



LONE STAR
— PACE —

Property Assessed Clean Energy (PACE) Program Guide

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www.LoneStarPACE.com



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The Lone Star PACE Difference

COST EFFECTIVE, EXPERIENCED, AND COMMUNITY FOCUSED

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Overview

PROGRAM OVERVIEW

Property-Assessed Clean Energy (“PACE”) is a program that helps commercial property owners and developers access advantageous private-sector financing for the installation of permanent improvements fixed to real property intended to decrease water or energy consumption or demand over baseline (such being, “Qualified Improvements”), and other associated costs and fees. Implemented by Texas cities and counties (“Local Government”) and overseen by Lone Star PACE (“LSP” or “Program Administrator”), Texas PACE programs provide capital to increase the energy and water efficiency of commercial properties, thereby incentivizing sustainability projects, while creating local jobs, encouraging economic and community development, increasing property values, and growing the tax base.

Through policy framework identified in 2009 by the U.S. Department of Energy, PACE has been rolling out across the country ever since, with each state establishing its own legislation and requirements. In 2013, the Texas Legislature unanimously passed [Senate Bill 385 \(83R\)](#), establishing Chapter 399 of Local Government Code as the Property Assessed Clean Energy Act (the “PACE Act”).

Lone Star PACE is a registered municipal advisory firm that serves as the Program Administrator and authorized representative to Local Governments that establish a PACE program. For owners of commercial, industrial and residential real property (with five or more units) (“Eligible Property”, and such owners of Eligible Property, being “Property Owners”) to participate in a PACE transaction, the governing body of a Local Government must establish a PACE program in accordance with the PACE Act, including adopting a program report and resolutions, and holding a public hearing on the proposed PACE program, and, ultimately, adopting the PACE program for a specific region in such Local Government (usually all or part of a city or county).

[View a list](#) of participating Local Governments in Texas with active PACE programs administered by Lone Star PACE. Additional jurisdictions may be added to accommodate potential projects.

HOW PACE WORKS

PACE programs allow Property Owners to access private funding to finance the purchase and installation of Qualified Improvements, including a product, device, or interacting group of products or devices on the customer's side of the meter.

PACE is an appealing option for building owners as it may provide financing for (i) up to 25% of the appraised stabilized value for retrofit projects on existing buildings that are at least 50% occupied, or (ii) up to 25% of the appraised prospective value upon completion, for renovations or new construction projects if less than 50% occupied. The term of the financing is based on the expected useful life of the Qualified Improvements installed or modified at the Eligible Property (the **"Qualified Project"**) and can be up to thirty (30) years.

Another advantage of PACE is the financing is tied to the Eligible Property itself and may be conveyed to any new owner upon the sale of such property. The Property Owner is seldom required to personally guarantee PACE financing.

PACE projects are financed by banks, credit unions and specialty private capital firms (**"Capital Providers"**). A voluntary special purpose assessment (the **"Assessment"**) is recorded against the Eligible Property and is imposed to secure repayment of the financing. Recording the Assessment creates a lien (the **"Assessment Lien"**) against the Eligible Property, which has the same status as a lien for ad valorem taxes. Some Local Governments may require Capital Providers to contractually subordinate the Assessment Lien to ad valorem taxes in order to participate in their PACE Program.

Several [Capital Providers](#) have met the Texas PACE Act requirements and registered with Lone Star PACE to finance Qualified Projects. Property Owners select their Capital Provider, which can be a Capital Provider registered with LSP, or another Capital Provider meeting the requirements of the Texas PACE Act, along with any additional requirements of the enacting Local Government.

As Program Administrator, representing Local Governments, Lone Star PACE assists all stakeholders in navigating the PACE process from start to finish. For a Property Owner, or a Capital Provider that is interested in participating in the PACE program, the first step is to contact LSP for an initial consultation to discuss high level eligibility, then if agreeable, secure a term sheet form a Capital Provider and then submit an application for a Qualified Project. LSP will consider the proposed Qualified Improvements and review them against the statutory requirements of the PACE Act and the applicable PACE program. Qualified Projects are typically financed within 30 to 90 days, depending on whether or not the Eligible Property is located within a Local Government jurisdiction that has an existing PACE program administered by Lone Star PACE.

PROGRAM BENEFITS

PACE offers a unique opportunity for collaboration among the public and private sectors to improve water and energy conservation and enhance economic development efforts in their communities, while benefitting a broad range of stakeholders, including:

Property Owners



Texas PACE offers significant advantages to Property Owners, including lowering operating costs, increasing asset values, enhancing market competitiveness, achieving energy performance goals, and increasing net operating income for Eligible Properties. Property Owners can utilize PACE financing to lower their weighted average cost of capital and create more sustainable buildings with improved valuations while incorporating lower operating costs. Major benefits include:

- Up to 100% Financing** Many Property Owners postpone deploying capital to pay for beneficial energy and water efficiency improvements and upgrades. The barrier to making sustainability upgrades is resolved through PACE, which offers financing of up to 100% for Qualified Projects.
- Long-Term Financing** Unlike commercial lenders that typically offer 5-10 year term financing for capital improvement projects, PACE financing allows Property Owners to undertake deeper, more holistic energy and water conservation upgrades since PACE financing is longer-term and fully amortizing. The maximum term of PACE financing is determined by the estimated useful life of the Qualified Project, which can extend up to thirty (30) years.
- No Personal Guarantee** PACE financing is property-based financing supported by the Assessment Lien on the property itself. This means the Property Owner typically does not provide a personal guarantee.
- Transfers Upon Sale** If a Property Owner sells the Eligible Property before the Assessment is fully paid, the Assessment Lien runs with the property, and transfers to the next owner unless paid off upon the sale of such property.

