



# CITY OF FERNLEY

## CITY COUNCIL AGENDA REPORT

Meeting Date: September 2, 2020

**REPORT TO:** Mayor and City Council  
**REPORT FROM:** Daphne Hooper, City Manager  
**REVIEWED BY:** Brent Kolvet, Deputy City Attorney  
**REVIEWED BY:** Denise Lewis, City Treasurer

**FINANCIAL IMPACT:**

Yes:  No:

**CURRENTLY BUDGETED:**

Yes:  No:

**FUND/ACCOUNT:**

**ACTION REQUESTED:**  Consent  Ordinance  Resolution  Motion  Receive/File

**AGENDA ITEM: Staff Report (For Possible Action): Approval of Contract for the Administration of the Commercial Property Assessed Clean Energy (C-PACE) Program between the City of Fernley and Sustainable Real Estate Solutions, Inc. (SRS)**

**Agenda Item Brief: The City of Fernley adopted Resolution 20-016 and 20-017 creating a Commercial Property Assessed Clean Energy (C-PACE) Program and District. Approval of a contract between the City of Fernley and Sustainable Real Estate Solutions, Inc. (SRS) for program administration.**

**Recommended Motion:**

**"I move to approve the contract for the Administration of the Commercial Property Assessed Clean Energy (C-PACE) Program between the City of Fernley and Sustainable Real Estate Solutions, Inc. (SRS)."**

**Business Impact (per NRS Chapter 237):**

- A Business Impact Statement is Attached.
- A Business Impact Statement is not required because this is not a rule (term excludes vehicles by which legislative powers are exercised under NRS Chapters 271, 278, 278A, or 278B).

See attached report for background, analysis, alternatives.

**BACKGROUND:**

During the 79<sup>th</sup> Session of the Nevada Legislature, the Legislature approved, and Governor Sandoval signed, Assembly Bill 5 enabling Nevada municipalities to create districts to finance energy efficiency improvement projects and renewable energy projects for commercial and industrial properties (commonly known as Commercial Property Assessed Clean Energy, or C-PACE).

The C-PACE model is an innovative mechanism for financing energy efficiency and renewable energy improvements on private property. C-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 Property Assessed Clean Energy (PACE) assessments is that the assessment is attached to the property rather than an individual (Federal Department of Energy, PACE Brief).

Such energy improvements may reasonably be expected to (i) renew and revitalize existing commercial and industrial properties; (ii) improve the marketability and profitability of such improved properties; (iii) improve the marketability and profitability of such improved properties; (iv) Generate construction jobs in the City; (v) lead to the creation of additional jobs by the businesses which thereby become more profitable; (vi) improve the air quality in the City; (vii) support the City's environmental sustainability initiatives, and (viii) strengthen the economy of the City.

This is a contract for the third-party administration of the program. The City of Fernley, because C-PACE is part of NRS Chapter 271, must either self-administer the program or hire a third-party Contractor.

**Previous Council Action:**

- August 5, 2020 – Council approved a Resolution to establish a Commercial Property Assessed Clean Energy (C-PACE) program, in accordance with NRS Chapter 271.
- August 5, 2020 – Council approved a Resolution to establish a Commercial Property Assessed Clean Energy (C-PACE) Energy Improvement District as the boundary of the City of Fernley.

There are two primary models for C-PACE program administration. Program administration includes tasks that need to be performed for the program to function, such as application approvals, technical and financial underwriting, technical standards compliance, document development and updating, marketing, customer service, and IT activities such as website development and maintenance. They require financial resources and staff capacity and may require legal expertise (for development of documents such as contract templates) and technical expertise (for IT needs and engineering for technical standards). State or local government agencies or third parties typically handle program administration. Some C-PACE providers (i.e., third-party administrators) offer turnkey services that include some or most of these functions (U.S. Department of Energy).

The two predominant models are listed below. However, the national trend is moving away from self-administered programs due to the staff expertise and financial resource needs.

