Howard County
Internal Memorandum

Subject: Testimony on Council Bill No. ______-2023, a Resolution expanding the Commercial Property Assessed Clean Energy (C-PACE) program to include additional categories of eligible projects and to provide additional flexibility for property owners and lenders participating in the program.

To: Lonnie Robbins, Chief Administrative Officer

From: Joshua Feldmark, Administrator, Office of Community Sustainability
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Date: December 20, 2022

Summary

Bill ______-2023 updates Howard County's Clean Energy Loan Program to include new qualifying projects and costs and to provide additional flexibility for property owners and lenders participating in the program.

Background

Commercial Property Assessed Clean Energy (C-PACE) is a powerful tool for financing commercial property improvements that also benefit the community by saving energy, reducing greenhouse gas emissions, increasing resiliency to climate change impacts, protecting human health, and creating jobs. Howard County adopted C-PACE in 2016 and it is reflected in code in Section 20.1200, Clean Energy Loan Program.

C-PACE is an excellent program for all parties. It provides strong security for investors because the financing is repaid on the property tax bill. This allows lenders to offer better interest rates and longer repayment terms than otherwise available.

Property owners receive 100 percent fixed rate financing of eligible hard and soft costs from private C-PACE lenders, with zero down payment and long payback periods, allowing building owners to be cash flow positive typically from day one. This financing allows property owners to implement energy and water efficiency, renewable energy, resiliency, stormwater management, and environmental remediation projects that help them save money on operating costs while reducing greenhouse gas emissions. These projects are also a great way to improve occupant comfort and safety, which often improves property values. C-PACE also encourages more commercial property owners to make these types of investments in their property. Property owners who may consider selling the property in the future are incentivized to pursue these types of improvements because if they sell the property before the C-PACE loan is repaid, the new property owner takes over the loan payments. This makes sense because the new property owner also will benefit from lower operating costs and other C-PACE qualifying project benefits. Building owners also could potentially pass the financing costs to tenants if the tenants pay the utility bills but the owner finances the upgrades. It allows business owners to claim tax credits for solar and other projects.

Howard County also benefits. The energy and water efficiency, renewable energy, EV charging infrastructure, and resiliency measures installed through C-PACE financing will help Howard County achieve its goal to reduce greenhouse gas emissions 60 percent by 2030 and to achieve net zero emissions by 2045.

In 2021, the Maryland General Assembly enacted legislation to modify the existing C-PACE statute, expanding the program to allow environmental remediation and resiliency measures for the first time. This is great for commercial property owners and for the people who live and work in Howard County because it opens up new and favorable financing to improve indoor air quality, remove lead paint, remediate asbestos and mold, and other actions that improve human health and safety. It also allows for financing of resiliency projects, including flood mitigation, stormwater management, and increased fire and wind resistance. These resiliency projects are critical to avoid or reduce damage from floods, severe storms, and extreme temperatures, all of which are expected to increase dramatically over the next decade due to climate change. It also allows for electric vehicle charging infrastructure. In addition, previously financed projects can refinance eligible measures with C-PACE and take out cash.

These are wonderful improvements to the Maryland C-PACE program, but Howard County businesses cannot secure C-PACE financing for resiliency, environmental remediation, or refinancing until we update Howard County code.

Bill______-2023 is critical to support a thriving C-PACE program in Howard County. In addition to expanding the types of qualifying projects, it also allows C-PACE loans to cover soft costs, such as project management, permitting and administration fees, and building accreditation.

The bill also includes some additional changes to the code that remove unnecessary barriers to obtaining C-PACE financing for certain types of projects and to provide additional flexibility in the program. These improvements include:

- Removing the $15,000 loan minimum in the ordinance. This is proposed because most lending institutions will not finance projects under $100,000. Including a $15,000 minimum in code sets up unrealistic expectations about availability of capital for small projects.
- Removing the 20-year limit for the loan term from code. Including a 20-year term limits the ability to reduce the property owner's annual payments that a longer term would allow. In addition, there are many improvements that qualify for C-PACE financing but that have a longer useful life than 20 years, such as chillers, boilers, and microgrids.
- Removing the requirement that the lifetime costs savings of the project is greater than the total loan amount. This restricts funding for good projects that have important benefits beyond savings, such as improving building resiliency and human health. Projects that focus on these benefits may not be able to show enough energy savings over the project life to cover the costs to make the improvements.

The Maryland C-PACE Program, or MDPACE, is sponsored by the Maryland Clean Energy Center, an instrumentality of the state of Maryland, and is administered by Abacus Property Solutions. The MDPACE program has been designed to ease the burden of C-PACE administration for counties that want to offer C-PACE financing. MCEC administers the MDPACE program within the county at no cost to the county government. This includes the intake, review, and approval of C-PACE projects; training local contractors and registering private capital providers with the program; providing annual program reports to the county; establishing procedures to place C-PACE surcharges and facilitate collections; and overseeing the remittance of C-PACE surcharge payments to capital providers. The majority of Maryland counties belong to MDPACE, including Allegany, Anne Arundel, Baltimore, Carroll, Cecil, Charles, Dorchester, Frederick, Garrett, Harford, Howard, Kent, Queen Anne's, Talbot, and Wicomico. Montgomery County and Prince George's County administer their own C-PACE program.

Howard County entered into an agreement with the Maryland Clean Energy Center in 2016 for MCEC and its contracted program administrator to run the program for Howard County. In 2022, Howard County signed a new agreement with MCEC as the first agreement had expired.

Howard County's only obligations under C-PACE are to sign the Surcharge of Levy and Lien agreement between the County, the lender, and the property owner. Then Howard County bills and collects the C-PACE payment on the property tax bill and passes the loan payment to MDPACE, who then disperses payment to the lender and any other parties. Howard County collects its recordation fee on any C-PACE. On a typical C-PACE loan of $5 million dollars, the County would collect $25,000 to administer the program.

Fiscal Impact

Processing each loan does come with a fiscal impact primarily of staff time to review and execute agreements, add the C-PACE fee as needed to property tax bills, collect the property tax, and disperse C-PACE payments. However, each C-PACE loan is subject to Howard County's recordation tax of $2.50 per $500 rounded up to the next $500, which is roughly the equivalent of 0.5% of the total amount of the loan. The recordation tax will adequately cover any added costs to the County. Therefore, the fiscal impact to the County is de minimis.