



## Commons Energy

Saving Energy,  
Strengthening  
Communities

TO: Montpelier City Council  
FROM: Brian Pine *BAP*  
DATE: June 20, 2018  
RE: Living Well Group loan amendment request for Heaton Woods

I am writing with regards to the request by Living Well Group (LWG) to amend the existing City of Montpelier loan for the property known as Heaton Woods. This memo is intended to add some context and to explain the importance of the City Council approving the request as originally made by LWG.

A more detailed account of the project history has been provided by Paul Kervick of LWG, but I wanted to add some context for this request and further discussion of the salient facts. Capital City Housing Foundation (CCHF), a subsidiary of the Montpelier Housing Authority (MHA), acquired the subject property in July 1994. The purchase was made possible by approximately \$2.5 million in loans and grants from Vermont Housing & Conservation Board, USDA Rural Development, Vermont Community Development Program (VCDP) grant of CDBG funds to the City of Montpelier, MHA and the City of Montpelier. With 3.2 acres of land preserved for conversation and the building serving low-income seniors, the project advanced VHCB's dual statutory goals of affordable housing and land conservation. VHCB also executed easements and covenants that ensure these public benefits continue in perpetuity. Other than the USDA loan, all other sources were either grants or interest-free deferred loans with no payments or interest accruing.

For the ensuing 20 years, MHA operated the facility and continued to serve low-income frail seniors. However, both the property maintenance and residential care services required more resources and organizational capacity than MHA could provide. When the CCHF decided to sell the property around 2014, LWG stepped in to ensure the protection (and wellness) of the existing residents. LWG quickly determined that the deferred capital needs were significant, and that operations needed a major overhaul. As part of developing their plans, LWG Board member John Sawyer began a detailed review of the finances. In an effort to return tangible benefits to the City, John developed a plan to convert the City's VCDP deferred loan to an amortizing loan. Along with senior debt from Northfield Savings Bank, concurrence from VHCB and assumption of the City's \$600,000 pre-existing loan, LWG purchased the property in 2016. However, converting the City's loan to an amortizing status proved to be more than the property

could handle in light of the deferred maintenance, energy efficiency upgrades and capital improvements discovered as due diligence proceeded.

LWG invited Commons Energy (CE) to assess the cost-effectiveness of undertaking energy efficiency upgrades. After conducting an energy audit, CE determined that all of the lighting and mechanical systems needed replacement. In addition, the appliances, fixtures and equipment were wasting significant amounts of energy and water. CE provides the full range of energy services from audit to installation of efficiency measures and ongoing monitoring. We also provide public-purpose building owners and managers with an energy performance guarantee – if the energy and water usage savings are not achieved, CE pays the difference to the customer. Obviously, this arrangement creates a built-in incentive for CE to both accurately estimate energy/water savings, ensure that the most cost-effective measures are properly installed and to provide timely and thorough usage monitoring. We strive to save energy and water so that public-purpose organizations like LWG can devote more time and resources to serving their mission.

Upon completion of the Heaton Woods work, CE will guarantee LWG an annual energy savings that has a present value of over \$36,000 based on 2017 baseline energy prices. The nature of the guarantee is that CE will make payment to LWG if necessary to bring the savings to no less than \$36,000/year, and/or complete additional retrofits at our discretion and cost to achieve the guaranteed energy and water usage savings. This frees up funds to support the mission of serving low-income, frail seniors in a residential care setting that has improved resident health and wellness outcomes.

The contractors are finishing up a \$1.1MM renovation/energy retrofit that is currently 100% financed with CE interim financing. The CE model relies on partnering with lending institutions to serve the role of lead underwriter. In this instance, Vermont Community Loan Fund (VCLF) is the lead underwriter. VCLF completed their underwriting for \$1 million of permanent financing. As with all CE projects, we will buy a participation (50% in this case) with VCLF retaining the balance of the loan on their books. One of the conditions that must be met in order to close on the VCLF financing is that LWG must obtain both a subordination agreement from the City for the \$600,000 VCDP loan, AND City approval to revert to an interest-free, deferred loan payable only upon sale or if the property no longer serves low-income individuals.

Having managed the City of Burlington's CDBG housing program for 18 years, I can say that municipalities regularly treat CDBG funds (VCDP grants are CDBG funds) as grants or no-interest, deferred loans. In fact, this is the norm for projects that are sponsored by nonprofits that provide a public good. Heaton Woods is precisely the type of project that municipalities routinely fund with CDBG in this manner. CDBG is federal

funding that goes to the State of Vermont and is granted to municipalities for eligible purposes. There are no local tax dollars involved in the City's loan for Heaton Woods.

The rationale for the VCLF condition is simple economics: the project does not generate sufficient cash-flow to service the senior debt to Northfield Savings Bank and VCLF/C plus make payments to the City. CE approved the interim financing because the energy upgrades were necessary both to lower the operating costs, but also to improve the indoor air quality and temperatures for the frail seniors. If the City does not grant the request from LWG, the VCLF financing will not be available and Commons Energy's scarce investment capital will not be available for other public-purpose buildings in Vermont.

In closing, the City of Montpelier showed a commitment to low-income seniors when they supported the Montpelier Housing Authority purchase of Heaton Woods in the mid-1990s. As the next chapter begins for this unique approach for seniors to age in place with grace, dignity and health, the City has an opportunity to ensure that this community resource continue serving the shared mission for decades to come and that other public-purpose buildings in Vermont can enjoy the same opportunity to advance their mission while saving energy and water.

Please contact me with any questions in advance or during the Council meeting on June 27<sup>th</sup>. Feel free to reach out at [bpine@veic.org](mailto:bpine@veic.org) or by calling 802-540-7829.

