

PACE IN TEXAS

PROGRAM OVERVIEW



www.texaspaceauthority.org

Your trusted local expert for all things PACE

A SOLUTION...

PACE = PROPERTY ASSESSED CLEAN ENERGY

Innovative financing tool that provides long term, low cost, 100% funding for

- Energy efficiency,
- Water conservation,
- Distributed generation projects

Eligible Property

- Commercial (including non-profit)
- Multi-family (5+ units)
- Industrial (manufacturing/agricultural)
- Special use (Storage, Data Center, Manufacturing)



Municipalities
Counties



TEXAS PACE
AUTHORITY

501(c)(3)



Governmental

Private



Capital Providers

Property Owners

Service Providers

PACE USES

➤ **Retrofit/Repurposing**

- New MEP systems, building envelope upgrades, water conservation, onsite generation, energy storage

➤ **New Construction/Redevelopment**

- Above code, higher performance systems

➤ **Refinancing**

- Within 24 months of last PACE eligible improvement

PACE-ELIGIBLE IMPROVEMENTS

Projects that reduce energy or water usage or generate power onsite

Energy

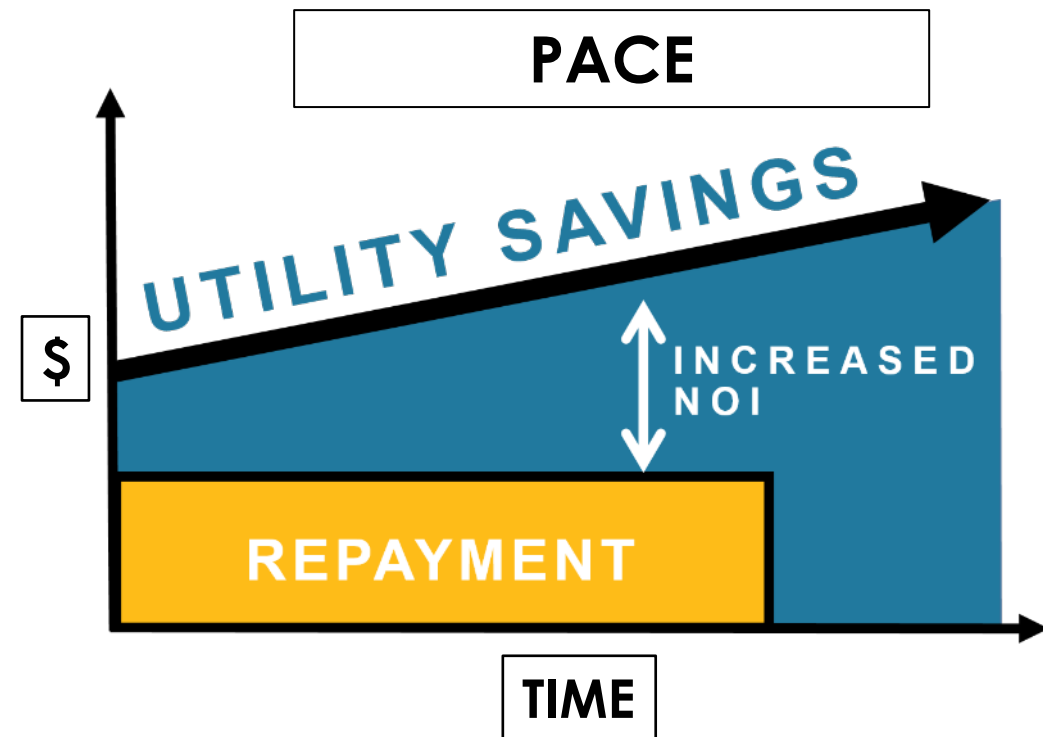
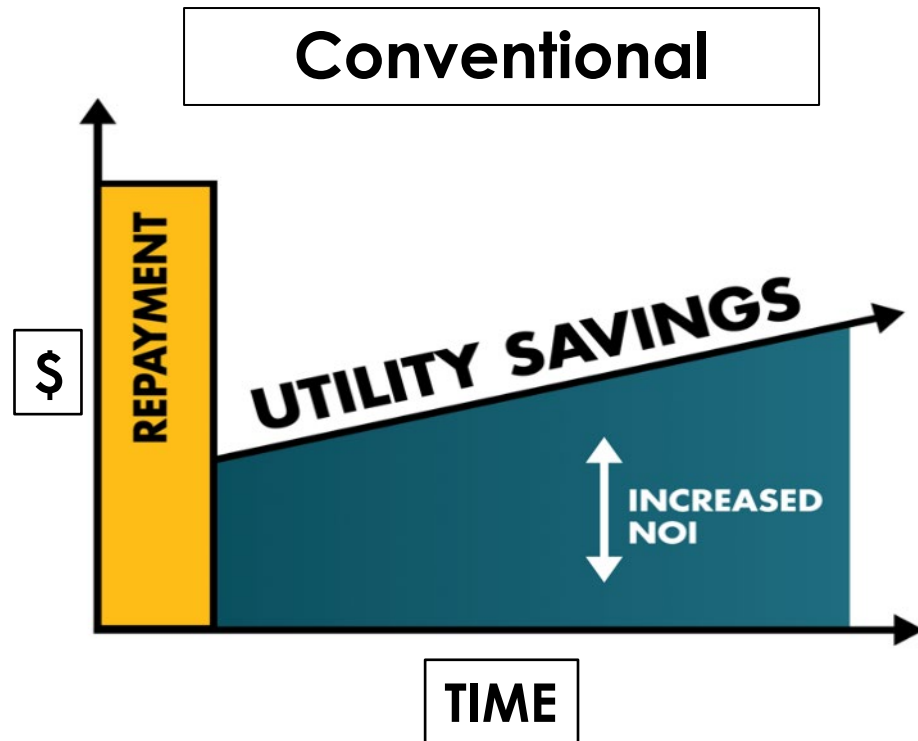
- High efficiency HVAC (AC/chillers, boilers, furnaces, air handlers)
- High efficiency lighting upgrades
- Energy management systems and controls
- Building envelope improvements
- Renewable/DG energy systems
- Mechanical system modernization
- Air cooled systems to water or geothermal cooled systems
- Fuel switching
- Combustion and burner upgrades
- Heat recovery and steam traps

