



PACE In a Box: A Collaboration Making Property Assessed Clean Energy Financing A Reality in Texas

In today's world of ever-increasing dependence on energy and water resources, the importance of energy efficiency and water conservation cannot be over emphasized. Commercial and industrial buildings in Texas consume approximately 63% of all energy produced in the state. But market barriers – like extended payback periods and lack of access to capital – have discouraged building owners from investing in retrofits that would decrease their water or energy consumption. Recently, a new mechanism for financing energy efficiency and water conservation improvements was enacted in Texas. Known as Property Assessed Clean Energy (PACE), this financing mechanism promises to remove these barriers and to encourage building owners to make economically viable investments in energy efficiency and water conservation retrofits.

Legislative Background

On June 16, 2013, Texas enacted SB 385, The Property Assessed Clean Energy Act (the “Act”). The effort to pass the Act was led by **Keeping PACE in Texas (“KPT”)**, a nonprofit, nonpartisan association that assembled a coalition of businesses, commercial trade associations, non-governmental agencies and other stakeholders to advocate for PACE in Texas.

With the passage of the Act, municipalities and counties (“local governments”) in Texas are now authorized to create local PACE regions and begin implementing PACE financing programs for commercial and industrial properties, as well as residential properties with 5 or more dwelling units. But, as is the case in every other state that has enacted PACE legislation (with the exception of Connecticut), the Act leaves it to each local government to design and implement its own PACE program. PACE programs are complex arrangements to create, requiring substantial amounts of time and effort. As a result, relatively few local governments in other states have undertaken to establish them. Moreover, in those states where local PACE programs have been established, there is a wide array of differing program requirements among various jurisdictions, resulting in a confusing patchwork of inconsistent PACE programs from one area of the state to another.

Objective

In order to expedite the establishment of local PACE programs in Texas and to facilitate an orderly, consistent, state-wide approach to PACE design and implementation, KPT has organized a broad-based coalition of PACE stakeholders (the “Texas PACE Coalition”) to collaborate in developing a toolkit for local governments to use in creating their PACE

programs. The toolkit, to be known as “*PACE in a Box*”, will contain all of the design elements, documents and implementation steps necessary for a local government to establish an effective PACE program quickly and economically. *PACE in a Box* will standardize the design of PACE programs in Texas, resulting in uniformity and predictability of requirements for PACE financing among all participating local jurisdictions. As a result, the various stakeholders in PACE financing transactions – property owners, lenders, governmental agencies, energy service companies, and others – will be able to accelerate the process of utilizing PACE financing in Texas.

Funding Required for *PACE in a Box*

KPT is seeking to raise \$1 million for a one-year project by the Texas PACE Coalition to design *PACE in a Box* and to use it as a means of expediting the implementation of PACE programs in Texas. We anticipate that funding for this project will be provided by the following sources:

- \$500,00 by grants from foundations*
- \$300,000 by cash or in-kind contributions from PACE stakeholders
- \$200,000 by a grant from the Texas State Energy Conservation Office

*The Rockefeller Brothers Fund has approved a two-stage grant of \$100,000 to KPT for the *PACE in a Box* project. KPT anticipates receiving the first \$50,000 of this grant by October 1, 2013. The second funding of \$50,000 is contingent upon the successful development of *PACE in a Box* and will be funded in early 2014.

The Potential Market for PACE Financing

The Department of Energy has cited figures estimating that, nationwide, there could be \$2.5 billion to \$7.5 billion worth of commercial PACE financing potential per year by 2015. However, unless the process of designing and implementing PACE programs is simplified and standardized, this potential will not be realized any time soon. KPT believes that *PACE in a Box* can bring about the change needed to make PACE a reality in Texas and other states around the country by serving as a model and providing uniform standards for states that have not yet implemented effective PACE programs.

Distinguishing Characteristics of PACE Financing

PACE is an innovative financing program that enables property owners to obtain low-cost, long-term loans for energy and water conservation improvements. It provides the property owner with upfront financing for 100% of the costs of qualified improvements and allows the owner to repay the debt over the life of the improvements, which is often up to 20 years. PACE-financed improvements are expected to reduce utility costs more than enough to cover repayment obligations, thereby generating on-going positive cash flow to the property owner.

The key to PACE financing lies in the fact that the debt is secured by a senior lien on the property. A PACE lien is tantamount to a tax lien and runs with the property. PACE eliminates the owner's risk of recouping its investment in energy-saving improvement because the debt transfers to the next owner upon sale of the property.

Project Design

PACE in a Box will provide local governments in Texas all of the tools required to adopt and implement PACE programs that are user-friendly, affordable, uniform and effective. The toolkit will be workable for all PACE programs, whether established for a single jurisdiction or a multi-jurisdictional region. *PACE in a Box* will assist local governments in creating their PACE programs by minimizing start-up costs, avoiding bureaucratic delays and providing state-of-the-art programmatic systems. In addition, the Texas PACE Coalition will provide guidance, documentation, education, marketing and training for local governments and other PACE stakeholders, using best practices and lessons learned from PACE programs previously established in other states. The Texas PACE Coalition will work to insure that PACE programs are created not only in the major metropolitan areas of Texas, but also in rural, agricultural, and other more remote areas of the state.