Cost Recovery

Property Owners may be hesitant to undertake the cost of energy and water efficiency upgrades and improvements when tenants reap the financial benefits through lower utility bills. With PACE financing, landlords may be able to transfer the cost of the PACE Assessment to tenants under certain lease agreements, enabling tenants to enjoy the economic benefits of such upgrades and improvements to their offices, residences and other commercial spaces, while also sharing in the associated costs. In well-executed projects, the utility cost savings and other financial benefits generated by Qualified Improvements often exceed the PACE financing payments, resulting in positive cash flow.



Contractors



Contractors who are knowledgeable about PACE financing may be able to present a solution for any Property Owner that is also a prospective service client. Owners often have to contend with competing demands: using lower-cost equipment that is likely to be energy-inefficient, vs. undertaking the cost of installing equipment that offers improved efficiency but is more expensive.

PACE financing can bridge this gap by providing financing for the installation of state-of-the-art water and energy efficiency improvements, with an attractive financing structure. As a result, contractors who learn about the PACE program and share it with prospective clients may see increased sales, as Property Owners seek to expand or upgrade their facilities in a cost-effective manner.

Capital Providers



PACE financings are secured by an Assessment Lien on the property, which is senior to commercial mortgages and deeds of trust. Furthermore, depending on the individual PACE program, the Assessment Lien may be equal (*pari passu*) in priority to other ad valorem tax liens on the Eligible Property. As a result, Capital Providers who finance Qualified Projects under the PACE Program are willing to provide attractive, long-term loans.

Mortgage Holders



PACE financing serves as a valuable complement to senior lenders and can significantly contribute to the capital stack for a project. Its unique structure allows it to fill gaps in financing, providing additional funds that can enhance project viability and accelerate its progress. Projects utilizing PACE financing

typically yield total savings that exceed the payment obligations associated with the PACE financing, leading to increased net operating income, debt service coverage ratio, property value, and return on investment.

The completion of a PACE project often improves the Property Owner's cashflow, which in turn, makes the existing mortgage holder's loan more secure. Moreover, the upgraded property becomes more valuable. In the event of a default under the PACE financing, only the delinquent Assessment payments (and any associated penalties, interest, and fees) may be enforced; the remaining amount of the PACE financing does not accelerate. [View a list](#) of financial institutions that have consented to PACE financings to date.

Communities



PACE financing has its roots in the longstanding practice of governments using assessments on real estate to fund projects serving a public purpose, such as fire protection and sewer districts. PACE financing furthers this tradition by promoting the public purpose of increasing water or energy efficiency. Local Governments can use PACE financing to incentivize the development community to invest and re-invest in local utility conservation projects, which in turn can enhance buildings, and create employment opportunities using private capital rather than taxpayer dollars.

KEY PARTIES TO A PACE TRANSACTION



Property Owner

The legal owner of the Eligible Property upon which the Qualified Improvements will be installed or modified.



Capital Provider

Also referred to as lenders, Capital Providers include local and national banks, credit unions, and specialty finance firms that meet the PACE Act requirements and are approved by the Program Administrator to provide PACE financing.



Energy Auditor/ Consultant

The professionals who provide ASHRAE Level I, II, and III energy audits.



ITPR (Independent Third-Party Reviewer)

Also referred to as an Independent Third-Party Reviewer, an ITPR is a licensed engineer in good standing with the State of Texas, who (a) conducts a review of, or reviews a report of, water or energy baseline conditions at the Eligible Property where the Qualified Improvements will be installed to establish the projected water and/ or energy savings associated with the installation of the Qualified Improvements, calculate the savings-to-investment ratio, and expected useful life calculation to set the maximum Assessment Lien term, and (b) upon completion of the Qualified Project, verifies that the project is completed and operating as intended.



Mortgage Holder

Any person or entity that holds a mortgage on the Eligible Property. Mortgage Holders are required to consent to PACE financing and must be notified of any PACE financing at least thirty (30) days prior to the Property Owner entering into an agreement with the Local Government related to the PACE financing.



Program Administrator

The entity that acts on behalf of the Local Government to administer the PACE program in accordance with the Texas PACE Act and any additional requirements of the Local Government, such as the Keeping PACE in Texas Technical Standards and Interpretive Guidance®.

Program Administrator duties include, but are not limited to, educating stakeholders, establishing quality assurance and financing standards, supporting project origination efforts, qualifying Capital Providers, promoting the PACE program, assisting with Local Government enactment of PACE programs, coordinating project closings and the post-closing process, and assisting, as needed, in Mortgage Holder consent discussions. [Lone Star PACE](#) (LSP) is a Program Administrator that is also a registered municipal advisory firm.

KEY CONTACTS

Program Administration

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Eligibility

PROPERTIES

To be eligible for PACE financing, projects must be located on Eligible Property in a City or County that has established a PACE program ([view a list](#) of PACE programs administered by LSP) and be owned by an eligible Property Owner (including individuals, business entities, and nonprofit companies).

Once it is determined that real property is Eligible Property and the property owner is a Property Owner, PACE Program financing can be used for financing the installation or modification of Qualified Improvements that are permanently affixed to such Eligible Property; Vehicles and other equipment that can be easily moved or removed do not qualify.

PACE financing cannot be used to finance facilities for undeveloped lots or lots undergoing development at the time of the imposition of the applicable Assessment. The Program Administrator, will determine eligibility of a lot utilizing guidance published by Keeping PACE in Texas or another definition approved by the Local Government that enacted the applicable PACE program.

