



To: CCRFC Board of Directors
From: DMC Staff & CCRFC Policy Committee
Date: July 8, 2016
RE: Suggested Changes to PILOT Policies & Procedures:
Energy Efficiency & Environmental Sustainability

I. Introduction:

Under current policy, development projects that receive a PILOT tax incentive from the Center City Revenue Finance Corporation (CCRFC) are not subject to any special requirements or goals relating to energy efficiency or environmental sustainability, aside from complying with the basic requirements of local building codes. This typically results in developers striving to keep front-end construction costs as low as possible, even at the expense of long-term efficiency and cost savings over the lifespan of mechanical equipment or materials.

This challenging dynamic is illustrated in the decision to use electric resistance heat systems. Many developers are opting to not use high-efficiency heat pumps or natural gas and are instead relying on electric resistance heat for new apartment buildings. Electric resistance heat, while the cheapest equipment to purchase on the front end, is the most expensive and least efficient way to heat space. Depending on the efficiency of the specific unit and local utility rates, it can cost the tenant 2 to 3 times more to heat their apartment than if a heat pump was used.

For a hypothetical adaptive reuse apartment project, it might cost the developer approximately \$300 more per unit to install high-efficiency heat pumps as opposed to standard electric resistance heat. While the tenant would easily save that much or more within a short period of time, the developer has no financial incentive to purchase higher-efficiency equipment since the tenant is responsible for the monthly utility bills. Also, the developer could see an additional disincentive to make this investment because higher project costs may require higher rental rates, and most renters look solely at monthly rent, and not total costs (including utility costs) when selecting an apartment to rent. Another challenge may be that the appraisal community will give no additional value to the property based on a higher value of improved mechanical equipment.

III. Current Approach:

While adherence to high standards for energy efficiency and environmental sustainability are not required as a condition of receiving a PILOT tax incentive from the CCRFC, the current policies and scoring criteria do provide for two (2) years to be added to the PILOT term following Leadership in Energy and Environmental Design (LEED) Certification. LEED is a program of the U.S. Green Building Council (USGBC) and is commonly accepted as the industry standard rating system for the

design, construction, operation, and maintenance of environmentally sustainable buildings. Most local development projects do not pursue LEED certification. For many developers, that decision is partly due to the perceived time and expense associated with certification. To date, only one Downtown PILOT project, Court Annex 2, requested and received LEED Certification.

IV. Recommended Changes to PILOT Polices & Procedures:

If CCRFC's polices are silent on issues of energy efficiency and environmental sustainability, it is safe to assume that most developers will look to the option with the lowest upfront investment. Staff believes that development projects receiving a PILOT from the CCRFC should be held to high standards for energy efficiency and environmental sustainability as a condition for receiving the incentive. The rationale behind this policy change is that publicly incented projects should lead by example and meet higher standards than non-incentivized projects in order to demonstrate best practices for urban development, design, and construction in Downtown Memphis.

Staff recommends taking a two-prong approach to addressing the issue of energy efficiency and sustainability for projects receiving a PILOT. First, staff recommends that the CCRFC prohibit the use of electric resistance heat for projects receiving a PILOT. Second, the extra grade for achieving LEED Certification and similar programs should be increased to encourage developers to incorporate environmental sustainability into Downtown projects.

Proposed Changes:

1. Apartment and mixed-use projects receiving a PILOT shall not utilize electric resistance heat systems. Incentivized projects should incorporate natural gas, heat pumps, or another high-efficiency system as deemed adequate by DMC staff and MLGW staff. This requirement applies to both new construction and building renovation projects. The only exception to this requirement will be for instances where using natural gas, heat pumps, or another high-efficiency system is deemed technically infeasible by MLGW staff due to unavoidable characteristics of the project, use, building, or site.
2. The Downtown PILOT Project Evaluation & Scoring Sheet* should be changed as follows:
 - a. Increase the grade for achieving LEED Certification from the U.S. Green Building Council (USGBC) from 2 year to 4 years.
 - b. Add a grade of 4 years for achieving Net Zero Energy Building Certification (NZEB) from the International Living Future Institute and the Living Building Challenge.
 - c. Add a grade of 1 year for achieving Energy Advantage Apartments (EAA) certification from MLGW.

**Note that a project may only receive credit for one of the energy efficiency programs listed above.*