

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

January 19, 2022

# Objective and Housekeeping

- ▶ Objective: For Virginia Energy and VPA to present the proposed program structure for the statewide C-PACE program, including core program documents, 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

- ▶ Background of Statewide Program and Virginia PACE Authority
- ▶ General Overview of Virginia Market
- ▶ Discussion of High Priority 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

# 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
- ▶ Existing programs can opt-into the statewide but will remain operational as local programs in the meantime

# Virginia PACE Authority

- ▶ Formed in 2019 as 501c3 nonprofit serving Virginia exclusively
- ▶ Key staff have over nine years of experience
  - ▶ National program administrative and project development expertise including new Program Administrator role in Maryland
  - ▶ Providing outreach/education on C-PACE in Virginia since 2015
- ▶ Slipstream provides technical support
  - ▶ Provides program administrative in Wisconsin, Illinois and Oklahoma
- ▶ Nine localities under contract; 10<sup>th</sup> anticipated Jan 2022
- ▶ RISE Challenge grant recipient led to development of project development tool, PACEfi

# Existing C-PACE Program in Virginia

- ▶ Sixteen localities in Virginia have passed C-PACE ordinances; most adopted within the past three years
- ▶ Six open programs [Loudoun, Fairfax, Alexandria, Norfolk, Dumfries, Arlington (SRS)]
- ▶ Four "soft open" programs (Roanoke, Fredericksburg, Louisa, Winchester)
- ▶ Closed C-PACE transaction in 2021 (Arlington) for \$165,000
- ▶ \$30MM+ in VPA pipeline
- ▶ Direct servicing of loans by local governments is preference of most existing localities

# Existing C-PACE Program in Virginia

	In Guide?	In Ordinance	Fairfax County	Loudoun County	City of Petersburg	City of Fredericksburg	Town of Dumfries	City of Norfolk	City of Roanoke	City of Alexandria	City of Winchester	Louisa County
Closing Fee	Yes	No	1% up to first \$500k then 1.25% over \$500k	1.25%	inactive as of 11/2021	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Total Project Costs												
Floor for fee	Yes	No	\$2,500	\$3,300	\$3,300	\$3,300	\$3,300	\$3,300	\$3,300	\$3,300	\$3,300	\$3,300
Ceiling for fee	Yes	No	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
"Servicing" (BCR + Reporting)	Yes	No	1.5% of annual pymt; floor = \$330, ceiling = \$1,350 or Nothing if CP does it	1.5% of annual pymt; floor = \$330, ceiling = \$1,800		\$250 per billing cycle for C-PACE Loans up to \$100,000 or \$500 per billing cycle for C-PACE Loans above \$100,000	1.5% of annual pymt; floor = \$330, ceiling = \$1,800	1.5% of annual pymt; floor = \$330, ceiling = \$1,800		1.5% of annual pymt; floor = \$330, ceiling = \$1,800	VPA offers servicing	VPA offers servicing
Billing (the B in BCR)	Yes	No	Capital Provider or VPA	VPA		City	Capital Provider or VPA	Capital Provider or VPA		Capital Provider or VPA	Capital Provider or VPA	Capital Provider or VPA
Collection (the C in BCR)	Yes	No	Capital Provider or VPA	County		City	Capital Provider or VPA	Capital Provider or VPA		Capital Provider or VPA	Capital Provider or VPA	Capital Provider or VPA
Remittance (the R in BCR)	Yes	No	Capital Provider or VPA	County		City	Capital Provider or VPA	Capital Provider or VPA		Capital Provider or VPA	Capital Provider or VPA	Capital Provider or VPA
City/County Seal included on tax bill?	Yes	No	No	Yes		Yes	No	No		No		
Reporting required?	Yes	No	Only if servicing	Full reporting		City to confirm	Only if servicing	Only if servicing		Only if servicing	Only if servicing	Only if servicing
Recorded documents	No	No	C-PACE Certificate with amortization schedule Lender/owner consent	C-PACE Certificate with amortization schedule Lender/owner consent			C-PACE Certificate with amortization schedule Lender/owner consent	C-PACE Certificate with amortization schedule Lender/owner consent		C-PACE Assignment of Lien, Lender/owner consent		
Lien enforcement by locality	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Eligible Property Types	Yes	Yes	Multifamily 5+ units	Multifamily 5+ units	Multifamily 5+ units	Multifamily 5+ units	No multifamily	Multifamily 5+ units	Multifamily 5+ units	Multifamily 5+ units	Multifamily 5+ units	Multifamily 5+ units
Resiliency and stormwater?	Yes	Yes	Yes	come July 1		No	No	Yes	Yes	Yes	Yes	Yes
2 year lookback, comm condos, no project limits in ordinance?	Yes	Yes	No	Yes	No	No	No	No	No	No	Yes	Yes
Incorporated towns included?		No	No	Yes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Loan term	Yes	Yes	later of weighted average of 30 years based on GAAP	shorter of measure with longest life or 30 years	shorter of weighted average useful life or 30 years	shorter of weighted avg. useful life or 20 years/25 years for solar	shorter of measure with longest useful life or 30 years	shorter of (weighted average) useful life or 30 years (checking with attorney)	shorter of weighted average useful life or 30 years	shorter of measure with longest life or 30 years based on GAAP	shorter of weighted average useful life or 30 years	shorter of weighted average useful life or 30 years
Project Minimum Loan Amount	Yes	Yes	\$50,000	\$50,000	\$50,000	\$20,000	\$50,000	\$50,000	\$30,000	\$50,000	\$50,000	\$50,000
Project Maximum Loan Amount	Yes	Yes	30% of market value or \$50MM, whichever is greater	No cap	\$5MM	\$5MM	30% of market value or \$25MM, whichever is greater	30% of market value or \$25MM, whichever is greater	\$20MM	30% of market value or \$25MM, whichever is greater	No cap	No cap
Fully amortization required	depends	depends	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Program Maximum Loan Amount (private loans)	Yes	Yes	N/A	No limit	\$15MM	\$15MM	No limit	No limit	No limit	No limit	No limit	No limit
Property tax due dates			7/28 and 12/5	6/5 and 12/5	3/30; 6/30; 9/30; 12/31	5/15 and 11/15	6/5 and 12/5	3/31; 9/30; 12/5	4/5 and 10/5	6/15 and 11/15		
Program Guide status			published	published	N/A	awaiting staff action	published	awaiting staff action	awaiting staff action	published	awaiting staff action	awaiting staff action
Other				new ordinance removes all project caps								



