
AABC Commissioning Group

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PACE Financing as a Tool for Efficiency Upgrades for Commercial Buildings

Course Number: CXENERGY1613

Jonathon Blackburn
Texas PACE Authority

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This course is registered with **AIA**



Course Description

The property-assessed clean energy (PACE) model is an innovative mechanism for financing energy efficiency and renewable energy improvements, allowing local or state governments and other authorities to fund up-front costs of energy improvements from HVAC to building envelope upgrades to solar and more. This session provides real-world examples of how to leverage this financing to initiate an energy retrofit project.

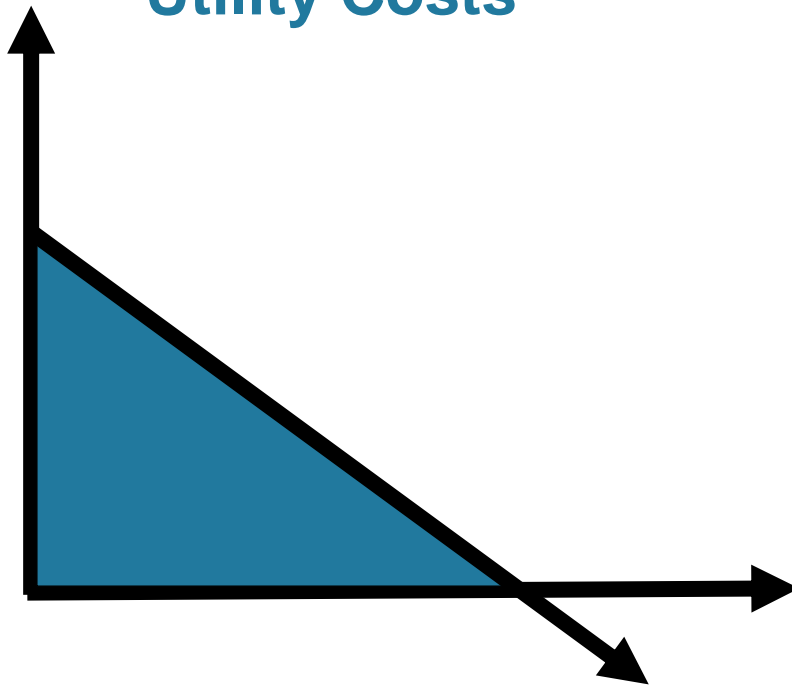
Learning Objectives

At the end of the this course, participants will be able to:

1. Learn how does the tax assessment nature of PACE function and what is the local government's role in this financing mechanism.
2. Understand the unique benefits that PACE provides as a financing mechanism compared to other options for implementing energy efficiency and renewable energy improvements.
3. Learn the types of projects, property types, and property owners that are eligible to use PACE.
4. Learn how to quantify the financial impact of PACE and evaluate a project in terms of increased cash flow and net operating income, rather than traditional metrics of simple payback and ROI.

