


SUBJECT: A RESOLUTION OF INTENT BY THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY ESTABLISHING THAT FINANCING OF ENERGY IMPROVEMENT PROJECTS THROUGH ASSESSMENTS SERVES A VALID PUBLIC PURPOSE AND RELATED MATTERS (PACE PROGRAM).



AGENDA OF: October 19, 2021

ASSEMBLY ACTION:

Approved Under the Consent
Agenda 10-19-21 

MANAGER RECOMMENDATION: Present to the Assembly for consideration.

APPROVED BY MICHAEL BROWN, BOROUGH MANAGER: 

Route To:	Department/Individual	Initials	Remarks
	Originator - P. Graham		
	Planning Director	J.O. (ACTING)	
	Finance Director	CX	
	Borough Attorney	SNB	9-30-2021
	Borough Clerk	Jam 10/11/21	

ATTACHMENT (S) : Fiscal Note: YES ☐ NO ☒ X
Resolution Serial No. 21-076 (6 pp)

SUMMARY STATEMENT:

The attached resolution of intent is being provided at the request of Assemblymember Nowers as the first step of a state required multi-step process to enable a Property Assessed Clean Energy Program (PACE Program) in Mat-Su. Having a PACE program would encourage private sector investment and improve building stock by offering an additional optional financing mechanism to commercial and industrial property owners in the Mat-Su Borough seeking to make energy efficiency improvements and renewable energy retrofits. The Program would be offered to property owners on a strictly voluntary basis with financing provided by private capital providers. Additional legislation is required to come before the Assembly for approval before any program adoption.

To date, 37 states and Washington D.C. have enabled PACE legislation. The Matanuska-Susitna Borough would be the second local government to offer a PACE program in Alaska.

This resolution of intent is a required first step under state law and establishes that financing of energy improvement projects through a Property Assessed Clean Energy Program (PACE Program) serves a valid public purpose by reducing energy costs, stimulating the economy, improving property valuation, reducing greenhouse gas emissions and creating jobs. The State Legislature enacted the Municipal Property Assessed Clean Energy Act, Alaska Statutes 29.55 ("PACE Act"), authorizing local governments to establish an energy improvement assessment program.

The PACE Program is an innovative financing program that enables owners of commercial and industrial properties to obtain low-cost, long-term financing for energy efficiency improvements and renewable energy retrofits. PACE financing is intended to cover the full costs of eligible improvements, with little or no up-front out-of-pocket cost to the owner, and repayment is made through assessments payments on the property.

Generally, as with other special assessments in Alaska, the assessment under a PACE program is secured by a lien on the property and is paid back over time. Like other special assessments, PACE is non-accelerating, meaning current or past due annual assessment payments will be collected each year while future assessment payments stay with the property. The PACE repayment obligation transfers automatically to the next owner if the property is transferred or conveyed or may be voluntarily prepaid. In other words, the unique characteristic of PACE assessments is that the assessment is attached to the property rather than an individual. This arrangement allows property owners to spread the cost of energy improvements, such as energy-efficient boilers, upgraded insulation, new windows, or solar installations, over the full expected life of the improvement.

PACE financing may only be used to pay for qualifying improvements to eligible properties. The PACE Act defines "qualified improvements" as improvements that are fixed to existing privately owned commercial or industrial property and are intended to reduce energy consumption or demand, energy costs, or emissions affecting local air quality.

The following are examples of measures that may be qualified improvements and eligible for PACE funding:

- High efficiency heating, ventilating and air conditioning ("HVAC") systems
- High efficiency chillers, boilers, and furnaces

- High efficiency water heating systems
- Energy management systems and controls
- High efficiency lighting system upgrades
- Building enclosure and envelope improvements
- Heat recovery and steam traps
- Solar photovoltaic systems
- Solar thermal systems
- Water conservation and wastewater recovery and reuse systems that save energy

The State of Alaska C-PACE (commercial property assessed clean energy) program allows for the joint implementation and administration of PACE programs within Alaska. If the Assembly wishes to establish a PACE program, it is staff's recommendation that a partnership with the Municipality of Anchorage or another third party administrator, be established to implement and administer the PACE program within the Matanuska-Susitna Borough boundaries.

AS 29.55.100 (b) specifies that to establish a program there are four steps that must be taken in order, this resolution of intent is the first step. The remaining steps are: Prepare a report; hold a public hearing on the report; and hold a public hearing and adopt an ordinance establishing the program.

RECOMMENDATION OF ADMINISTRATION: Staff recommends assembly adoption of the resolution of intent by the Matanuska-Susitna Borough Assembly establishing that financing of energy improvement projects through assessments serves a valid public purpose and related matters (PACE program).



AK C-PACE 101:

INTRODUCTION TO
COMMERCIAL PROPERTY
ASSESSED CLEAN ENERGY
FINANCING IN ALASKA

What is C-PACE?