# 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)
- ▶ The ordinance must include a draft contract specifying the terms and conditions proposed by the locality
- ▶ Substantial changes must be made through state statute
- ▶ Enabling ordinance to be passed by cities and counties (and potentially incorporated towns)

# Statewide Program Guide

- ▶ Guide must meet the state and enabling ordinance requirements and can have additional requirements and provisions at the discretion of the Program Administrator
- ▶ Guide serves as roadmap for developers, owners, local governments and contractors
- ▶ Standardized program guide has significant benefits such as reducing confusion and maximizing efficiency

# Program Guide Contents

- ▶ Disclaimers
- ▶ 1.0 Executive Summary
- ▶ 2.0 Program Administration
- ▶ 3.0 Eligibility Requirements
- ▶ 4.0 Energy and Resiliency Analysis Requirements
- ▶ 5.0 Program Fees
- ▶ 6.0 C-PACE Loan Application Process
- ▶ 7.0 C-PACE Loan Administration
- ▶ 8.0 Lender Consent
- ▶ 9.0 Change Orders
- ▶ Appendices including Common Eligible C-PACE Improvements

# High Priority Topics

- ▶ 3.2/4.3 Eligibility and Analysis Requirements
  - ▶ Resiliency and Stormwater Management Project requirements
  - ▶ Financed Ancillary and Soft Costs
- ▶ 4.4 New Construction and Substantial Renovation/Adaptive Reuse Projects
  - ▶ Project Cost Eligibility for New Construction
  - ▶ Adaptive Reuse Baseline Discussion

## 3.2/4.3 Eligibility and Analysis Requirements: Resiliency -Existing Language in Draft Guide (p. 9)

Resiliency: A measure that reduces the impacts of water or wind-related natural events such as installation of floodproofing, raising mechanical and electrical equipment, installation of EV charging stations, and/or reinforcement and insulation of the building envelope to reduce impacts of excessive heat and wind.

## 3.2/4.3 Eligibility and Analysis Requirements: Resiliency -Existing Language in Draft Guide (p. 9)

- ▶ Resiliency Measures will reference the forthcoming ASTM guide.
  - ▶ Three stages of assessment
    - ▶ Screening and confirmation of hazards
    - ▶ Vulnerability evaluation including a site inspection
    - ▶ Development
  - ▶ Qualified professionals for assessment stages
  - ▶ ASTM Draft anticipated by early summer 2022

# Questions

1. Do you have comments on the existing definition of resiliency in the program guide? Too broad? Too narrow? About right?
2. What content is needed in a third-party project analysis to enable property owners to make informed cost/benefit decisions about resiliency improvements?
3. How should compliance with state and local regulations be confirmed?
4. What resources should inform estimates of useful life of these improvements?



## 3.2/4.3 Eligibility and Analysis Requirements: Stormwater Management Existing Language in Draft Guide (p. 9)

Stormwater management: A measure that reduces onsite stormwater runoff into the stormwater system such as reduction in the quantity of impervious surfaces or onsite filtering of stormwater.

# Questions

1. How should compliance with state and local regulations be confirmed?
2. What resources should inform estimates of useful life of these improvements?
3. Who could be qualified to do a Stormwater Management Project Analysis may be done by those other than a PE (landscape architect) . What other professionals should be included?

## 3.2 Eligible Costs: Ancillary Costs

### Existing Language in Draft Guide (p.7-8)

Ancillary Costs: Construction costs that are necessary to install an Eligible Improvement. Examples include: roof structural improvements necessary to support a roof mounted solar PV array or building electrical upgrades necessary to support an energy efficient HVAC system.

