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$35-million loan for Providence has a 'green' element

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PROVIDENCE — The state capital may be the second city in the country to use an unusual borrowing plan to help plug its budget deficit while also making energy improvements to city buildings to create long-term savings.

The $35-million loan proposed would put $30 million toward the city's operating budget, which city leaders say will fall short by at least "tens of millions" this year. The other $5 million would be used to make energy-saving improvements to City Hall, the school administration building on Westminster Street, the public-safety complex and possibly other properties. The renovations might include roof and window upgrades, renewable energy products, such as solar panels and green roofs, or installing "smart" building-management systems to better control air conditioning, heating and lighting.

The goal is to give the city energy savings for years to come, even after the loan is paid off.

Class Green Capital Partners, a Connecticut lender and consultant, would help the city with the loan process and renovations. Class Green worked with Newark, N.J., on a similar $73-million program.

The loan process would start with the Providence Public Building Authority, the city agency that typically finances construction projects. The building authority would buy properties from the city and use them as collateral for the $35 million — $30 million in taxable bonds and $5 million in tax-exempt borrowing.

The city then leases the buildings back for 15 years, with the lease payments going toward the authority's loan. At the end of the lease, the city buys back the properties from the building authority for $1.

Acting Finance Director Richard Kerbel said that, based on preliminary estimates, the $35-million loan could cost the city $57.5 million over the next 15 years. But the energy improvements, he said, could save $4.1 million during that same time period, followed by more savings afterwards.

While she acknowledged it is not "ideal" or good practice to borrow money to pay the city's operating costs, Melissa Withers, Taveras' spokeswoman, said the mayor is working with the council to resolve this year's budget predicament quickly so they can move Providence forward.

Using property as collateral to borrow money is common, but the new element is to take some of the cash to retrofit buildings and save energy costs, added Michael D'Amico, Mayor Angel Taveras' director of administration.

"Providence has been hit with the recession like all other cities, and it was looking for ways to maintain vital city services while not causing long-term harm," said John D. Hirschfeld, chief executive officer of Class Green. "As opposed to simply borrowing, this creative solution balances the short-term issues with long-term benefits."

Hirschfeld said his company, formed in 2008, can help Providence through the process with its team of real-estate investors, green-energy experts and lawyers with commercial banking and acquisition experience.

Newark was the first community to sign on with Class Green. The Star-Ledger reports that the city sold 16 of its buildings late last year to the Essex County Improvement Authority, which bought the properties with about $73 million in bonds sold to private investors.

Newark paid $200,000 to Class Green and $300,000 to the company that assessed the buildings.

With a 5.9-percent interest rate, Newark is essentially renting its own buildings for roughly $125 million over the next 20 years. In the Providence plan, the building authority would use properties that have enough equity, including the school administration building and, possibly, the registration building on Washington Street and buildings at Roger Williams Park, as collateral.

Even though energy-saving renovations are planned for City Hall and the public-safety complex using the loan money, those buildings will not be used as collateral or transferred to the building authority.

The City Council has unanimously agreed to let the mayor's administration continue to work with Class Green to determine loan terms, interest rates, building assessments, and which properties would be targeted for which improvements. The plan was initiated in October with the administration of former Mayor David N. Cicilline.

Class Green has proposed a fee of 1 percent, or $350,000, for its help, Withers said. The final fee will be negotiated.

The city plans to finalize the borrowing by May 2011 and renovations would begin shortly thereafter. The length of construction depends on the scope of the work.

"We don't get any return with most of our investments," Kerbel recently told the council's finance committee. "If we make the proper improvements, the savings will continue forever and ever."

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