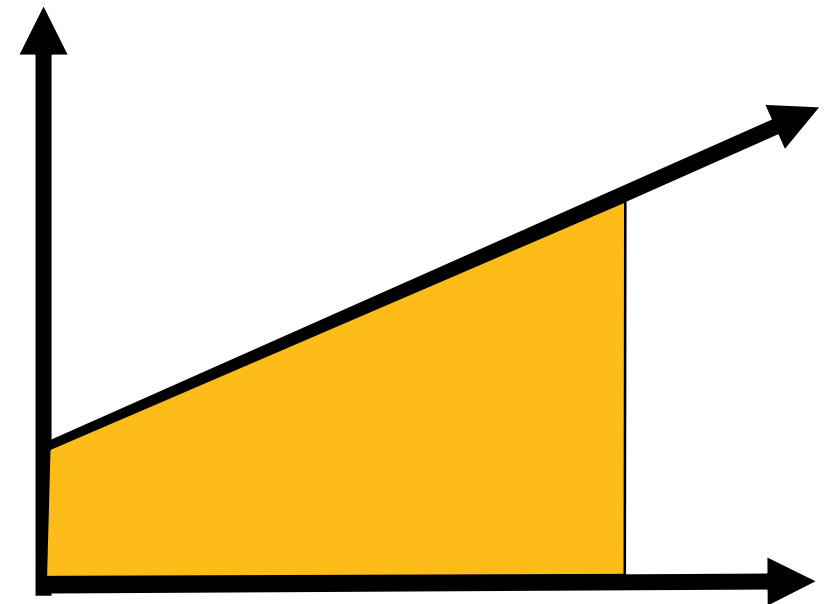
LOWER

Utility Costs



INCREASE

Net Operating Income



Bottom Line: Increased Building Value

WHAT IS PACE?

