EXHIBIT NO. 1

20

11-22-11

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 15, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: CONSIDERATION OF PROPOSAL TO MODIFY USE OF ENERGY EFFICIENCY AND CONSERVATION GRANT FUNDS AND ENERGY MANAGEMENT CAPITAL IMPROVEMENT PROGRAM FUNDS AND THE FINANCIAL MODEL FOR THE CITY'S REVOLVING LOAN FUND PROJECT FOR USE OF THESE FUNDS

ISSUE: Approval to (a) switch usage of federal Energy Efficiency and Conservation Block Grant funds and Energy Management CIP funds and (b) change the previously approved financing model for the City's Revolving Loan Fund project.

RECOMMENDATION: That City Council approve:

1. The transfer of $91,800 of federal Energy Efficiency and Conservation Block Grant (EECBG) Revolving Loan funding to the City's energy management Capital Improvement Program project account;

2. The transfer of $91,800 of City funds from the City's energy management Capital Improvement Program project account to the previously approved energy conservation Revolving Loan program; and

3. The change of the Revolving Loan Fund to a Loan Loss Reserve, and authorization for the City Manager to execute an amended agreement with the Northern Virginia Regional Commission consistent with the terms outlined in this report.

DISCUSSION: In 2009, the City received $1,372,800 from the US Department of Energy (DOE) for energy and sustainability related projects through the American Recovery and Reinvestment Act's (ARRA) Energy Efficiency and Conservation Block Grant (EECBG) program. Of these grant funds, $108,000 has been allocated by City Council to the implementation of an energy efficiency financing program entitled the "Green Revolving Loan Fund" in the form of a revolving loan fund (RLF) for City of Alexandria residents to make energy efficiency improvements to their homes.

On August 10, 2011, the DOE issued guidance discouraging local government use of EECBG funds to support loans generated and issued through a RLF. The DOE's Office of Internal Affairs recently determined that EECBG funds utilized for financing loans which are re-paid and re-issued will never lose "federal character" and are subject to monitoring and reporting in perpetuity. The DOE does not have the administrative capacity or funding to administer perpetual monitoring and reporting on EECBG funds.

An energy efficiency revolving loan program that the City has been planning to implement would provide residential homeowners manageable loans (originally approved at up to $5,000 and now proposed to increase up to $10,000) to implement green, energy efficient technologies such as energy efficient windows, HVAC equipment, hot water heaters, insulation, weatherization actions, or solar energy technologies. The green, energy efficient technologies are determined by results of a requisite energy audit on the resident's home. Loans are available to fund the energy audit and implement green, energy efficient technology implementation.

The City has elected to target this assistance to moderate income homeowners households with incomes up to 100% of the area median income (approximately $100,000 annually for a family of four). Households at these income levels are not presently served by other home renovation assistance programs, such as the City's Home Rehabilitation Loan Program (HRLP). In addition, these households may be finding other sources of credit, such as home equity loans, to be limited due to cost and reduced available home equity. Therefore, in addition to meeting the City's goals of reducing residential energy use, this loan program will provide a source of affordable credit to help reduce both borrowing costs and monthly utility expenses for City residents with few other borrowing options.

The recent DOE directives issued after the RLF program was approved by Council, and described below, pose several challenges to the City if the program's funding source and operation are not changed. These challenges include:

1. The City would be required to provide quarterly reporting on the performance of the energy efficiency financing program to the DOE indeterminately into the future.

2. The City would be required to provide continual compliance with National Environmental Protection Act (NEPA) requirements for each residential homeowner's property participating in the energy efficiency financing program prior to approval of loan funds. This process is intensive and would require significant City staff time while also potentially delaying loan approval.

3. The City would have limited flexibility if it were to determine a more appropriate mechanism for distributing loan funds, enlist private-sector partners who would fully take over loan funding, and/or amplify the loan capital fund through privately leveraged funding. The City would be required to make a formal request to the DOE to reprogram funds which would extend timelines for revised implementation and create uncertainty as to whether the proposed revisions could be implemented at all.

To address these issues, staff recommends that this loan program be funded from existing City's Energy Management CIP project funds. The $91,800 in federal funds originally planned to implement the loan program would switch funding to the Energy Management CIP where the monies would be used for energy conservation projects. This solution exchanges federal EECBG funds and Energy Management City CIP funds one-for-one with no loss in timing or programming opportunity. DOE is aware and has encouraged this switch of funds.

The second item staff recommends changing is the loan model from of Revolving Loan Fund (RLF) model to a Loan Loss Reserve (LLR) model. The LLR model will allow the City and its partners to leverage significant private capital providing private loan resources to the community.

This loan program would be coordinated through the Northern Virginia Regional Commission and their partnership with the non-profit Virginia-based Local Energy Alliance Program (LEAP), which manages a similar LLR program in Charlottesville. LEAP has been successful in obtaining State and private sector grants to expand the loan loss reserve amount further. It is intended by NVRC and LEAP to expand this program to Arlington and Fairfax Counties, if these jurisdictions agree to provide sufficient loan loss reserve funds. While the City would provide loan loss reserve funds, it would not be responsible for any dollar amount of loan losses beyond the $91,800 it would be providing. The City previously established in 1999 a small business micro-enterprise lending program with a $33,000 CDBG appropriation for a loan loss reserve coupled with private sector funds from a number of lending institutions. Since then, this program has made 92 loans totaling $1.4 million with only two loans requiring access to the loan loss reserve.

Based on staff research, it is estimated that up to $1 million in loans could be originated with a $91,800 loan loss reserve. This leveraging increases the potential size of the loan program by ten-fold. This will increase the amount of loan funds available by multipliers, allow the maximum loan amount to be increased from $5,000 to $10,000, as well as shift much of the administrative loan approval and monitoring process to the private sector.

FISCAL IMPACT: No additional funding is required of the City in order to increase the total amount of loans by nearly ten-fold.

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