PACE in a Box is envisioned as a two-phased project, consisting of an intensive 6-month design phase, followed by a 6-month education, marketing and implementation phase. After completion of the project, an ongoing feedback, review and improvement process will be directed by KPT. By creating similar requirements, standards, and documents for PACE programs across the state, *PACE in a Box* will drive wide-spread use of PACE in Texas and enable PACE to become a commonly accepted form of financing for energy efficiency and water conservation projects.

Members of the Texas PACE Coalition include representatives of all types of PACE stakeholders, including property owners, banks, energy service companies and governmental agencies.

Project Management Plan

KPT conducted the organizational meeting of the Texas PACE Coalition on June 19, 2013. After reviewing best practices and lessons learned from other states, the group established the following goals for the Coalition:

- Bring all Texas PACE stakeholders together to design the *PACE in a Box* toolkit and deliver it at no cost to counties and municipalities throughout Texas.
- Provide mechanisms for cooperation among PACE programs on a regional or state-wide basis and encourage collaboration among local governments to expedite the implementation of PACE programs.
- Provide assistance in the creation of a dynamic PACE marketplace in Texas through:
 - Education and training of PACE stakeholders
 - Marketing of PACE at the local level
 - Identifying funding sources for local implementation
- Establish a mechanism for receiving ongoing feedback and making recommendations for improvement of PACE programs in Texas over time.

The substantive and programmatic issues to be addressed and resolved in recommendations and accompanying documents were divided into five subject areas. The following working groups were established for each subject area to research best practices, address the concerns of all stakeholders, and develop a turn-key PACE program:

- Program Underwriting Standards
- Program Technical Standards
- Funding Platform (structuring an open platform for financing options)
- Program Design
- Education and Marketing

Coalition members volunteered to serve on the working groups, and they will meet during the design phase of the project to develop templates for PACE programs that can gain community support and lead to the creation of successful PACE programs. For example, SECO will have a leadership role in the Technical Standards Working Group and will utilize its expertise and talent for working with industry groups to formulate uniform protocols for retrofits and improvements that qualify for PACE financing. These protocols will be a cornerstone of *PACE in a Box* and will help establish uniform standards for measuring and verifying the savings derived from energy efficiency and water conservation projects in Texas and around the country.

KPT staff will support the working groups and facilitate communication and coordination among the working groups. Final recommendations will be used to develop the overall program and document templates.

Creating a National Model for PACE

What happens in Texas shouldn't stay in Texas. The *PACE in a Box* project can become a model for new PACE programs in other states, and the work produced from the project will be available to support PACE efforts throughout the country. We believe *PACE in a Box* will resonate nationally for several reasons:

- The challenges and opportunities presented by PACE are not unique to Texas. Our experiences will be woven into the fabric of best practices and lessons learned for future PACE programs
- The creation of a broad-based coalition representing all stakeholders working together at the inception to design *PACE in a Box* will provide a unique holistic approach to the implementation of PACE.
- Because Texas is a home-rule, free-market state that opposes governmental mandates, *PACE in a Box* will not pick winners and losers and will leave final decisions in local hands – a situation likely to be important to PACE advocates in many other states.
- *PACE in a Box* is a one-year project focused solely on the design and implementation of start-up PACE programs. This focused effort will enable the Texas PACE Coalition to be a neutral force with no competitive interests to be served and nothing to be gained by its efforts other than the establishment of effective PACE programs around the state.
- By emphasizing water conservation and focusing attention on the industrial sector, the agricultural sector and outlying areas, *PACE in a Box* will develop new ideas for the use of PACE financing outside major metropolitan areas.
- Texas consumes far more energy than any other state. As a result, there are significant opportunities to use PACE financing for large-scale commercial and industrial retrofit projects in the state. Given the magnitude of the market for PACE financing in Texas, *PACE in a Box* will attract national attention and its use in establishing workable PACE programs will reinforce the viability of PACE financing for all stakeholders.

Program Sustainability

Funding for the creation of PACE programs is a challenge in Texas and elsewhere. *PACE in a Box* will minimize the need for start-up funds by delivering to local governments all of the materials required to create their PACE programs. To the extent local governments incur any costs or expenses in connection with the creating or administration of the PACE programs, those amounts can be recovered from the participants in PACE financing because the Act authorizes local governments to charge a fee to cover their expenses. In addition, *PACE in a Box* will be designed to enable local governments to recoup their administrative costs so their PACE programs will be sustainable over the long term.

Project Leadership

KPT will lead the Texas PACE Coalition's efforts to develop *PACE in a Box* and will supervise its adoption and implementation by local governments throughout the state. KPT's officers and directors are listed below:

<u>Name</u>	<u>Position</u>	<u>Occupation</u>
Stephen M. Block	President and Director	Partner, Thompson & Knight
Michael Gromacki	Vice President and Director	Vice President of Operations, Chief Technology Officer Dixie Chemical Company, Inc.
James C. Morriss III	Secretary-Treasurer and Director	Partner, Thompson & Knight
Andy Mangan	Director	Executive Director, United States Business Council for Sustainable Development
Charlene Heydinger	Executive Director	Executive Director, Keeping PACE in Texas

For additional information regarding efforts to implement PACE programs in Texas, subscribe to Texas PACE Update at <http://www.texaspaceupdate.com/> and visit KPT's website at www.KeepingPACEinTexas.org.