Property Assessed Clean Energy

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What is SPEER?

- Member-based, non-profit organization
- The Newest Regional Energy Efficiency Organization (REEO)
- Founded in 2011
- 45 members
PACE in Texas

• Property Assessed Clean Energy (PACE) is a financing mechanism to help building owners access long-term loans for clean energy and energy efficiency upgrades on their buildings. It is an extension of authority to levy assessments.

• The Texas Legislature passed SB 385 in 2013 (Ch. 399 of the Local Government Code), enabling cities and counties to adopt PACE Districts. Travis County has passed a Resolution of Intent to adopt a PACE District.

• Currently, SPEER is working with the Texas State Energy Conservation Office (SECO) and Keeping PACE in Texas, among other organizations, to help local governments adopt PACE districts and successfully implement PACE programs.
Why PACE is important

What are the most difficult obstacles to your organization’s implementation of smart energy infrastructure?

- Initial cost: 46%
- Lack of staff to evaluate new technology: 13%
- Doubt about whether a project will deliver expected value/benefits: 12%
- Lack of support from organization’s leadership: 9%
- Confusion about tax incentives, rebates, credits, etc: 7%
- Technical complexity: 6%
- Confusion about financing options: 5%
- Lack of understanding about smart technology options: 5%

Initial Cost Cited as the Most Difficult Obstacle to Implementing Smart Technology

<table>
<thead>
<tr>
<th>Organization Type</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Organizations that own and occupy</td>
<td>46%</td>
</tr>
<tr>
<td>Organizations that lease as tenants</td>
<td>52%</td>
</tr>
<tr>
<td>Organizations that own and lease to others</td>
<td>66%</td>
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</tbody>
</table>

Source: Stamats Building Media, November 2011
PACE tackles key barriers

What is the top barrier to pursuing energy efficiency for your company/organization?

- Lack of funding: 26% (2012), 30% (2011)
- Insufficient payback/ROI: 17% (2012), 19% (2011)
- Uncertainty regarding savings/performance: 15% (2012), 12% (2011)
- Lack of technical expertise: 11% (2012), 9% (2011)
- Lack of awareness: 10% (2012), 9% (2011)
- No organizational ownership: 10% (2012), 8% (2011)
- Landlord/tenant split incentives: 9% (2012), 8% (2011)

Average Allowable Payback

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<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td></td>
<td>3.7 yrs</td>
<td>3.4 yrs</td>
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Source: Institute for Building Efficiency
PACE solves a variety of problems

**Reason for not spending on energy efficiency**

- Lack of, or unwillingness to use, available capital
- Banks won’t lend for long terms at low interest rates
- Takes too long to receive ROI
- Lose money if property sold before ROI realized

**How PACE fixes it**

- Capital for PACE is available from multiple lenders.
- Banks like certainty of PACE loans paid back on property taxes.
- PACE projects are cash flow positive on day one.
- Debt transfers to new property owners.
Benefits of PACE to property owners

• Longer loan terms
• Lower interest rates
• Transferability of debt
• Ability to overcome up-front capital hurdle
• Financial savings from first day of program
• Increased marketability of property
• Meet sustainability goals
Benefits of PACE to local governments

- Economic Development
  - Investment in communities
  - Local jobs
  - Competitive advantage when attracting new businesses

- Include PACE in air quality plans
- Include PACE in water efficiency plans
- Meet sustainability goals
- Voluntary program
What can PACE finance?

(3) "Qualified improvement" means a permanent improvement fixed to real property and intended to decrease water or energy consumption or demand, including a product, device, or interacting group of products or devices on the customer's side of the meter that uses energy technology to generate electricity, provide thermal energy, or regulate temperature.
The goal for PACE in Texas

**Uniform**
- Contractors and lenders don’t have to learn new programs in every area
- Scalable

**Regional**
- Cities and counties under the same program to avoid competition for deals
- Local contractors can learn one set of rules

**Open Financing**
- Lenders competing for financing drives down interest rates
- Avoid expense of bonds or exclusive financing
Getting a PACE Program Started

- Determine whether local gov. will administer program, or hire an administrator
- Pass a resolution of intent, and publish a report.
- Hold a hearing and pass final resolution to form a PACE district.
- SPEER is available to assist with all aspects of helping get programs started.
Model Documents Available from Travis Co.