- **Third-party Administration:** Third-party program administrators often create all of the process documents for the program. Private third-party program administrators fund program administration and operations through interest rates and/or fees. The fees charged to the borrower by third-party administrators are typically higher when compared to fees charged by government agencies that self-administer C-PACE programs. However, third-party program administrators are able to offer more services.
- **Self-Administration:** A self-administered program will require that the city have sufficient expertise, staff and financial resources to handle the functions stated above. Self-administration also requires that the city secure financing for projects.

There is no consideration paid under this contract by the City of Fernley to SRS. Both the City of Las Vegas

and the City of Reno created a separate Program Guide that governs their C-PACE programs. The City of Fernley would use a similar document to outline additional terms, including fees. Proposed fees charged by SRS to the borrower under the C-PACE project are a one-time program administration fee, equal to 2.5 percent of the project finance amount, not to exceed \$75,000 per project. This fee is collected by the capital provider at finance closing and remitted to the program administrator within 10 days of the closing.

This fee model has been adopted by the following existing statewide C-PACE programs:

- Connecticut C-PACE: since its launch in 2013 has maintained a one-time program administration fee ranging from 2.5 to 3.0 percent of the project amount financed.
- Colorado C-PACE: launched in 2016 includes a one-time program administration fee of 2.5 percent of the project amount financed.
- Rhode Island C-PACE: launched in 2016 includes a one-time program administration fee of 2.5 percent of the project amount financed.
- Utah C-PACE: launch in 2018 includes a one-time program administration fee of 3.0 percent of the project amount financed.

This industry best practice approach has proven to meet the needs of the key stakeholders in a C-PACE transaction:

- Government agency sponsor of C-PACE program: Provide a structure that over time as project closing scale can achieve self-sustaining status (typically three years in statewide programs) through a program fee charged to participating property owners. Such fee is designed to cover the start-up and recurring costs to administer the program while minimizing taxpayer funds allocated to the administration of the program. It is noteworthy to mention in the six plus years of the Connecticut program operation, which has averaged a 2.5 percent one-time program administration fee, over 250 projects have been funded for over \$135 million in project value. Such program administration fee has proved to be able to fund the support services needed by each key stakeholder while ensuring the fee does not retard project originations and closings.
- Property owners, contractors, developers, mortgage holders and capital providers: The program administration fee covers the cost of providing these stakeholders with expert assistance across the project lifecycle: pre-qualification, application, project scenario development, technical and financial underwriting, mortgage holder consent, and financing closing.

Property owners typically make C-PACE retrofit project investment decisions on the basis of projected energy savings and cash flows. Such property owners are notoriously skeptical of contractor's savings projections claims. Mortgage holders have proven even more skeptical as they need to evaluate the project's impact to their borrower's repayment ability as well as the impact to collateral value prior to consenting to a C-PACE transaction. To overcome these challenges the role of the independent program administrator to conduct a project technical underwriting and quality assurance review has proven critical to align the interest of the stakeholders and ensure confidence in the project economic analytics leading to an investment decision.

Moreover, many small to mid-size energy efficiency contractors are predominantly equipment replacement and servicing firms that lack the capability to develop project savings projections and cash flows. These firms often maintain long-standing relationships with Class B- and C property owners that have pent-up demand to replace capital intensive energy consuming equipment, however, need tools and technical support from the program administrator to leverage the unique benefits of C-PACE.

Under the third-party model, the City of Fernley would be obligated to measure program success, record/file liens, draft the Resolution and Staff Report for each new project into the district, and manage the contract with the vendor. This contract provides statewide uniformity, as it aligns with the C-PACE programs for both the City of Reno and the City of Las Vegas. Statewide uniformity is regarded as a best practice because it allows lenders, developers, and borrowers with properties in both locations to more easily work within the program.

**LEGAL IMPLICATIONS:** None

**FINANCIAL IMPLICATIONS:** An additional fee assessed through the C-PACE financing program will provide funding to cover the staff time required for administration.

**ATTACHMENTS:**

Professional Services Contract