Economic Impact Statement

Office of Legislative Oversight

Bill 46-21 Environmental Sustainability – Commercial Property Assessed Clean Energy Program – Amendments

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Bill 46-21 would have a positive impact on economic conditions in the County. By broadening the scope of the County's Commercial Property Assessed Clean Energy (C-PACE) Program in terms of project type, financing flexibility, and lender eligibility, the Bill likely would increase private sector capital investment in commercial buildings in the County. The magnitude of the impacts could range from minimal to significant, depending on the number of commercial property owners and private lenders that take advantage of the changes to the C-PACE Program.

BACKGROUND

C-PACE Program

In its 2017 Climate Action Resolution, the Council committed to reducing greenhouse gas emissions (GGEs) 80% by 2027 and 100% by 2035.[1] Buildings in the County are a primary source of GGEs, with heating, cooling, and lighting buildings accounting for 41% of GGEs.[2] The County's Climate Action Plan set a target of electrifying or using carbon-free energy sources for all new and existing buildings by 2035.[3]

Consistent with this target, the C-PACE Program aims to make energy efficiency and renewable energy improvements to commercial buildings more affordable. To achieve this aim, the Program helps qualified properties access "lower-cost, long-term flexible financing for up to 100 percent of clean energy property improvements to be repaid as a surcharge on the property tax for up to 20 years."[4] According to the Montgomery County Green Bank's website, the Program helps owners attain the following benefits:

- "100% up-front funding for the energy savings and renewable energy portions of retrofits, and up to 20% of total eligible construction costs on new construction developments";
- long payback periods in which the terms "generally match the weighted-average useful life of equipment: 15-20 year terms are common";

[1] Montgomery County Council, Resolution No. 18-974.
[2] Montgomerycountymd.gov, About Montgomery County's Green Buildings.
[3] Montgomery County Climate Action Plan.
[4] Montgomerycountymd.gov, Commercial PACE Financing.

- permit the incorporation of tax credits, grants, and other incentives to improve the project economics; and
- the tax obligation transfers with the sale of property.[5]

The C-PACE Program was established in 2015. According to the Program's 2021 Annual Report,[6] it has achieved the following outcomes:

- 13 projects have been approved, in which the total C-PACE financed amount is $10,038,531 and the anticipated annual energy savings is 11,812 MMBtu/year.
- The overall price per 1 MMBtu/year of anticipated energy savings is approximately $850.
- The median amount of financing per project is $551,581, with a median anticipated energy savings of 740 MMBtu/year.
- In terms of building type, retrofitting multi-family buildings has made up most projects (9 out of 13) and received the largest shares of total financing (44%) and total anticipated energy savings (51%).
- In terms of geography, retrofitting buildings in Bethesda has made up most projects (7 out of 13) and received the largest shares of total financing (37%) and total anticipated energy savings (44%).

See **Tables 1** and **2** in the **Appendix**.

Bill Description

Currently, the County's C-PACE Program does not align with recently passed State enabling legislation, House Bill 517 - Clean Energy Loan Program – Remediation and Resiliency (2021).[7] If enacted, Bill 46-21 would align the Program with State law and in doing so make programmatic changes which broaden the Program's scope in terms of project type, financing flexibility, and lender eligibility:

- **Project Type:** broaden the scope of eligible projects from energy improvements to "Climate Related Improvements," which would include renewable energy, energy and water efficiency, environmental remediation, grid resilience, or property resilience*;*
- **Financing Flexibility:** establish 12-month retroactive financing for eligible C-PACE improvements; and create a 5-year pilot for increased loan-to-value amounts for qualified properties;
- **Lender Eligibility:** remove the County designated lender from the County's C-PACE program.[8]

In addition, the Bill would clarify new construction participation requirements.

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[5] Mcgreenbank.org, C-PACE Property Owners and MC-PACE.
[6] Montgomery County Government, 2021 Annual Report on the County's Commercial Property Assessed Clean Energy Program.
[7] Ludeen McCartney-Green to County Council, Memorandum, November 24, 2021.
[8] Montgomery County Council, Bill 46-21.

