

New Commercial PACE Programs Unlock Tremendous Potential

ISSUE SUMMARY:

If you owned an office building, would you prioritize spending a lot of money *today* to retrofit your building to benefit from lower energy usage in the future? Would you be more likely to do the retrofit if you could get a long-term, low-interest loan instead of paying for the work all at once?

Property Assessment Clean Energy, or PACE, is an innovative way for property owners to finance energy efficiency upgrades to their property. By eliminating up-front costs, providing low-interest financing and making it easy to transfer the loan when the building is sold, PACE makes it more attractive for property owners to invest in making their buildings more water and energy efficient.

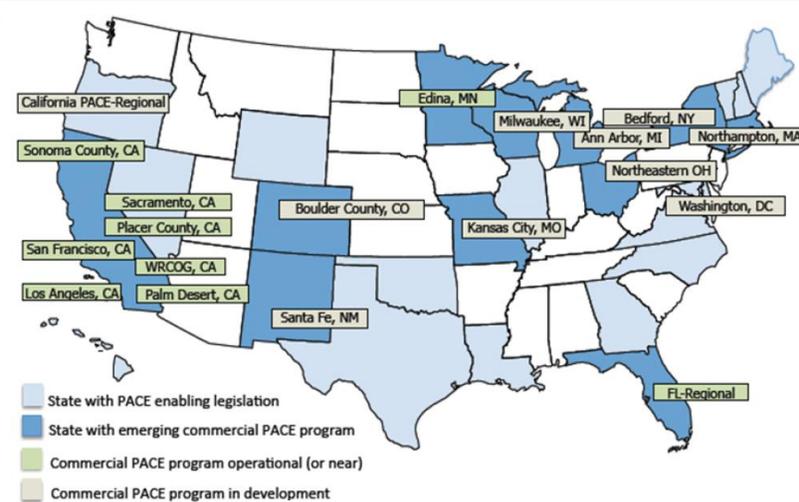
PACE uses municipal property assessments, similar to those used for projects like streetlights, sidewalks and water treatment, to facilitate *voluntary* energy efficiency upgrades and pay back the loans over time.

PACE projects help consumers save money on utility bills, conserve water and electricity and support local employment.

As of April 2013, PACE legislation has been passed in 29 states with broad bipartisan support.

Utah and Arkansas are the most recent states to have passed commercial PACE proposals; both states passed commercial PACE bills this spring.

PACE Programs Nationwide



Source: Sustainable Real Estate Solutions, 2013

In 2009, Texas adopted a law to allow cities to offer PACE programs in Texas. HB 1937 authorized property assessments for energy efficiency improvements to all types of real property, including homes, businesses and factories. Cities were authorized to designate districts within their city limits where property owners could undertake energy efficiency projects and arrange financing through local government.

Multiple cities began exploring the feasibility of PACE programs in 2009 and

2010, including San Antonio, Houston, Austin, Dallas, El Paso, and Amarillo. However, legal uncertainties resulting from regulations issued by the Federal Housing Finance Agency (FHFA) have put almost all residential PACE programs on hold since late 2010. Litigation and an FHFA rulemaking to resolve those issues are still underway.

Meanwhile, new types of PACE programs for commercial and industrial properties have proliferated. The Institute for Building Efficiency reports that, as of February 2013, there were 16 commercial PACE programs nationwide that are accepting applications to finance building efficiency projects.

Here in Texas, new proposals this session (HB 1094 by Keffer et al./SB 385 by Carona) could unlock the potential of PACE for commercial property owners in Texas. These proposals would authorize cities and counties to set up PACE programs for water and energy efficiency upgrades to commercial and industrial properties, as well as apartment buildings with five or more units.

Since buildings account for over 70% of energy used, Texas should update its enabling legislation for PACE programs, to unlock the potential of these new opportunities for commercial and industrial property and prepare for the implementation of residential PACE programs once the FHFA issues are resolved.

POLICY CONSIDERATIONS:

- Water conservation projects should be added to the list of allowable projects in Texas, to help support our current and future water needs.
- Counties should be given the same authority as cities so that interlocal agreements can be entered into where counties collect city taxes so that all buildings in Texas can use PACE.
- Counties and municipalities should be explicitly given the authority to collect PACE assessments in Texas if they want to do so.

RESOURCES:

- Numerous additional resources can be found at KeepingPACEinTexas.org and PaceNow.org
- Institute for Building Efficiency released issue paper in February 2013, "Setting the PACE: Financing Commercial Retrofits." http://pacenow.org/wp-content/uploads/2013/02/Setting-the-PACE_Feb2013-final.pdf
- U.S. Department of Energy is producing a number of materials and templates for PACE program design and implementation, including their "Clean Energy Finance Guide." http://www1.eere.energy.gov/wip/solutioncenter/pdfs/revFinal_V3Ch13CommercialPACEDec9.pdf