PACE financing can be used to finance Qualified Projects on a parcel of real property that is subject to a ground lease if all the following conditions are met:

1. The ground lease is recognized by the Local Government's appraisal district as a separate tax parcel with its own property tax ID number.
2. The ground lease or a memorandum of the ground lease is filed in the real property records.
3. The ground lease expires after the PACE Assessment maturity date, or the ground lease will be amended to extend its expiration date beyond the maturity date of the PACE Assessment.
4. The fee owner/ground lessor of the real property consents to the filing of the Assessment and the Assessment Lien.
5. The ground lease provides:
 - that the ground lessee will pay the Assessment and any related interest, penalties, costs and expenses,

- terms that apply upon any default by the ground lessee under the PACE financing,
- for the payoff or transfer/assumption of the Assessment upon transfer of the real property by the fee owner/ground lessor or assignment by the ground lessee,
- terms that apply in the event that the ground lease terminates prior to the payment in full of the Assessment, and
- which party retains ownership of the Qualified Improvements.

EXPENSES

In addition to the costs described below under "PROJECTS," and subject to acceptance by the Program Administrator, project-related expenses associated with a Qualified Project may be capitalized and financed with PACE financing. These costs may include:

- Energy/water audit costs and other fees of an Independent Third Party Reviewer;
- Feasibility study costs related to the Qualified Improvements and/or the Qualified Project;
- Engineering and design expenses, including dynamic building simulation for new construction;
- Construction and installation costs, including the cost of materials and labor necessary for installation or modification of the Qualified Improvement(s);
- Commissioning costs;
- Any Capital Provider or project developer fees and/or required prepaid interest;
- PACE Program application and administration fees;
- Permit fees;
- Inspection fees;
- Closing fees; and
- Other expenses related to the Qualified Project and approved by the Program Administrator.



PROJECTS

Eligible Properties



Commercial



Industrial



Multi-Family

Projects eligible for Texas PACE financing must:

Be located on “Real Property” defined in Sec. 399.02(5) of the Texas PACE Act, as privately owned commercial or industrial real property, or residential real property with five or more dwelling units.

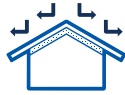
Such Real Property must:

Be owned by the Property Owner of record or a consenting lessor under a ground lease.

The Property must include:

At least one “Qualified Improvement” defined in Sec. 399.02(3) of the Texas PACE Act as 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.

Examples of Qualified Improvements that may be financed with PACE financing are listed below. (This list is not comprehensive. Any measures that result in energy and/or water, demand, usage or utility cost savings or meet other program criteria will be considered.)



Insulation in walls, roofs, floors, and foundations and in heating/cooling distribution systems;



Storm windows and doors, multi-glazed windows and doors, heat-absorbing or heat-reflective glazed and coated window and door systems, additional glazing, reductions in glass area, and other window and door system modifications that reduce energy consumption;



Automatic energy control systems;



Heating, ventilating, or air conditioning and distribution system modifications or replacements;



Caulking and weather-stripping and other air sealing measures;



Replacement or modification of lighting fixtures and controls to increase the energy efficiency of the system;



Energy recovery systems;



Daylighting systems (e.g., skylights, controls, light shelves);



Combined heat and power (CHP) and waste-to-power projects;



Electric vehicle charging equipment added to a building or its associated parking area;



Ground-source heat pumps;



Elevator modernization projects;



Solar panels;



Green roofs; and



Any other modification, installation, or remodeling approved as a water or energy and/or cost, demand, usage or utility cost savings measure by the Program Administrator, including water conservation fixtures and related improvements.

SAVINGS TO INVESTMENT RATIO (SIR)

As a condition to approval of a PACE financing, the Property Owner must submit a review of (a) the water and/or energy baseline conditions at the Eligible Property, and (b) the projected water or energy savings expected to be realized following completion of the Qualified Project.

The reviews described in (a) and (b) must be conducted or verified by an ITPR. Qualified Projects should have an overall savings-to-investment ratio greater than one (1.0). The Savings-to-Investment Ratio (“SIR”) is calculated as (i) the total projected energy and/or water utility related cost savings and other financial savings over the lifetime of the Qualified Improvements (adjusted for utility rate increases), divided by (ii) the total cost of the Qualified Improvements financed; provided that, in no event shall the other financial savings included in the calculation referenced in clause (i) exceed 50% of total savings calculated pursuant to such clause.

While the Texas PACE Act does not require a SIR greater than one (1.0), the Program Administrator encourages projects with SIRs greater than one (1.0) because:

- Capital Providers look favorably on projects that show positive cashflow;
- Mortgage holders are more likely to consent to the imposition of the PACE Assessment for projects that show positive cashflow; and
- In general, the higher the SIR, the greater the environmental and economic benefits of the project, helping to promote the goals for the program set forth in the Texas PACE Act.

Texas PACE financing provides a compelling opportunity for new construction projects. The unique requirements of PACE financing can unlock capital that enables a Property Owner to include energy and water efficient equipment and other measures or design features that are often excluded from a project due to their higher cost. This leads to a better building with higher efficiency and performance over the life of the improvements. Even better, PACE may reduce the developer’s required equity contribution or the need for other types of high-cost financing, thereby reducing the weighted average cost of capital and often improving cash flow.

For new construction or redevelopment projects, where there no baseline against which to measure improvements, SIR is calculated differently. Per Keeping PACE in Texas Guidance®, the SIR may be calculated on the incremental costs and savings instead of the full Assessment, if the new project exceeds State or locally adopted code requirements (whichever is more stringent) by 5%.