Primary Economic Stakeholders

The economic impacts from enacting Bill 46-21 largely would occur through the programmatic changes resulting in an *investment effect*—that is, increase in commercial property improvements using C-PACE financing which otherwise would not occur in the absence of enacting the Bill. If an investment effect occurs, the following businesses and residents would be the primary entities economically impacted by the changes in law:

- **commercial property owners and tenants** in commercial buildings where Climate Related Improvements occur;
- **private lenders** in the County that provide C-PACE financing; and
- **clean energy service providers and other contractors** based in the County involved in Climate Related Improvements in affected buildings.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess Bill 46-21's impacts on County-based private organizations and residents in terms of the Council's priority economic indicators.[9] In subsequent sections of this statement, OLO focuses on the Bill's potential impacts on *private sector capital investment* in commercial buildings in relation to the primary economic stakeholders previously identified. Excluded from this analysis is the Bill's potential secondary and indirect impacts on private organizations and residents.[10]

To assess Bill 46-21's impact on private sector capital investment, OLO performs a qualitative assessment of the investment effect that the changes in law would likely induce. The qualitative assessment is based on reports and data related to the County's C-PACE Program as well as correspondence with personnel from the Green Bank and the Department of Environmental Protection, and a representative from an energy efficiency contractor.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 46-21 are the following:

- total annual increase in private investment in Climate Related Improvements to commercial buildings in the County;
- percentage of local lenders, energy service providers, etc. involved in these investments; and
- percentage of investments used to import clean energy technology

[9] Montgomery County Code, Sec. 2-81B.
[10] For example, it is likely that Climate Related Improvements in commercial buildings would improve conditions for workers, thereby increasing productivity. See the COGfx studies conducted by researchers at the Harvard T.H. Chan School of Public Health's Center for Health and the Global Environment (CHGE) and SUNY Upstate Medical

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 46-21 would have positive impacts on private organizations in the County in terms of several of the Council's priority indicators.

OLO expects the Bill to increase private sector capital investment for Climate Related Improvements to commercial buildings in the County that otherwise would not occur. This *investment effect* would occur through:

- attracting private investment to eligible improvements that otherwise would not have flowed to the County; and
- re-directing investments towards eligible improvements that otherwise would have flowed to other areas within the County.

Broadening the scope of the C-PACE Program in terms of project type, financing flexibility, and lender eligibility likely would provide commercial property owners more opportunities to take advantage of C-PACE financing for capital improvements.

As previously discussed, the C-PACE Program can offer property owners more attractive loan terms than traditional financing, such as 100% up-front financing, 20-year loan terms, and lower interest rates. The mechanism behind these features is the following: Because the loan is secured as a surcharge on the owner's property tax bill, the C-PACE Program can provide for a priority lien over all other debt. The seniority lien and higher certainty of payment allows private lenders to offer higher financing amounts, longer terms, and lower interest rates.[11]

Broadening the scope of the Program should increase the supply and demand of C-PACE financing in the following ways:

- **Project Type:** Changing the eligible projects from energy improvements to Climate Related Improvements would expand the type of capital improvements that property owners can receive C-PACE financing for.
- **Financing Flexibility:** Offering *retroactive financing* likely would provide opportunities for C-PACE financing for improvements in cases where owners are unable to go through the application process due to time constraints associated with emergency maintenance, lack of familiarity with the application process, and other obstacles. Retroactive financing likely would be most helpful for small property owners with staff and resource constraints. In addition, increasing the *loan-to-value amounts* for qualified properties through the 5-year pilot likely would increase the supply of financing for owners to use C-PACE financing for larger capital improvements than would be possible under the current loan-to-value amounts.
- **Lender Eligibility:** Removing the County designated lender from the County's C-PACE program may increase the number of private lenders involved in financing Climate Related Improvements through the C-PACE Program. A

[11] OLO correspondence with Green Bank leadership.

more competitive market may increase the total supply of financing for Climate Related Improvements and offer more variation in loan terms, thereby potentially increasing property owner interest in pursuing C-PACE financing.

The magnitude of the Bill's impact on private sector capital investment could range from minimal to significant. Its magnitude would largely depend on the number of property owners and private lenders that take advantage of the changes to the C-PACE program.

As previously stated, OLO limits the scope of this analysis to Bill 46-21's investment effect due to data and time limitations. However, OLO notes here the potential for the Bill to positively affect private organizations in terms of the following priority indicators. First, County-based clean energy service providers that perform services related to Climate Related Improvements in affected buildings likely would experience business income gains. Second, improving commercial buildings in terms of renewable energy, energy and water efficiency, environmental remediation, grid resilience, and property resilience may reduce net operating expenses associated with utilities as well as damage and disruptions caused by extreme weather events. Net savings likely would increase over time as climate change risks to the County worsen.[12] Finally, given the magnitude of the induced private sector investment, the Bill has the potential to improve the County's competitiveness in the clean energy market and have positive economic development impacts.

