An Opportunity for Creating New Economic Activity

With

Property Assessed Clean Energy (PACE)

Advancing Facility Improvements and Conservation Related Retrofits into Commercial and Industrial Properties

Quality of Life Committee, September 30, 2015
What is PACE?

- PACE is a financing program that enables owners of commercial and industrial properties to obtain low-cost, long-term loans for water conservation, energy-efficiency and renewable retrofits.

- The PACE statute, SB 385, authorizes municipalities in Texas to create districts where lenders and property owners can finance qualified improvements using contractual assessments voluntarily imposed on the property by the owner.

- The term of a PACE loan may extend up to 20 years, resulting in utility cost savings that exceed the amount of the payment.

- As a result, improvements financed through PACE generate positive cash flow upon completion with no out-of-pocket cost to the property owner.
June 19, 2013: Gov. Rick Perry signed legislation allowing PACE Programs

May 2014: Stakeholder input & collaboration completes “PACE in a Box” toolkit for local adoption

2014 -15: “PACE in a Box” resources available for cities and counties to adopt a PACE resolution and begin steps to implement a PACE program
Support & History

- The coalition:
  - County Judges and Commissioners Association of Texas
  - Independent Bankers Association of Texas
  - Texas Association of Business
  - Texas Association of Counties
  - Texas Bankers Association
  - Texas Building Owners and Managers Association
  - Texas Combined Heat and Power Initiative
  - Texas Conference of Urban Counties
  - Texas Manufactures Association
  - Texas Municipal League
  - Texas Renewable Energy Industry Association
  - US Business Council for Sustainable Development
  - US Green Building Council
  - Dozens of other organizations and companies
PACE is a Win-Win-Win

- **Property Owners** – lower utility bills, energy independence, energy & water efficiency, property value increase

- **Contractors** – source of increase in business, more local hiring, best practices, keeping up with technology advancements

- **Lenders** – new loans, steady & stable process, fully collateralized, 1st lien position, improved asset value

- **Communities** – increased competitiveness, economic development and jobs, improved building infrastructure, more appealing building stock

- **State of Texas/City of Houston** – over the long term, reduced peak demand, improved grid loading, renewables as source, improved air quality, better water conservation
PACE Tearing Down Barriers

Barriers

Scarce *internal capital budget*

No access to, aversion to *financing*
  - No investment-grade *credit rating*
  - Lack of *collateral* assets that don’t fall under first mortgage

Uncertain *holding period*

Owner / tenant *split incentives*

*Skepticism* savings/ROI will be realized

PACE Solutions

No down payment and costs spread over time w/ savings

- Repayment security through senior lien position
- Backed by property, not by owner or equipment collateral

PACE obligation transfers to the new owner upon sale

Qualifies as *pass-thru* cost

ESCO/contractor *guarantees* or third party insures performance
PACE How it Works

A Building Owner:
- finds a contractor
- selects a project
- identifies a lender
- applies to PACE program

If the owner, building and project all meet PACE requirements:
- the owner signs a contract with the PACE program, which places a senior lien on the property
- the lender provides funding
- the contractor completes the project
- the PACE program bills assessments to the owner and forwards the payments to the lender
### PACE Financing Scenario Comparison

#### Financing Scenario Comparison Summary

<table>
<thead>
<tr>
<th></th>
<th>Self-Funded</th>
<th>Conventional Loan</th>
<th>PACE</th>
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</thead>
<tbody>
<tr>
<td>Out-of-Pocket Investment</td>
<td>$200,000</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Utility Savings (First Year)</td>
<td>$33,000</td>
<td>$33,000</td>
<td>$33,000</td>
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<tr>
<td>Annual Payment</td>
<td>$0</td>
<td>($45,558)</td>
<td>($19,059)</td>
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<td>Cash Flow Impact Year 1</td>
<td>($167,000)</td>
<td>($12,558)</td>
<td>$13,941</td>
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<td>Net Project Cash Flow Year 2</td>
<td>($134,000)</td>
<td>($25,117)</td>
<td>$27,882</td>
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<td>Years to Positive Project Cashflow</td>
<td>6.1</td>
<td>6.9</td>
<td>N/A</td>
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<td>10-Year Project NPV</td>
<td>($463,348)</td>
<td>($58,103)</td>
<td>$455,693</td>
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<td>Property Value Increase (20-Year NPV)</td>
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<td>$1,100,068</td>
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Project Investment Value is estimated at over $200 million

Jobs created:
Approximately 2,000 over a five year period
City of Houston Timeline

September 30: Quality of Life Committee Informational Hearing

October 1: PACE Report and Documents posted for public review

October 14: City Council Action: Resolution of Intent

October 21: Quality of Life Committee Public Hearing

November: City Council Action: Resolution of Adoption