Incremental SIR may be calculated as savings divided by investment where:

Savings = Estimated equipment utility consumption (conforming to minimum code) minus estimated utility consumption from Qualified Improvements which exceed minimum code by at least 5%, converted from their respective utility units to dollars using a confirmed cost structure, such as a utility bill or other appropriate reference.

Investment = Estimated equipment cost (conforming to minimum code) minus the cost of Qualified Improvements which exceed minimum code by at least 5%.

RETROACTIVE FINANCING / RECAPITALIZATION

Retroactive project financing, also known as recapitalization, enables Property Owners who have recently completed a new construction project or rehabilitation project to refinance a Qualified Project through the PACE program. Retroactive PACE financings are subject to the same eligibility, technical and quality assurance review requirements associated with projects that start with PACE financing, including (without limitation) complying with the requirements outlined in this program guide, mortgage holder consent, and, where applicable, payment of all program participation fees.

Retroactive financing may be utilized up to twenty-four (24) months after completion of the most recent installation of Qualified Improvement(s).

For further information please see the Keeping PACE in Texas Underwriting Guidance©

REFINANCING PACE

Refinancing enables a Property Owner that previously used the PACE program to finance Qualified Improvements to an Eligible Property to:

- Refinance the outstanding Assessment with the existing Capital Provider, establishing a new set of financing terms, e.g., lower interest rate or shorter finance term; or
- Refinance the outstanding Assessment with a different Capital Provider.

Refinancing is limited to restructuring the outstanding Assessment. In no event shall the Property Owner be authorized to finance any additional Qualified Improvements that were not included within the original project scope, unless the Property Owner separately applies for and satisfies all applicable financing criteria for additional Qualified Improvements, as set forth in this Program Guide.

Refinanced PACE projects are subject to the following additional criteria:

- Updated underwriting;
- Mortgage Holder consent (from the financial institution(s) that originally provided consent and any new lien holders);
- If applicable, a new amortization schedule; provided, however, that the financing term may not exceed the weighted average of the expected useful life of the Qualified Improvements being re-financed, less the number of years since the commencement of the financing term for the existing Assessment; and
- A PACE refinancing may not include additional capitalized interest or interest-only periods beyond the original terms.

PACE Process Flow



APPLICATION SUBMISSION

When a Property Owner is ready to proceed with a PACE financing, the first step is for the Property Owner and their chosen Capital Provider to submit a [project application](#) to the Program Administrator to confirm program eligibility. To expedite the transaction, the Property Owner and Capital Provider may also review the [checklist of documents](#) required to close.



MORTGAGE HOLDER CONSENT

Sec. 399.010 of the Texas PACE Act requires that all existing Mortgage Holders holding mortgages/deed of trust liens against the Eligible Property (i) be notified of the proposed PACE financing at least thirty (30) days prior to the Property Owner entering into an agreement with the Local Government related to the PACE financing, and (ii) [consent](#) to the PACE financing, including the recording of the Assessment. Such consent must be received by the Program Administrator before the Program Administrator will authorize the closing of any PACE financing. The Program Administrator or the Capital Provider may assist in obtaining mortgage holder consent.



ENERGY/WATER ANALYSIS – TECHNICAL STANDARDS

The Program Administrator requires the Property Owner to obtain an ASHRAE Level I audit or better analysis to assess the expected energy and/or water cost savings of the Qualified Improvements over their average expected useful life.



Unless directed otherwise by the applicable Local Government, the Program Administrator utilizes the



Keeping PACE in Texas Technical Standards and Guidelines© created by Keeping PACE in Texas.



INDEPENDENT THIRD PARTY REVIEW (“ITPR”)

Once the required energy baseline and saving modeling is completed and the expected useful life (“EUL”) and SIR are calculated, an ITPR must review the assumptions and validate the baseline, savings, EUL and SIR projections. This check and balance in the program brings redundancy to ensure that the projections are reasonable and meet the Technical Standards© created by Keeping PACE in Texas.



The ITPR must be a licensed Engineer in the State of Texas in good standing, and is usually selected by the Property Owner, with guidance from the Capital Provider Prior to the PACE financing being funded, the ITPR must execute a Statement of Compliance, together with a completed UCRM Summary or ITPR Workbook© created by Keeping PACE in Texas.



REQUIRED DOCUMENT CHECKLIST

The Program Administrator will provide a [checklist of required documents](#) for PACE financing transactions. Capital Providers and Property Owners may remit documents to the Program Administrator through a shared drive such as Dropbox, ShareFile or OneDrive. To assist the Property Owner and Capital Provider, the Program Administrator may create a shared SmartSheet to track document collection and verification.



PROJECT FUNDING/PACE ASSESSMENT RECORDING

Once the Program Administrator has received the executed documents and confirmed that all closing and funding conditions have been met, the Notice of Contractual Assessment Lien (“NOCAL”) will be recorded in the real property records of the county in which the Eligible Property is located.

CONSTRUCTION/DISBURSEMENT



The Capital Provider is responsible for managing the disbursements or progress payments of the financing during construction. The Property Owner should refer to the financing documents to understand the Capital Provider's requirements for periodic inspections, progress payments, milestones, and change orders. It is important to note that although the Property Owner and/or its contractors will not have received all of the funds, interest on the full amount of the Assessment may begin accruing at the initial closing of the PACE financing.