Commercial Property Assessed Clean Energy (C-PACE) is a special assessment- based financing mechanism for commercial property owners and developers to fund energy efficiency, renewable energy, and water conservation projects.



100% financing
Funds hard and soft
costs



Improves building stock
Decreases operating
costs



Market-based
Uses private
financing



**Spurs economic
development**
Creates local jobs

C-PACE Nationwide

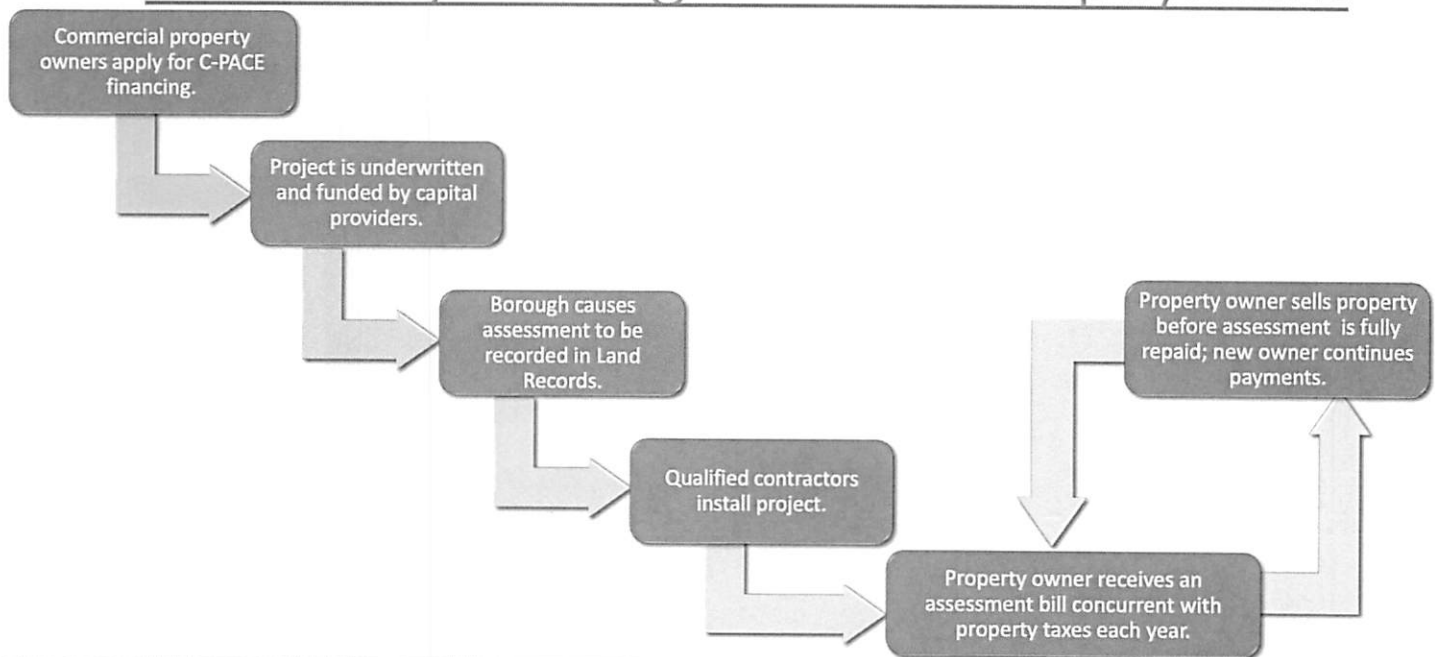


\$2,074 million
investment

2,560
(commercial projects)

24,000
jobs created

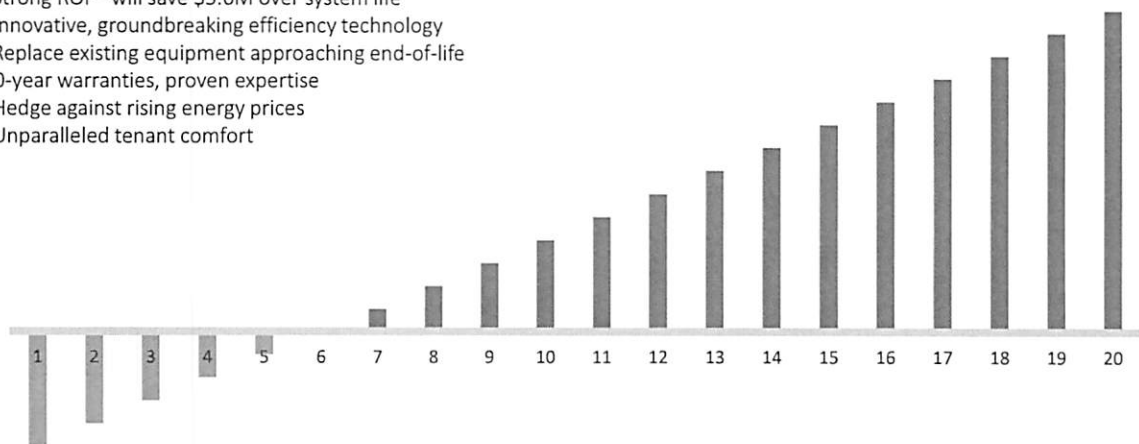
From Project Origination to Repayment



Benefits of C-PACE

Replacing old or broken energy and water systems have multiple benefits:

- ✓ Strong ROI – will save \$5.6M over system life
- ✓ Innovative, groundbreaking efficiency technology
- ✓ Replace existing equipment approaching end-of-life
- ✓ 20-year warranties, proven expertise
- ✓ Hedge against rising energy prices
- ✓ Unparalleled tenant comfort

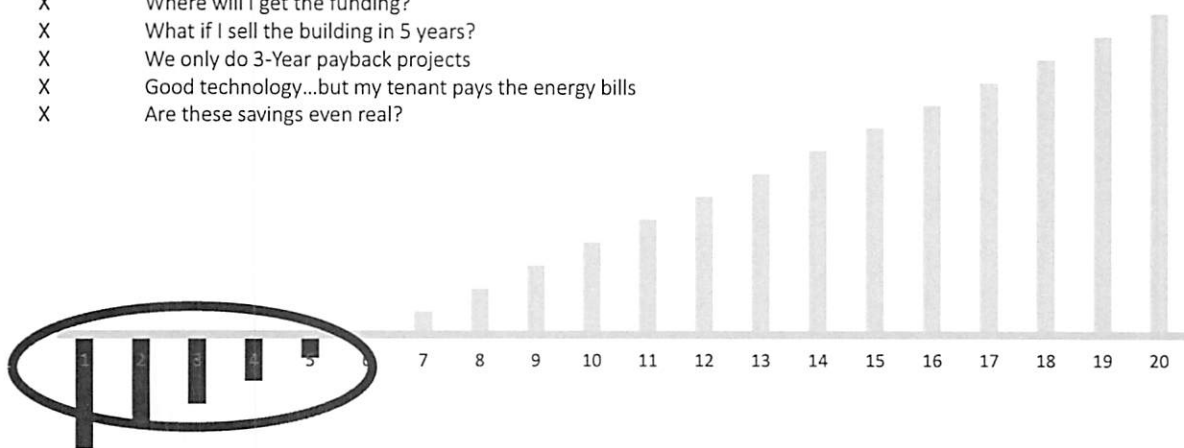


Sample \$2M Project with \$320,000 in Annual Savings (~6.25 Year Simple Payback)

Benefits of C-PACE

But treatment of energy improvements as Capex investment considers only short-term costs:

- X Where will I get the funding?
- X What if I sell the building in 5 years?
- X We only do 3-Year payback projects
- X Good technology...but my tenant pays the energy bills
- X Are these savings even real?



Sample \$2M Project with \$320,000 in Annual Savings (~6.25 Year Simple Payback)

Benefits of C-PACE

C-PACE provides 100% upfront funding and amortizes these costs over the full equipment lifetime

	Cash	Bank Loan	PACE Assessment
Down payment amount	(\$2,000,000)	15% - (\$300,000)	\$0
Loan amount	\$0	\$1,700,000	\$2,000,000
Loan term	NA	5 yrs	20 yrs
Interest rate	NA	4.00%	6.25%
Annual Cash Flow			
Annual payment	NA	(\$382,295)	(\$180,978)
Annual energy savings	\$320,000	\$320,000	\$320,000
Net annual cash flow	\$320,000	(\$62,295)	\$139,022
5-Year Financial Performance			
5-Year Net Cash Flow	(\$400,000)	(\$611,475)	\$695,110
5-Year NPV @ 6%	(\$258,430)	(\$530,574)	\$585,611
5-Year IRR	-7%	NA	Infinite

Benefits of C-PACE for Property Owners

C-PACE solves the economics of energy efficiency projects by producing “Day 1 Payback.” C-PACE’s property-backed structure is secured by a tax lien, which allows for:

- \$0 down financing
- Long repayment terms (up to 30 years)
- Low, fixed-rate interest
- Projects are cash flow positive from day 1
- Secured by property – not by owner guarantee, bond rating, or credit score
- Obligation transfers with building
- Assessments may pass through to tenants

Benefits of C-PACE for Local Governments

The structure drives job growth, economic development, and clean, efficient energy use

- Drive private sector investment in your community
- Serve as a tool for business owners to decrease costs and improve asset value
- Improve taxable property base
- Create energy efficiency and clean energy jobs
- Help meet efficiency and clean energy standards
- Carry little/no cost for government

Other Beneficiaries of C-PACE



Mortgage Holders

- Improves the senior lender's collateral value
- Increases cash flow
- C-PACE assessments are not accelerating



Contractors

- Immediate, secure project financing for services
- Avoid using own credit line to fund projects
- Unlock projects that were previously "locked"



Communities

- Commercial buildings are energy and water intensive structures; even modest proportional improvements can result in large decreases in carbon footprint
- Increase economic development by attracting external investment in local businesses

C-PACE FOR PROPERTY OWNERS



What is C-PACE Financing?