ANSWER:
Simply A Financing Option

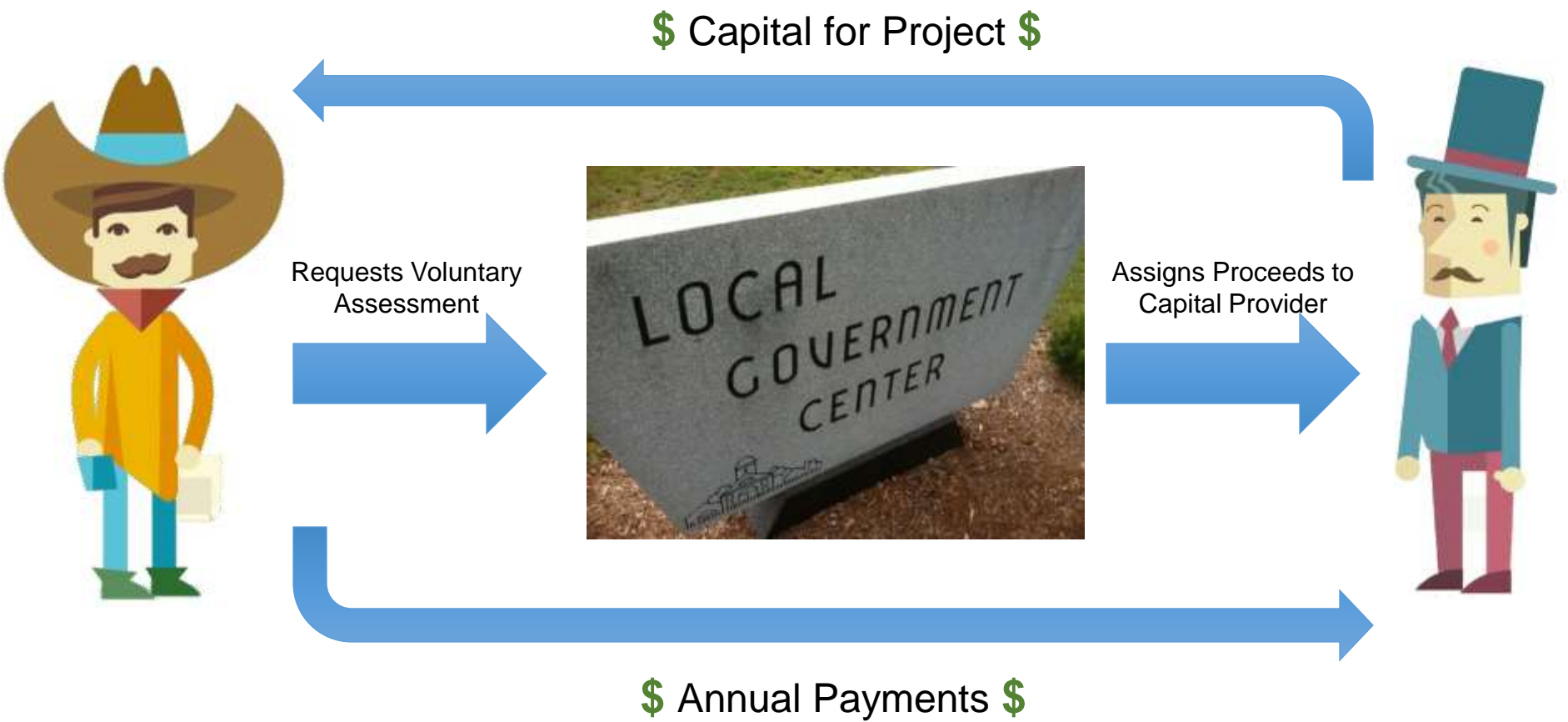
➤ **100% LONG TERM
FINANCING**

➤ **PROJECT PAYS FOR
ITSELF**

A Way Of Paying For Projects With No Money Out Of Pocket

Think Of It As A Loan

Public/Private Partnership



WHAT IS PACE NOT?

**MYTH #1:
PACE is a Performance
Contract and Requires
Savings Guarantees**

MYTH #2:

**PACE Involves Government
Money Or Is Government Run**

**MYTH #3:
PACE Must Involve Solar**

What is eligible for PACE?



ELIGIBILITY

PROPERTIES

- Commercial
 - Includes Industrial, Agricultural,
 - Multi-family with 5+ units, Nonprofits
- No New Buildings

PROPERTY OWNERS

- Privately Owned (No Government Property)

PROJECTS

- Energy/Water Efficiency
- Permanently affixed

NOT ELIGIBLE

GOVERNMENT PROPERTY

- Includes school districts, water authorities, etc

NEW CONSTRUCTION

- i.e. Greenfield

SINGLE FAMILY RESIDENTIAL

PACE VALUE PROPOSITION

- ✓ **Long-Term Financing Option**
- ✓ **Remains with Property**
- ✓ **Pass-Through to Tenants**

LONG SIMPLE PAYBACK? NO PROBLEM!



Short Holding Period? No Problem!



No payoff on sale – PACE automatically transfers to the new owner, like any other real estate assessment

Split Incentives? No Problem!



Both the energy savings and the PACE assessment can be shared with tenants

- ✓ Eliminates the landlord/tenant split incentive
- ✓ Triple Net Lease Mechanism

Financial Impact of PACE - An Example

- ✓ Commercial Office Building
- ✓ Project involves a \$1.1M energy efficiency retrofit
- ✓ Annual energy and maintenance savings of \$100,000 (11 years simple payback)
- ✓ The project does not pass the Landlord's hurdle rate for investment in energy efficiency
- ✓ PACE funding available for 25 years at 6.5%.
- ✓ Conventional Funding for 5 years at 4.5%.

