EXHIBIT NO. 1

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5-10-11

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 2, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: CONSIDERATION OF A PROGRAMMMING CHANGE IN FUNDING ALLOCATED THROUGH THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT (EECBG) TO SUPPORT TWO RESIDENTIAL ENERGY EFFICIENCY INITIATIVES

ISSUE: Consideration of a change in proposed activities funded by the federal Energy Efficiency and Conservation Block Grant (EECBG).

RECOMMENDATION: That the City Council:

(1) Approve a reallocation of $108,000 in federal EECBG grant funding for an energy efficiency revolving loan fund to serve moderate income Alexandria homeowners;

(2) Approve a reallocation of $100,000 in federal EECBG grant funding to perform residential energy efficiency upgrades and consumer education at the Arlandria Chirilagua Housing Cooperative; and

(3) Authorize the City Manager to execute all necessary documents associated with these activities.

DISCUSSION: In 2009, City Council requested staff to explore development of a resource to provide low-cost/incentivized loans to finance energy retrofits for City residents. Access to affordable financing for energy retrofits addresses multiple principles established by the Environmental Charter of the Eco-City Alexandria initiative, including energy, green building, and climate change, and provides an important resource to promote sustainable environmental practices within the City.

Toward these goals, City Council allocated $208,000 in June 2009 in federal American Recovery and Reinvestment Act (ARRA) funding through the EECBG to support development of a Green Revolving Loan Fund. In addition, in 2010 the Virginia General Assembly enacted legislation (Virginia State Code Section 15.2-958.3) which authorized localities to develop energy efficiency loan programs. The legislation, while providing a number of tools for implementing such a program, was found to have insufficient enforcement mechanisms and remedies for loan non-payment, as well as lacked clarity in the allowable lien position for such loans. Staff has participated in a Commonwealth-wide work group which is researching, among other topics, improvements to the legislation to better meet the needs of local governments.

Because of these issues, staff explored a number of alternative approaches to creating such a fund including loan loss reserve account funding, interest rate buy-downs and third-party loan insurance programs. In spite of significant work at both the regional and Commonwealth-level, few such loan programs have been developed and partnership opportunities continue to be limited. Locally in Maryland, working under different state laws, Montgomery County and the City of Annapolis have approved programs that offer subsidized loans for energy improvements through bond financing.

In seeking to develop an energy improvement loan program, a number of other obstacles arose. Using the emerging national best practice, the originally planned energy loan repayment structure was based on the loan being a first lien and repaid through the City's property tax billings. Not only was the State Code found deficient to implement this type of structure, but the Federal Housing Finance Agency (which oversees Fannie Mae, Freddie Mac and the Federal Home Loan Banks) raised objections nationally about the growing practice of structuring home energy improvement loans in this manner. Given that the federal housing finance agencies, in a de facto sense, set the market standards for home mortgages, the Federal concerns in effect have blocked this type of loan structure. As a result, City staff has developed a proposed alternative energy efficiency loan program. EECBG regulations encourage partnerships with nonprofit agencies and provide that once a funding agreement with a third party agency is in place, funds are considered expended.

A. **Energy Efficiency Loan Fund ($108,000)**: Staff is recommending that $108,000 be allocated to create and manage a revolving loan fund that would provide City residents loans of up to $5,000 to complete energy efficiency improvements. Key features of the proposed program are:

   - Loans would be provided at a very low interest rate of 2% to 3%, amortized over 5 years;
   - Households with incomes up to 100% of Area Median Income (which is the City's income limit for the Moderate Income Home Ownership Program – MIHOP) would be eligible (approximately $100,000 for a family of four);
   - Each program participant would receive a free energy audit after loan closing to help guide their energy improvement decisions;
   - City staff would market the program, receive and approve loan applications, complete certain federal requirements, and conduct an onsite inspection of the work; and
   - Based on the proposed interest rate of 2% to 3%, it is expected that the loan fund will be self-sustaining and may serve as a platform for future expansion, possibly on a regional basis.

   Recognizing the City's program design needs, staff sought a cost-effective and flexible approach that would serve to lower the participant's cost of entry into the program. AHC, Inc., a regional non-profit housing entity, was able to offer low transaction and servicing costs as they already are a program similar to this, as well as a willingness to be flexible and collaborative in designing the program to meet Alexandria's needs. Applications will be processed through the City's Office of Housing with AHC performing largely backroom functions.

Federal funds used to capitalize a revolving loan fund maintain their federal character in perpetuity. As a result, federal requirements that apply to the funds such as the National Environmental Protection Act (NEPA) and the National Historic Preservation Act (NHPA) would apply during the life of the loan fund. City staff will be responsible for completion of site specific environmental reviews of project sites, as well as compliance monitoring of the recommended projects.

B. Arlandria Chirilagua Housing Cooperative ($100,000): Staff also sought proposals from organizations that own affordable housing in the City, including from Rebuilding Together Alexandria, which has developed significant experience in residential weatherization and energy efficiency improvements through its ongoing home rehabilitation program for low income homeowners.

City staff is recommending that $100,000 in EECBG grant funds be allocated to complete energy efficiency and weatherization improvements at the Arlandria Chirilagua Housing Cooperative (ACHC). ACHC is an affordable housing cooperative that the City has previously assisted. ACHC is already undertaking a number of energy improvements and Rebuilding Together Alexandria would be utilized to provide a cadre of skilled and semi-skilled volunteers to supplement and support ACHC efforts. By using volunteer labor, Rebuilding Together Alexandria projects that it will leverage $2 for each $1 of EECBG funds invested in the project. This equates to about $300,000 in energy improvements. The Board was unanimously supportive and welcomed the City and RTA's interest in lowering their energy use as well as monthly housing costs of their residents. ACHC has agreed to share information on current energy use and will join the City in measuring the impact of this initiative on its future energy demands.

It should be noted that City Housing staff continues to work with ACHC and outside counsel to review and address issues related to the facility condition, reserves and management. While this review has taken much longer than anticipated, progress has been made and has been sufficient that staff is comfortable recommending the EECBG grant allocation.

FISCAL IMPACT: EECBG funds must be fully committed by May 25, 2012. The $208,000 in federal funds requires no local match. The local financial commitment will be in the form of existing Office of Housing staff who will administer these two programs within existing staff levels.

STAFF:
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