Commercial Property Assessed Clean Energy (C-PACE) allows commercial and industrial property owners to finance up to 100% of the costs of energy efficiency projects. The financing is provided by private lenders and secured by an assessment against the property. C-PACE has an extended amortization period which makes it possible for annual energy savings to exceed annual C-PACE payments, meaning projects can be cash flow positive from day one.

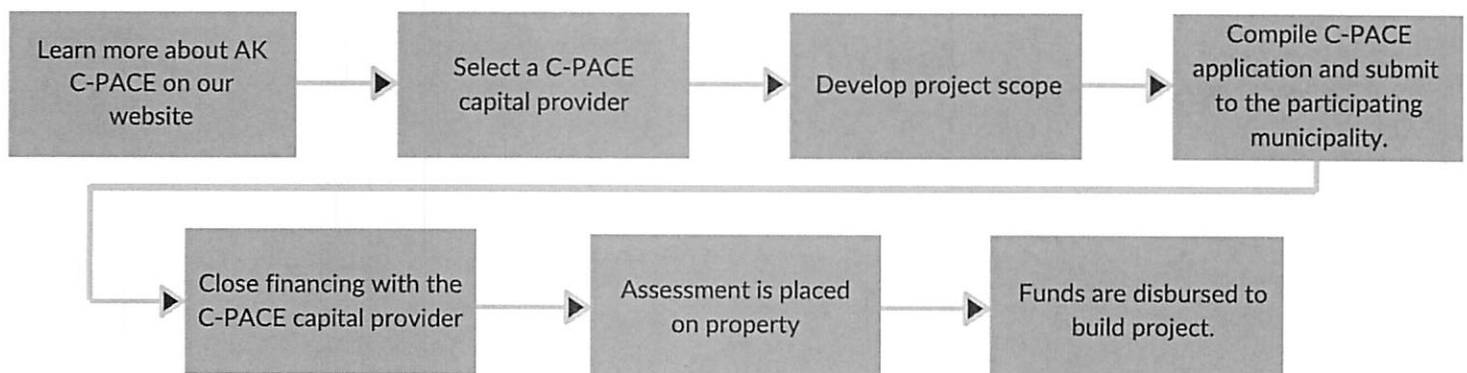
What are the benefits of C-PACE?

- Increases property value and market competitiveness
- Long term financing up to 20 years
- Non-recourse financing
- Potential for immediate positive net cash flow
- Payments can be passed through to tenants
- Asset is transferable upon sale

What projects are eligible?

- Renewable energy systems
- Cogeneration
- High efficiency lighting
- Building envelope improvements
- HVAC equipment
- Building automation and controls

Interested in accessing C-PACE?



Frequently Asked Questions

What is the Alaska C-PACE Program?

C-PACE Programs in Alaska are enabled through the Municipal Property Assessed Clean Energy Act, which authorizes municipalities to establish programs to impose assessments for energy improvements.

The Alaska C-PACE Program (AK C-PACE) is the product of an initiative to develop a program administrative platform, including a uniform set of enabling legal documents and best practice program administrative procedures, which can be adopted by any municipality in Alaska.

How do I apply for C-PACE financing?

Property owners select a private C-PACE capital provider to negotiate financing terms. Then, a property owner submits an application to the relevant participating municipality in the AK C-PACE program, describing the project and terms of financing. If the project is approved, the property owner and C-PACE capital provider will close on financing and the municipality will levy a C-PACE assessment on the property.

How is the program funded?

The program requires no government funds. C-PACE projects are funded solely by private capital providers.

Is C-PACE a loan or a grant?

C-PACE is financing, repaid as an annual assessment levied by a local government, pursuant to an assessment contract between that local government and the property owner of the benefitted property. Assessments collected by the local government secure financing provided by a private capital provider, which enables such capital providers to provide low-cost, fixed rate, long term funding.

Who can access C-PACE financing?

The legal record holder of a commercial or industrial property may apply for C-PACE financing.

What is an eligible C-PACE project?

C-PACE financing may be used to finance the installation or modification of permanent improvements that are intended to reduce energy consumption or demand, energy costs, or emissions affecting local air quality.

For more information, go to our website at www.akcpace.com