ITPR COMPLETION CERTIFICATE

The Texas PACE ACT requires an ITPR review of the completed project. The ITPR must verify that the project was properly completed and is operating as intended. The ITPR must submit an [Statement of Compliance \(Post Completion\)](#) to the Program Administrator after all Qualified Improvements are installed, but (typically) prior to final disbursement of PACE funds by the Capital Provider.



SERVICING/REPAYMENT



The Capital Provider will directly bill the Property Owner for payments due in respect of the Assessment. Property Owners should check with their Mortgage Holders to determine whether any amount is required to be escrowed with respect of the Assessment. Additionally, the Program Administrator receives an annual administration fee which the Capital Provider collects from the Property Owner and remits to the Program Administrator. This fee is based on the outstanding principal amount of the Assessment, set forth on the schedule filed with the Notice of Contractual Assessment Lien. Unless otherwise agreed upon between the Program Administrator and Capital Provider, the fee is due on each anniversary date of the Assessment and is calculated as 0.10% (.08% for Dallas County) of the outstanding principal amount of the Assessment as of such anniversary date.





DEFAULT AND EXERCISE OF REMEDIES

Property Owners should be aware that any failure to make a payment on an Assessment will give rise to the same consequences as a failure to pay property taxes, which could include penalty interest and fees, as well as a sale to recover the amounts owed.



PACE ASSESSMENT PAYMENT AND RELEASE

Once a Notice of Contractual Assessment Lien is filed in the real property records of the County in which the Eligible Property is located, the Assessment must be paid to the Capital Provider in accordance with the schedule set forth in the Notice of Contractual Assessment Lien. If the Property Owner intends to prepay or otherwise pay in full all amounts due with respect to the Assessment, the Property Owner shall notify the Program Administrator and the Capital Provider as soon as possible in order that the Property Owner, Capital Provider and the Program Administrator may agree upon the proper payoff amounts and confirm the process to finalize, approve and record a [Release of Assessment Lien](#) (“Release”) upon full and final payment of the Assessment.

Once the Property Owner has paid all amounts due to the Capital Provider, the Capital Provider shall execute the Release and provide a copy of the Release of Assessment to the Program Administrator for execution. Upon execution of the Release by the Program Administrator, the Program Administrator will cause a copy of the fully executed Release to be recorded in the real property records of the County in which the Eligible Property is located, which shall terminate the Assessment Lien.

Financing Structure

Any qualified Capital Provider is eligible to provide PACE financing to Property Owners for Qualified Projects. The Program Administrator maintains a [list of qualified PACE Capital Providers](#) previously approved.

Property Owners who engage in PACE financing should familiarize themselves with the following aspects of the program. The principal amount of the PACE financing will include all qualifying project costs that the Property Owner opts to fund via the PACE program. These include, but are not limited to, expenses related to project implementation, such as audit fees, permit fees, closing fees, capitalized interest, and the cost of Eligible Improvements.

FINANCING TERM

The maximum finance term of a PACE financing is based on the weighted average “EUL” of the Qualified Improvements, as determined by the Administrator after a review of the ITPR reports verifying that the proposed improvements are Qualified Improvements and the project is a Qualified Project. Financing may not to exceed thirty (30) years, the maximum term available for PACE financing.

SECURITY

PACE financing is secured by an Assessment Lien on the subject Eligible Property. The Property Owner is typically not required to provide a personal guaranty for PACE financing. The Assessment Lien is senior to all commercial liens, even if filed earlier in time, including mortgages and deeds of trust, and may be equal (pari passu) in priority to other ad valorem tax liens depending on the jurisdiction. If a payment is in default, the remedies available to Capital Providers are the same as are available to holders of other special assessments, including penalty interest and, in extreme cases, foreclosure and sale of the Eligible Property in a proceeding like a property tax lien sale.

PACE UNDERWRITING STANDARDS

The Program Administrator does not establish financial underwriting requirements for a PACE financing transaction; rather, each Capital Provider uses their own underwriting criteria for their PACE financing.

Pursuant to §399.009(a)(10) of the Texas PACE Act, the Program Administrator is required to ensure that Property Owners requesting to participate in the PACE Program demonstrate the financial ability to fulfill their financial obligations to be repaid via the Assessment. In order to satisfy this requirement, the Program Administrator requires the following conditions to be satisfied with respect to any PACE financing:

- PACE financing may not exceed 25% of the appraised value of the Eligible Property.
 - For upgrades, modifications and additions to existing properties, value may be established as either (a) the assessed value of the Eligible Property, or (b) the appraised value of the Eligible Property, as supported by a recent appraisal. In either case, the Eligible Property's value may include the enhanced value of the Eligible Property resulting from the installation of the Qualified Improvements being financed.
 - For new construction projects, the value of the Eligible Property is determined based on either the as-constructed value of the Eligible Property or, as-stabilized value for properties 50% or more occupied.
- SIR should be greater than one (1.0). Variances may be considered on a case-by-case basis but are not guaranteed.
- Property Owner must be current on all mortgage and property taxes and assessment payments with respect to the Eligible Property for at least three (3) years.
- Eligible Property must not be subject to any involuntary liens as a result of defaults, judgments or otherwise unless the Program Administrator otherwise agrees.
- Property Owner is the legal owner of the benefited Eligible Property.
- Property Owner is not insolvent or in bankruptcy proceedings.
- Title to the benefited Eligible Property is not in dispute.

FINANCING COSTS AND INTEREST RATES

The applicable interest rate and fees (other than fees payable to the Program Administrator) are negotiated between the Property Owner and Capital Provider.

