on the property does not spur a new property value assessment
- C-PACE Lien may be enforceable by locality in same manner as a property tax lien (including recovering expenses, incurring interest)
- Enabling ordinance to be passed by cities and counties (and potentially incorporated towns)
- The ordinance must include a draft contract specifying the terms and conditions proposed by the locality
- Substantial changes must be made through state statute

# C-PACE for Local Governments *Overview of Process*

1



VPA provides jurisdiction ordinance and program agreement. Jurisdiction passes the enabling ordinance.

2



Jurisdiction opts into state program by signing agreement with Virginia Energy; VPA administers program on behalf of the state

3



VPA markets the state program to property owners, capital providers, contractors, & service providers.

4



VPA processes and approves all applications and facilitates the closing of the C-PACE loan.

5



The C-PACE Capital Provider or VPA records the C-PACE lien and construction begins

6



Property owners repay C-PACE loan over term either via the Capital Provider or through VPA

# High Priority Topics

- General Level of Involvement
- Enforcement of C-PACE Lien

# General Level of Involvement

- Balance of administrative burden and local control/oversight
- Loan approval process
- Reporting/metrics

# Questions

1. If you are a PACE-enabled locality, what issues do you encounter using PACE? Are there any areas in the Program Guide that you would change/clarify?
2. If your locality has not enabled C-PACE, can you discuss why? What would encourage you to participate?
3. What are other tools that could help increase use of/encourage adoption of C-PACE?
4. Would you prefer to delegate C-PACE loan approval to VE/VPA or maintain in-house?
5. What kind of metrics/reporting would you expect from state program such as energy saved, GHG reduced, jobs created?



# Enforcement of C-PACE Lien

- The most important thing is clarity of process for CPACE to work (and making it work is the goal!)
- Need for enforcement is very rare, traditionally with local government but in some cases third party
- The preference - and what makes PACE “PACE” is for the locality to be willing to enforce but allow other parties to collect first before proceeding with foreclosure. However, in a few localities, enforcement is assigned to capital providers.

# Questions

- Do you think that the localities should be solely responsible for enforcement?
- Would you be comfortable with having the C-PACE capital provider be solely responsible for enforcement and if yes, how would it need to be structured?
- What is the best way to make the roles and responsibilities clear?
- Would a centralized enforcement process at the state be possible and desirable?

# Other Questions

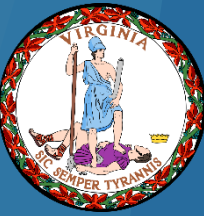
- Program Agreement Approach: There are two major types of program agreements that we included in your background folder. One that anticipates a shorter tri-party agreement and separate bilateral financing agreement (Loudoun County) and one where all terms and conditions are in one agreement (City of Roanoke). Do you have a preference? If yes, why?
- Would you support having additional parameters (e.g., LTV, term) around C-PACE financing above what is required in the state statute? If yes, would you support having these parameters included in the ordinance or in the program guide? (It should be noted that every time the statute is changed, a corresponding change in the local ordinance is necessary for the change to take effect).

# Other Questions

- There are differing legal opinions about whether incorporated towns can be included in a county program or if they would need to pass their own ordinance separate from the county. What is your opinion on when an incorporated town would not be able to be automatically part of a county program?
- Virginia is one of the more flexible states in terms of eligibility from both a statutory and VPA program perspective. Do you have any general comments about our state and your interest in participating in the Virginia C-PACE program?

# Next steps

- ▶ Upcoming stakeholder session - last one!
  - ▶ Equity considerations - February 2
- ▶ Statewide program roll out in Q2 following program design finalization
- ▶ Test PACEfi: <https://pacefi.com/>



Contact us anytime:

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