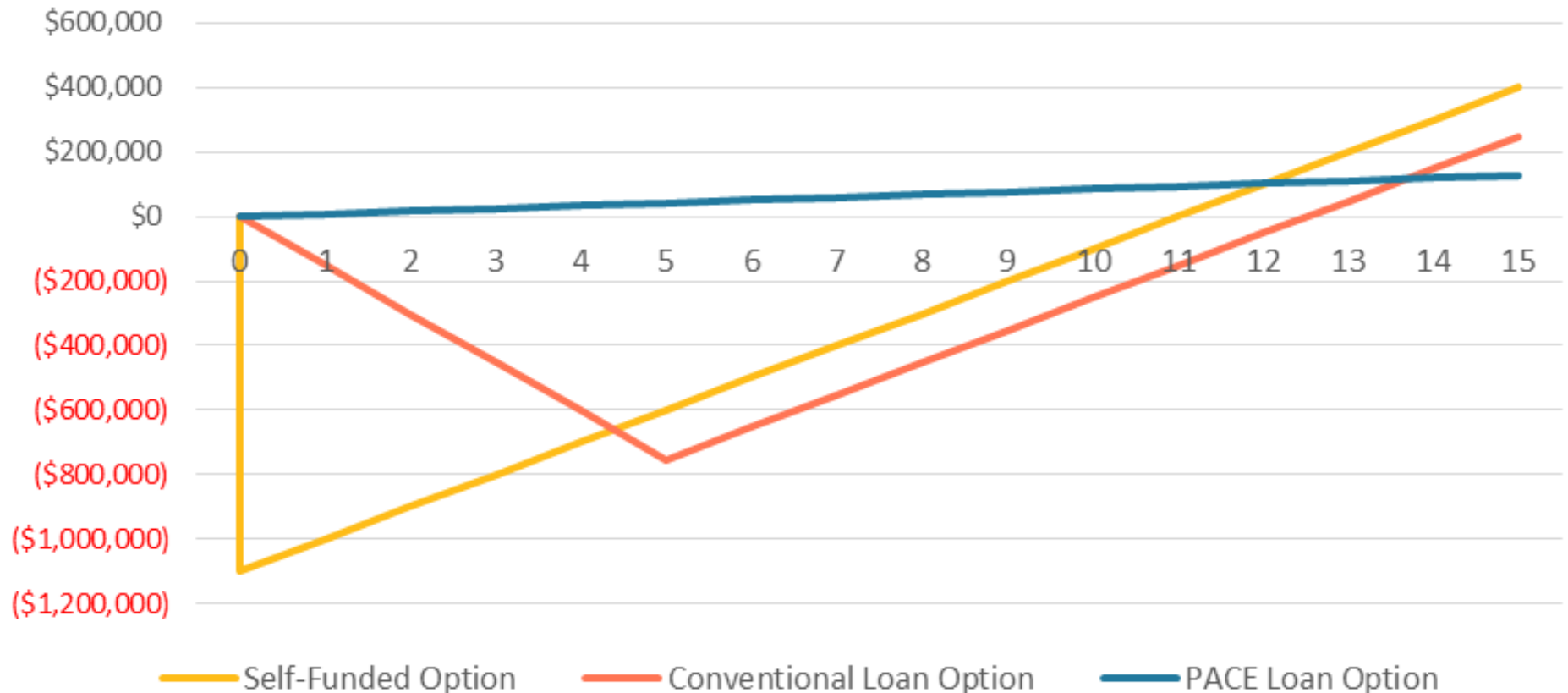
Gross Lease Scenario

Financing Scenario Comparison Summary

	Self-Funded	Conventional Loan	PACE
Out-of-Pocket Investment	\$1,100,000	\$0	\$0
Savings (First Year)	\$100,000	\$100,000	\$100,000
Annual Payment	\$0	(\$250,571)	(\$91,409)
Cash Flow Impact Year 1	(\$1,000,000)	(\$150,571)	\$8,591
Net Project Cash Flow Year 2	(\$900,000)	(\$301,142)	\$17,181
Years to Positive Project Cashflow	11.0	12.5	IMMEDIATE
Debt Service Over Finance Term	0	(1,252,854)	(2,285,234)
10-Year Project NPV	(\$5,212,398)	(\$2,983,550)	\$280,802
Property Value Increase (20-Year NPV)	(\$118,185)	(\$18,642)	\$84,344

Cash Flows

Cumulative Cash Flow



PACE Assessments Can Include:

- The cost of materials and labor necessary for the installation of a qualified improvement.
- Permit fees;
- Inspection fees;
- Lender's fees;
- Program application and administrative fees;
- Project development and engineering fees;
- ITPR fees, including verification fees; and
- Any other fees or costs that may be incurred by the property owner incidental to the installation, modification, or improvement: Legal, consulting and other fees on an actual cost basis; and
- Changes to the existing property that are incidental to the installation.

Congregation Beth Israel of Austin



Measures:

- Boilers
- Chillers
- Window Film
- BAS Controls



Assessment Total: \$450K
Annual Savings: \$40,000



BARTON CREEK MALL



TEXAS*PACE
AUTHORITY

Measures:

- Exterior LEDs
- HVAC
- VFDs
- BAS
- Weatherization of building shell
- Low flow water fixtures

Project Cost: \$1.25M

Annual Savings: \$177,000

PACE in Texas



This concludes The American Institute of Architects
Continuing Education Systems Course