MORTGAGE HOLDER CONSENT

Pursuant to Sec. 399.010 of the Texas PACE Act, Mortgage Holders are required to consent to a PACE financing and must be notified of any PACE financing at least thirty (30) days prior to the Property Owner entering into an agreement with the Local Government related to the PACE financing. PACENation has provided a [list of financial institutions](#) that have consented to PACE assessments

TRANSFER OR RESALE OF THE SUBJECT PROPERTY

If the Eligible Property is sold prior to the end of the Assessment term, the new owner of the Eligible Property will assume the Assessment obligation, unless otherwise negotiated. Ownership of any Qualified Improvements on the subject Eligible Property will transfer to the new owner at the close of the sale thereof. Qualified Improvements financed through the PACE Program may not be removed from the Eligible Property until the Assessment has been fully repaid. In connection with any sale, program participants agree to make all legally required disclosures about the existence of the Assessment Lien on the Eligible Property.

Program Administration

[Lone Star PACE](#) administers the PACE program on behalf of many Local Governments in Texas. A complete list of Lone Star PACE administered programs can be found on the Lone Star PACE [website](#).

PROGRAM REQUIREMENTS

This section outlines the guidelines that govern all participants in the PACE Programs in Texas. Participants agree to adhere to the terms and conditions of the program.

Service Area The entire area within the jurisdiction of participating Local Governments.

Eligible Property Privately owned commercial, industrial or residential real property, except for residential real property with fewer than five dwelling units.

Security PACE financing is secured by an Assessment Lien that is recorded in the real property records against the Eligible Property. The Assessment Lien is senior to all commercial mortgages and deeds of trust and may be equal (pari passu) in priority to other ad valorem tax liens depending on the jurisdiction. Because of this, the Property Owner must notify, and obtain the written consent of, all Mortgage Holders with mortgages or deeds of trust on the Eligible Property prior to securing PACE financing.

Program Standards The Capital Provider and Program Administrator verify that such Property Owner meets the requirements of the Texas PACE Act, including that the Property Owner:

- is the legal owner of the benefited Eligible Property;
- is current on mortgage and property tax payments;
- is not insolvent or in bankruptcy proceedings; and
- title to the benefited Eligible Property is not in dispute.

Eligible Uses Eligible uses of the proceeds of PACE Program financing include the following costs (or the repayment of amounts used used to finance such costs):



- Qualified Improvements costs;
- Independent Third Party Reviewer fees;
- Construction and installation costs, including the cost of materials and labor necessary for installation or modification of the Qualified Improvement(s);
- Capital Provider fees;
- Project development and engineering fees;
- Program application and administration fees;
- Permit fees;
- Capitalized interest and/or interest during an interest only periods;
- Inspection fees; and;
- Any other fees or costs that may be incurred by the Property Owner incident to the installation, modification, or improvement on a specific or pro rata basis, of one or more Qualified Improvements as determined by the Program Administrator.

Lien-to-Value The maximum amount of the Assessment may not exceed 25% of the value of the Eligible Property.

- For existing structures over 50% occupied in the last 12 months, use an as stabilized appraisal methodology.
- For new construction or existing structures less than 50% occupied, use as constructed appraised value.

Maximum Term The maximum term of PACE Program financing is based on the weighted average expected useful life of the Qualified Improvements as determined by the Program Administrator based on the ITPR reports (or such ITPR's review of such report prepared by another party) verifying (i) the water and/or energy baseline conditions and the projected water or energy savings related to the Qualified Improvements, and (ii) that the installed improvement is a Qualified Improvement and the project is a Qualified Project, not to exceed thirty (30) years.

Amortization The PACE financing is fully amortized over its term.

Payment and Servicing The Capital Provider has responsibility for the ongoing billing collections.

Evidence of Ownership A title report is required prior to closing to show evidence of ownership and all encumbrances recorded against the Eligible Property.

Consent

When there is an existing mortgage or deed of trust recorded against the Eligible Property, existing Mortgage Holders are required to consent to the PACE financing and must be notified at least thirty (30) days prior to the Property Owner entering into an agreement with the Local Government related to the PACE financing. The consent must confirm that the proposed PACE Program financing does not constitute an event of default under the terms of existing agreements between the Property Owner and the Mortgage Holder.

PROGRAM PARTICIPATION – APPLICATION AND CLOSING FEES

The Texas PACE program is self-financed through fees charged to participating Property Owners. These fees cover the costs of administering the PACE program. A \$500 application fee is due at the time an application is filed. The application fee is applied to the Closing Fee when a transaction closes. The Closing fee is based on the Professional Services Agreement with each Local Government and calculated as a percentage of the total Assessment amount and is payable at the closing of each PACE financing.

PROGRAM PARTICIPATION – ANNUAL ADMINISTRATION FEE

The Program Administrator is required to prepare a program update for Local Governments on an annual basis and oversee ongoing program outreach and compliance. The Program Administrator incurs on-going costs associated with program administration, thus the Notice of Contractual Assessment Lien includes a fee payable by the Property Owner based on the outstanding principal amount of the Assessment Lien that is paid in arrears to offset these annual administrative costs (the “**Annual Administration Fee**”). The Annual Administration Fee shall be included in the amortization schedule attached to the Notice of Contractual Assessment Lien and is up to 0.10% (0.08% for Dallas County projects) of the outstanding principal amount of the Assessment and due annually on the assessment payment due date listed on the Notice of Contractual Assessment Lien. The Annual Administration Fee shall be collected by the PACE Capital Provider and remitted to the Program Administrator.

