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State sets up financing to boost conservation efforts for commercial buildings

By Laylan Copelin
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As state officials wrestled with attracting more investment in power plants and water systems, the Legislature this year also passed a measure to entice owners of commercial and industrial buildings to conserve water and electricity.

"We have 1,000 people a day moving to Texas," said Charlene Heydinger, executive director of Keeping PACE in Texas, an association lobbying for the legislation. "If we want people to continue moving here, we have to stop talking about our water and energy problems and start talking about the solutions."

Senate Bill 385 created a voluntary program that is designed to give building owners access to long-term financing, up to 20 years, to retrofit inefficient energy and water systems.

Conservation professionals would have to confirm that the energy and water savings are large enough to repay the loans. A local government would collect the building owner's payments as a property assessment and turn them over to the lender. And lenders, unwilling to make those loans in the past, would now be given a superior lien on the building's land.

The Property Assessed Clean Energy Act, commonly known as PACE, is expected to be a boon to energy efficiency experts, equipment manufacturers and the renewable energy industry.

"Building owners don't invest in their buildings any more than home owners who don't want to put on a new roof until they have to," Heydinger said.

The PACE program offers new incentives for building owners to invest in conservation by addressing three hurdles: Owners are wary of investing because they don't know how long they will own the building; it takes too many years for a major retrofit to pay for itself; and owners typically pay for replacing equipment while tenants pay the operating costs.

"Building owners are indifferent to energy efficiency if the tenant is paying the operating costs," said Dan Parsley, president of Energy Efficiency & Sustainability Consulting. "Now with PACE, they will have a different opinion when they see they can make the improvements and pass the assessment costs on to the tenant who is enjoying the benefits."

He said the improvements should increase the value of a building and could allow an owner to charge higher rents.

Parsley said building owners typically invest in improvements with a quick payback: lighting retrofits, solar film installations, reflective coatings on roofs or motor upgrades on refrigeration equipment.

With PACE, Parsley said owners can finance large-scale retrofits of the building's heating and cooling system as well as improving water conservation with low flow toilets and sinks, more efficient water pumps and better irrigation systems.

The building owner doesn't have to put any money up front, the energy and water savings will pay off the assessment and, if the building is sold, the new owners assume the remaining annual payments.

"You take money you are sending to your utility and you send it to your bottom line," Parsley said.

Russell Smith, executive director of Texas Renewable Energy Association, said PACE has the potential of helping renewable technologies, particularly solar energy.

"It's a broad bill," he said. "It's up to our industry to find the opportunities."

PACE could help the state to address its shortages of water and electricity by improving conservation.

"We can make an enormous difference in energy and water usage," Heydinger said. "But only if businesses embrace it."

Local governments have to create a PACE program.

The Austin City Council has already passed a resolution to put things in motion and interested parties are working on implementation.

Heydinger said Texas can learn from California's experience.

She said California created too many PACE programs with too many different rules. The confusion put off some building owners.

Heydinger said Central Texas should create one regional program and stakeholders are trying to create a uniform approach — "PACE in a box" — that can be implemented anywhere in the state.

Once the program is up and running next year, Heydinger said a building owner would find a lender and his own contractor to do the work, then apply for the government entity to make the assessment.

"If there is existing debt on the land, they also have to get approval from the existing lienholder," she said. "If there's an existing mortgage, you can't go in front of it without the bank's permission."

Heydinger said that means lender who holds the mortgage is likely to be same one making the loan for the conservation efforts.

Parsley said the business community supported the legislation because it is voluntary but helps building owners needing long-term financing.

"PACE will allow building owners to make good, sound decisions on retrofitting their systems," Parsley said.

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