• Travis County Attorney’s Office and Travis County Tax-Assessor Collector, working with stakeholders have created and refined:
  – Contract between government and owner
  – Contract between government and lender
  – Mortgage consent form
  – Resolution of Intent
  – Program report required by statute
  – Final Resolution

• [www.traviscountytx.gov/pace](http://www.traviscountytx.gov/pace)
<table>
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<tr>
<th>What’s in the PACE Statute?</th>
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<td>Local governments may enter into a written contract to impose the assessment</td>
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<td>Defines procedures for establishing a PACE program</td>
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<td>Requires and defines energy baseline review</td>
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<td>Defines how the assessment/lien is treated under law</td>
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<tr>
<td>Delineates the types of projects that may be covered by the assessment</td>
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<td>Defines requirements in a Program Report</td>
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<td>Allows owners to purchase or lease/contract qualified equipment</td>
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<td>Establishes that governing bodies may contract with other taxing units for collection of assessments</td>
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<td>Defines the size of a PACE region</td>
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<td>Requires Lender Notification for a mortgage holder</td>
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<td>Requires assessment be recorded in the county where property is located</td>
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<td>Provides information if local governments choose to use bonds or notes for financing</td>
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<td>Allows local governments to use joint-implementation to administer a program</td>
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<td>Prohibits local governments from requiring or compelling participation in the program</td>
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City or County creates a Report including:

• Form contract between government and property owner;
• Form contract between government and lender;
• Plan regarding financing;
• Method for ensuring life of energy improvements exceed period of contract;
• Description of application process;
• Method to show applicant demonstrates ability to fulfill financial obligations;
• Explanation of lender notice;
• Explanation of baseline review.
PACE Statute

Defines procedures for establishing a PACE program

City or County adopts resolution establishing:

A. Valid Public Purpose
B. Assessments will finance qualified projects
C. Description of Qualified Projects
D. Boundaries of region
E. Proposed arrangement of financing
F. Description if bonds are used
G. Reference the Report
H. State time and date of public hearing
I. Identify local official and assessor-collector regarding assessments
Key Questions

- Does PACE drive demand?
- What’s the risk?
- Does PACE overcome “split incentive” problem?
- Will mortgage holders consent to second position?
- What kinds of fees will be charged?
Will banks take a secondary position?

– So far, over 100 banks have signed lender consent.

**International Banks:**
Deutsche Bank*
Hanmi Bank
Helaba Landesbank Hessen-Thüringen
HSH Nordbank
Royal Bank of Canada (as LIHTC Syndicator)

**National Banks:**
Bank of America*
Bank of New York Mellon (as Trustee)
Citibank
JP Morgan Chase*
US Bank*
Wells Fargo*

**Regional Banks:**
Bank of the West*
BMO Harris Bank
Bremer Bank
California Bank and Trust*
Citizens Bank
Fifth Third Bank*
First Bank of Boulder*
First Community Bank
FirstMerit Bank
First Republic Bank*
Five Star Bank
Great Western Bank
Guaranty Bank and Trust
Mechanics Bank
M&T Bank
Preferred Bank
Sterling Savings Bank*
Umpqua Bank*
Union Bank of California
WestAmerica Bank*

**Insurance Companies:**
Mutual of Omaha
Metropolitan Life Insurance (and as LIHTC Investor)*
Northwest Mutual Insurance
Pacific Life Insurance
Protective Life Insurance
Prudential Insurance
Riversource Life Insurance Company
Standard Life Insurance
The Standard – Stancorp Mortgage Investors
Want to know more?

www.eepartnership.org/pace  
www.keepingpaceintexas.org  
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