Residents

As previously stated, data and time limitations prevent OLO from analyzing Bill 46-21's potential impacts on residents in terms of the Council's priority economic indicators.

DISCUSSION ITEMS

Not applicable

WORKS CITED

Stephanie Bryant and Kaitlyn Simmons. Measuring Climate Resilience – A Review of Select Critical Infrastructure Sectors in Montgomery County. April 6, 2021. OLO Report 2021-5.

Ludeen McCartney-Green, to County Council. Memorandum. Bill 46-21, Environmental Sustainability – Commercial Property Assessed Clean Energy Program – Amendments. November 24, 2021.

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Montgomery County Council. Bill 46-21, Environmental Sustainability – Commercial Property Assessed Clean Energy Program – Amendments. Introduced on November 30, 2021.

[12] Bryant and Simmons, Measuring Climate Resilience.

Montgomery County Council. Resolution 19-300. Economic Development Platform for Montgomery County. Adopted on November 19, 2019.

Montgomery County Government. 2021 Annual Report on the County's Commercial Property Assessed Clean Energy Program. March 15, 2021.

Montgomerycountymd.gov. About Montgomery County's Green Buildings. Office of Energy and Sustainability.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.

APPENDIX

Table 1. Accepted C-PACE Projects in Montgomery County Maryland

Building Name	Property Type	City	C-PACE Financed Amount	Anticipated Annual Energy Savings (MMBtu/year)	Loan Term	Project Completion Date	Loan Pay-off Date
Shady Grove Professional Building / Comfort Inn Shady Grove	Hotel/Office	Gaithersburg	$1,436,019	1,624	20 years	3/10/2017	5/7/2020
The Glens on Battery Lane	Multi-family	Bethesda	$500,685	577	20 years	11/28/2017	-
The Middlebrooke Apartments	Multi-family	Bethesda	$635,422	874	20 years	11/28/2017	1/31/2020
The Glens on Battery Lane	Multi-family	Bethesda	$551,581	567	20 years	2/15/2018	-
Wellington Apartments	Multi-family	Chevy Chase	$290,181	152	20 years	2/15/2018	-
Glen Brook Apartments	Multi-family	Bethesda	$402,546	219	20 years	2/15/2018	-
Glenmont Apartments	Multi-family	Bethesda	$421,095	249	20 years	2/15/2018	-
The Drake	Multi-family	Chevy Chase	$537,337	896	20 years	2/15/2018	-
Wildwood Medical Center	Office	Bethesda	$638,849	961	20 years	2/21/2018	-
Bradley/ Strathmore Apartments	Multi-family	Chevy Chase	$481,710	740	20 years	4/9/2018	-
Exchange Place	Office	Rockville	$1,974,843	2,719	20 years	7/31/2018	5/15/2020
The Dorset	Multi-family	Bethesda	$556,364	1,719	20 years	9/17/2018	-
Best Western Plus Rockville Hotel & Suites	Hotel	Rockville	$1,611,899	515	20 years	TBD	-

Source: Montgomery County Government, 2021 Annual Report on the County's Commercial Property Assessed Clean Energy Program

Table 2. C-PACE Financed Amount and Annual Energy Savings by Project Category

Project Category	Number of Approved Projects	C-PACE Financed Amount					Anticipated Annual Energy Savings (MMBtu/year)					Price Per 1 MMBtu/Year (rounded)
		Total	Average	Median	Min	Max	Total	Average	Median	Min	Max	
All	**13**	**$10,038,531**	**$772,195**	**$551,581**	**$290,181**	**$1,974,843**	**11,812**	**909**	**740**	**152**	**2,719**	**$850**
Bethesda	7	$3,706,542	$529,506	$551,581	$402,546	$638,849	5,166	738	577	219	1,719	$717
Chevy Chase	3	$1,309,228	$436,409	$481,710	$290,181	$537,337	1788	596	740	152	896	$732
Gaithersburg	1	$1,436,019					1,624					$884
Rockville	2	$3,586,742	$1,793,371	$1,793,371	$1,611,899	$1,974,843	3,234	1,617	1,617	515	2,719	$1,109
Hotel	1	$1,611,899					515					$3,130
Hotel/Office	1	$1,436,019					1,624					$884
Multi-family	9	$4,376,921	$486,325	$500,685	$290,181	$635,422	5,993	666	577	152	1,719	$730
Office	2	$2,613,692	$1,306,846	$1,306,846	$638,849	$1,974,843	3,680	1,840	1,840	961	2,719	$710

Source: Montgomery County Government, 2021 Annual Report on the County's Commercial Property Assessed Clean Energy Program