*Please note that the Project documentation must clearly demonstrate that the Ancillary Costs are necessary for installation of the Eligible Improvements.*

## 3.2 Eligible Costs: Soft Costs

### Existing Language in Draft Guide (p.7)

Soft Costs: Indirect costs that are not considered direct construction costs but are necessary to complete the Project. Examples include:

- Project management;
- Closing Fees (program administration fees);
- title reports and credit checks;
- financial services (e.g., Capital Provider fee, Project Developer fee)
- legal services (e.g., Borrower legal, Capital Provider legal);
- recording charges and escrow disbursement fees;
- architectural and engineering plans;

## 3.2 Eligible Costs: Soft Costs

### Existing Language in Draft Guide (p.8) (con't)

- consulting reports;
- due diligence reports;
- energy savings or performance guaranty or insurance;
- building accreditation;
- permitting fees;
- interest reserves;
- capitalized interest; and
- any other closing costs or fees required to complete the Project.

# Questions

1. What documentation would you require to demonstrate an Ancillary Cost is eligible? Should there be a limit to the amount that an ancillary cost would be eligible?
2. Currently, eligible soft costs that are not allocated directly to installation of an Eligible Improvement are calculated in the same proportion as the proportion of C-PACE project costs to the total construction budget. What is your opinion of this approach?
3. Are the types of soft costs eligible appropriate? Too generous? Too restrictive? Are there soft costs not listed here that you think should be eligible?
4. Should a maximum capitalized interest period be set? If yes, what limit would you recommend?

## 4.4 New Construction: Project Eligibility Draft Language in Existing Guide (p. 14)

### Methodologies for Determining Savings

#### **Method 1: Itemization of individual Eligible Improvements:**

- Itemization of individual Eligible Improvements in the Project whose efficiency specifications exceed the baseline requirements as outlined in the appropriate building code. The Energy Analysis must describe the characteristics of each Eligible Improvement according to the Energy Analysis guidelines and provide supporting documentation showing that each Eligible Improvement exceeds minimum baseline requirements

## 4.4 New Construction: Project Eligibility Draft Language in Existing Guide (p.15)

### Methodologies for Determining Savings

#### **Method 2: Demonstration of total savings on a whole building level:**

- One hundred percent (100%) of the energy and water-related measures included in the whole building model may be financed up to the following limits:
- A whole building performance that exceeds code baseline by less than 5% may fund up to 20% of total hard and soft costs of whole building construction.
- A whole building performance that exceeds code baseline by 5% or more can fund up to 25% of total hard and soft costs of whole building construction.



# Questions

Background: Virginia adopted the 2018 USBC (with a few amendments) and is currently in the middle of the 3-year 2021 Code Development cycle process. The 2018 code went into effect July 1, 2021.

1. Do you agree that all improvements that exceed energy/building code requirements should be PACE-eligible? If yes, explain why. If no, explain why.
2. Should only the cost of above-code improvements be eligible for PACE financing as in Method 1? Alternatively, what is your opinion of existing guide where qualifying projects can use C-PACE to finance a certain percentage of the total construction budget?
3. Are there any other qualifications that you think should be required to demonstrate project qualifications?
4. How will this standard affect the development of the C-PACE Market in Virginia?

## 4.4 Adaptive Reuse: Baseline Discussion

### Draft Language in Existing Guide (p. 14)

#### **Baseline: Substantial Renovation/Adaptive Reuse**

If the Project concerns the substantial renovation or adaptive reuse of an Eligible Property, then the baseline for the purposes of establishing energy or water usage may be set at the minimum code level for the replacement or addition of equipment. Except for the provision of historic utility bills, the Energy Analysis for this Project type should include all other component requirements for New Construction, as outlined above. Energy or water savings for Substantial Renovation/Adaptive Reuse may be established using the appropriate Energy Analysis methodology determined by the Qualified Professional.

# Questions

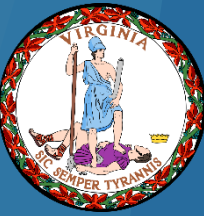
1. In what contexts could improvements to existing buildings be assessed against current energy/building code, rather than against existing conditions in the building?
2. Are different baseline rules appropriate for adaptive reuse of an existing building versus for a gut renovation of an existing building?
3. If a baseline is used for adaptive reuse or gut rehab projects that is not the existing building conditions, how should adaptive reuse and gut rehab be defined?

# Other Questions and Concerns

1. Do any of the requirements in the Program Guide create barriers to participation in the Virginia C-PACE program that we have not discussed?
2. Are there statements in the Program Guide that should be clarified?
3. Do you have an opinion on the qualifications necessary to complete the Energy Analysis or Project Survey? Would you add specific certifications and/or allow firms without these qualifications to participate based on project experience?
4. 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 sessions
  - ▶ Local Government considerations - January 26
  - ▶ 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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