For capitalized interest and interest only periods, calculate the Annual Administration Fee as follows:

$(\# \text{ of Days to First Payment} - 360) / 360 * \text{Total PACE Assessment} * 10\text{bps [or 8bps for Dallas County projects only]}$.



Property Owner Participation and Process

The PACE Program is an innovative financing program that provides owners of commercial, industrial and residential real property (with five (5) or more units) with financing for the installation or modification of permanent Eligible Improvements fixed to real property and intended to decrease water or energy consumption or demand.

Benefits to Property Owners

Property Owners often lack the capital they need to pay for improvements which means many projects that promote conservation never get off the ground. By providing up to 100%, long-term project financing, the PACE Program helps Property Owners lower their operating costs and improve the value of their asset. Benefits of the PACE Program include:

- No upfront costs
- Long-term financing (up to thirty (30) years)
- Non-recourse financing that typically requires no personal guarantees
- Reduction in utility costs through improved building efficiency
- Potential positive cashflow
- The option to transfer the financing to the next owner if the Eligible Property is sold

Eligibility

Individuals who own an Eligible Property situated in a participating jurisdiction may access PACE financing. Nonprofit owners, such as private universities, schools, and religious institutions, are also eligible to apply.

Process

To get started, Property Owners should identify and work with the [Capital Provider](#) of their choice to discuss the project and collaborate on the PACE Application. The PACE program is an open market program which enables Property Owners to select any qualified Capital Provider, contractor or developer they choose.

See [Application](#) and [Document Checklist](#).



Capital Provider Participation and Process

PACE financing is provided by private Capital Providers, also known as lenders, in an open-market framework. This model provides Property Owners with several financing alternatives, allowing the Texas PACE program to achieve its objective of providing affordable and accessible financing for such projects.

Benefits to Capital Providers

Lending pursuant to the PACE Program is a secure long-term investment. PACE financing is secured by an Assessment Lien which is senior to all commercial mortgages and deeds of trust and may be equal (*pari passu*) in priority to other ad valorem tax liens depending on the jurisdiction. As a result, Capital Providers who work with the PACE Program may receive attractive project finance opportunities. Pre-approved Capital Providers are featured in the Capital Provider List on the Lone Star PACE [website](#).

Eligibility

To take part in the PACE Program, a Capital Provider must qualify by submitting a [Capital Provider Interest Form](#). To maintain its eligibility, the Capital Provider must report any significant changes to the original application promptly. The PACE Program retains the authority to revoke the Capital Provider's status if they are found to be in breach of any of the standards outlined in this Program Guide, the Texas PACE Act, or for any other reason that the Program Administrator considers to be a violation of good practices of the program.

To facilitate efficient PACE financing, the Program Administrator encourages Capital Providers to review the program documents adopted by the jurisdiction where the Eligible Property is located. Upon request, the Program Administrator will provide these documents to the Capital Provider for the specific locale where the Eligible Property is located.

How to Qualify

To qualify as a Capital Provider for the PACE program with Lone Star PACE, the Capital Provider Interest Form must be submitted along with any required supporting documentation. The approval process can take up to three (3) business days.

Once approved for participation in the PACE program, the Program Administrator will notify the Capital Provider and add the Capital Provider to the capital provider list on the Lone Star PACE website.

Process

Capital Providers may participate in the PACE program by working with Property Owners to underwrite PACE financings, prepare an [Application](#) and complete the documentation set forth on the [Program Document Checklist](#) for project approval.



Mortgage Holder Participation and Process

If a Property Owner wants to pursue PACE financing, they will work with a Capital Provider to inform their Mortgage Holder of the intention to use PACE financing. Mortgage Holders consent is required under the Texas PACE Act and Mortgage Holders must be notified of any PACE financing at least thirty (30) days prior to the Property Owner entering into an agreement with the Local Government related to the PACE financing.

Mortgage holders interested in funding PACE projects may also apply to become Capital Providers under the PACE program.



Local Government Participation and Process

The PACE Program is an innovative financing program that provides owners of developed commercial, industrial, and qualifying multi-family residential real property an attractive financing option for the installation or modification of permanent improvements fixed to real property and intended to decrease water or energy consumption or demand. Local governments are the key to the program's success because each Local Government must establish a program under the Texas PACE Act before Property Owners can participate.

PACE Programs encourage energy efficiency, water conservation, and renewable energy upgrades in local communities. PACE projects lead to reduced utility expenses over a baseline, while increasing the tax base and local employment, they also support Texas energy and water conservation goals.

A PACE Assessment is similar to other general assessments such as for sidewalks or sewers. Property Owners enter into a voluntary Assessment lien on the property for the duration of the PACE financing term.

Benefits for the Local Government:

- No cost to local municipality implementing or sustaining a PACE program
- Multiple pre-qualified PACE lenders for Property Owners to choose from
- Increased property values for buildings with completed PACE projects
- Encourage renewable energy and water conservation retrofits
- Generate new projects employing local contractors
- Mitigate cost of sourcing water and energy resources as the community grows
- Completely voluntary agreement entered by Local Government, Property Owner and Qualified Capital Provider



Procedure For Establishing a PACE Program

For a Local Government to establish a PACE program (Sec. 399.008 of the Texas PACE Act), the Local Government must adopt a Resolution of Intent, post a program report for public inspection, hold a public hearing, and approve a resolution establishing the PACE program. The Local Government typically works with a Program Administrator, such as Lone Star PACE, to establish a PACE program.



