

FINANCING GREEN IMPROVEMENTS

FORT WORTH BOMA MEETS TX-PACE



BY AMY SORTER

Picture this - you are a commercial property owner who wants to install a new HVAC system to improve energy efficiencies while lowering operating costs. Understanding that the upgrade will cost money, you might ponder two options:

- 1) Write a check or pay for the upgrade with your business credit card.
- 2) Obtain a five-year APR loan, one that has a low interest rate with a balloon payment at the end.

There is a third option for many Texas building owners, which involves securing financing through the Texas Property Assessed Clean Energy Authority, or TX-PACE.

What is TX-PACE? That question, and others, were answered at the March 6, 2018 Building Owners and Management Association (BOMA) Fort Worth luncheon. Jonathon Blackburn, Texas PACE Authority's Managing Director, discussed PACE's function, and why it's in Texas. He also invited Fort Worth and Tarrant County commercial real estate owners to consider TX-PACE financing for boosting property water and energy efficiencies, while lowering operating costs.

Justifying the Capital Costs

Property sustainability can be great when it comes to perception; tenants like environmentally friendly buildings. But, up-front costs and negative cash flow tied to green improvements can be difficult to justify, even if the process saves operational costs down the road.

Blackburn noted that, in certain situations, TX-PACE can eliminate the initial capital investment and net-income issues typically connected with energy and water-efficient improvements. The program is administered through a 501(c)3 organization, provides 100% financing of up to 20 years or more, and is structured so that operational savings can exceed repayment costs.

TX-PACE financing differs from traditional debt, because terms are based on the length of improvements' useful life, rather than borrower credit. Furthermore, TX-PACE assessments are tied to the improved property, rather than the owner. "It's as if the building borrowed the money, and not the owner," Blackburn said. "This is no recourse, and the assessment remains with the building when it's sold."

Approved by state governments and established and monitored by regional, county and local municipalities, "PACE provides financing where green projects make sense, economically," Blackburn said, going on to add that Tarrant County was the most recent Texas agency to be added to the program.

Too Good to be True?

TX-PACE doesn't throw money at every single green project. Properties eligible for financing are office, retail and industrial assets, multifamily properties (anything five units and above) and non-profit facilities, such as churches, private schools or hospitals.

Single-family residences, government buildings and ground-up construction, however, are not eligible. Nor are run-of-the-mill property upgrades. TX-PACE money is geared toward "a select set of technologies that have a water- or energy efficient component to them," Blackburn said. Solar panels on an office building could be eligible for TX-Pace money, as could a rainwater collection system for a retail establishment. However, if you're considering a solar tube or new metal roof for your house, TX-PACE can't help.

To tap into TX-PACE financing, "there are ultimately two inflection points," Blackburn said. "You first have to decide, 'what is the project I want to do?'" Second, he went on to say, is selecting a capital provider. TX-PACE is an "open market platform," meaning the organization will work with various lenders. Though TPA doesn't endorse specific institutions, its website lists a handful of potential capital sources.

TX-PACE is still new in Texas – Travis County opened the first program in 2016. But Blackburn indicated that interest, and financing, are growing. "We are just getting started in Texas," he added. "We did close to \$40 million in 2017, and plan to double that this year."

For more information about TX-PACE, log on to <https://www.texaspaceauthority.org/>.