First Public Meeting

Resolution of Intent to Establish a PACE Program Adopted by Local Government



Prior to Second Public Meeting

Post a program report describing the proposed PACE Program on the Local Government's website



Second Public Meeting

- Public Hearing Held by Local Government on PACE Program
- Resolution Establishing (Local Government) PACE Program Adopted by Local Government
- Professional Services Agreement for Program Administration Approved by Local Government

General Terms and Provisions; Disclaimers; Other Requirements

Taxes

Property Owners assume sole responsibility for any local, state, or federal tax consequences related to their participation in the PACE program.

Changes in the Program Terms

The Program Administrator reserves the right to change this Program Guide and the terms and provisions set forth herein at any time without notice; however, no such change will affect the Property Owner's obligation to pay Assessments for completed PACE financings. PACE financings will be subject to the Program Guide in effect at the time of closing. If any provision of this Program Guide is determined to be unlawful, void or for any reason unenforceable, such provision shall be deemed severable from this Program Guide and shall not affect the validity and enforceability of any remaining provisions.

It is the Property Owner's responsibility to confirm that the Property Owner has the most recent versions of program documents. The Property Owner may satisfy this responsibility by checking the documents on the [PACE Program website](#) or by contacting the Program Administrator.

Disclosure of Property Owner Information

Although Lone Star PACE will endeavor to keep information identified as confidential out of the public domain, the PACE Program is established by Local Governments and, therefore, may be subject to federal, state or local requirements regarding open records and open meetings. Property Owners must agree to allow the Program Administrator to disclose any personal/corporate information submitted to it as part of the program as necessary in connection with the review and approval of a prospective PACE program financing. This disclosure may also be necessary to (i) comply with applicable law, and (ii) enable the Program Administrator's employees or consultants to provide applicable services to the Property Owner, the Qualified Lender and the Local Government or to otherwise perform their duties.

Fraud

Giving materially false, misleading, or inaccurate information or statements to the Program Administrator or any of their employees and agents (or failing to provide the Program Administrator with material information) in connection with an Application, Capital Provider Application, or document submission is considered a serious offense. Such actions may result in exclusion from the PACE program and may also be punishable at law. Material representations include, but are not limited to, representations concerning the project costs, ownership structure, and financial information relating to the Eligible Property and the Property Owner.

Changes in State Law

The operation of the PACE program is subject to various state laws. Any changes to these laws or their interpretation by the courts after the submission of an Application, may affect the proposed PACE financing.

Releases and Indemnification

By submitting an Application, the Property Owner acknowledges that the PACE Program was formed to help Property Owners finance Qualified Projects. The PACE Program is a financing program only and neither the Local Government nor the Program Administrator is responsible for the installed Eligible Improvements or their performance. Property Owners are responsible for payment of the Assessment regardless of whether the products are properly installed or operate as expected.

Appendix

KEY DEFINITIONS

Assessment Payments	The periodic payments in respect of the Assessment made by the Property Owner directly to the Capital Provider.
Capital Provider	A bank, credit union or private capital firm that finances the Qualified Project and is also known as a lender. To participate in the program, Capital Providers must be qualified by the Program Administrator.
Eligible Property	Privately owned commercial, industrial, or multifamily real property (five (5) or more units) located within participating jurisdictions , whether existing, under construction, or to be constructed so long as is located on a developed lot.
Qualified Improvements	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.
Qualified Project	The installation or modification of a Qualified Improvement on an Eligible Property.
Local Government	A Texas city or county
Assessment Lien	A lien arising from the recordation of a Notice of Contractual Assessment Lien in the real property records of the applicable county against an Eligible Property to secure the repayment of the PACE Program financing.



Program Administrator

The entity that works with the Local Government to administer the PACE program.

The Program Administrator is responsible for establishing and maintaining quality assurance, supporting project origination efforts, qualifying Capital Providers, promoting PACE, coordinating project closings, and assisting with post-closing processes. In addition, the Program Administrator helps Local Governments enact PACE programs and aids as needed in mortgage holder consent discussions. Lone Star PACE, a registered municipal advisory firm, serves as the Program Administrator for city and county PACE programs.

Real Property

Privately owned commercial or industrial real property or residential real property (with five or more dwelling units).

Property Owner

The person or entity that holds title to the Eligible Property upon which the Qualified Improvements will be installed, together with its successors and permitted assigns.

Property Owners may include individuals, business entities, and nonprofit companies.

Savings-to-Investment Ratio

The Savings-to-Investment Ratio (“SIR”) is calculated as (i) the total projected energy and/or water utility related cost savings and other financial savings over the lifetime of the Qualified Improvements (adjusted for utility rate increases), divided by (ii) the total cost of the Qualified Improvements financed; provided that, in no event shall the other financial savings included in the calculation referenced in clause (i) exceed 50% of total savings calculated pursuant to such clause.

For new construction projects, SIR is calculated differently. Per Keeping PACE in Texas Guidance©, the SIR may be calculated on the incremental costs and savings instead of the full Assessment amount, if the new project exceeds State or locally adopted code requirements (whichever is more stringent) by 5%.



Incremental SIR may be calculated as savings divided by investment where:

Savings = Estimated equipment utility consumption (conforming to minimum code) minus estimated utility consumption from Qualified Improvements which exceed minimum code by at least 5%, converted from their respective utility units to dollars using a confirmed cost structure, such as a utility bill or other appropriate reference.

Investment = Estimated equipment cost (conforming to minimum code) minus the cost of Qualified Improvements which exceed minimum code by at least 5%.

APPLICATION FORMS AND OTHER DOCUMENTS

Applicable Lone Star PACE program documents and forms may be found in the [Resources](#) section of the Lone Star PACE [website](#).



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