Water

- High efficiency water heating systems
- Water conservation systems
- Wastewater recovery and reuse systems
- Alternate, on-site sources of water (A/C condensate, rainwater, RO reject water, foundation drain water, etc.)
- On-site improvements to accommodate reclaimed water use
- Water management systems and controls (indoor and outdoor)
- High efficiency irrigation equipment

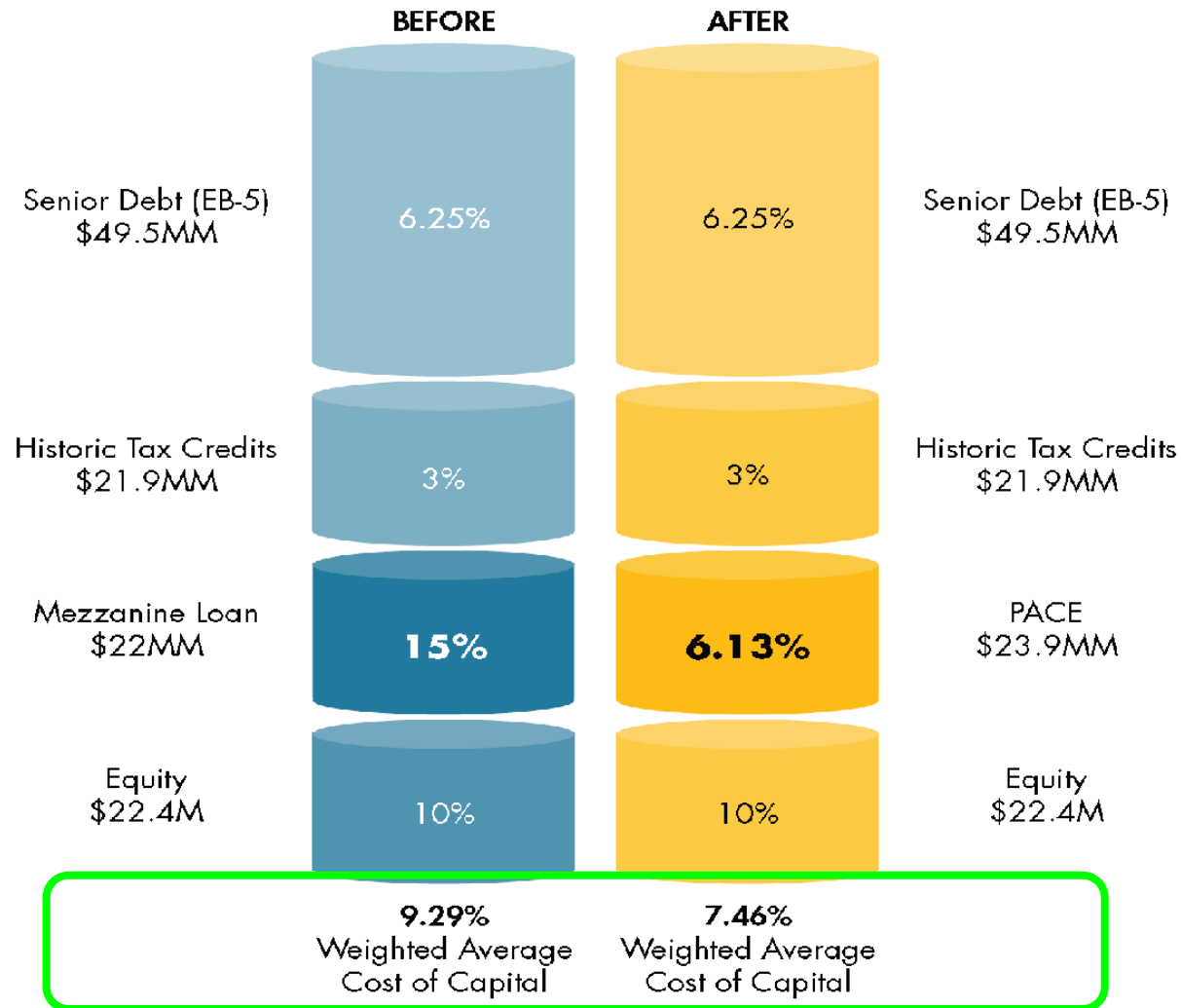
PROPERTY OWNER BENEFITS

- Pay for today's upgrades with tomorrow's savings
- Improves assets - budget neutral/cashflow positive
- Lowers utility usage/costs - increases net operating income



IMPACT OF PACE ON CAPITAL STACK

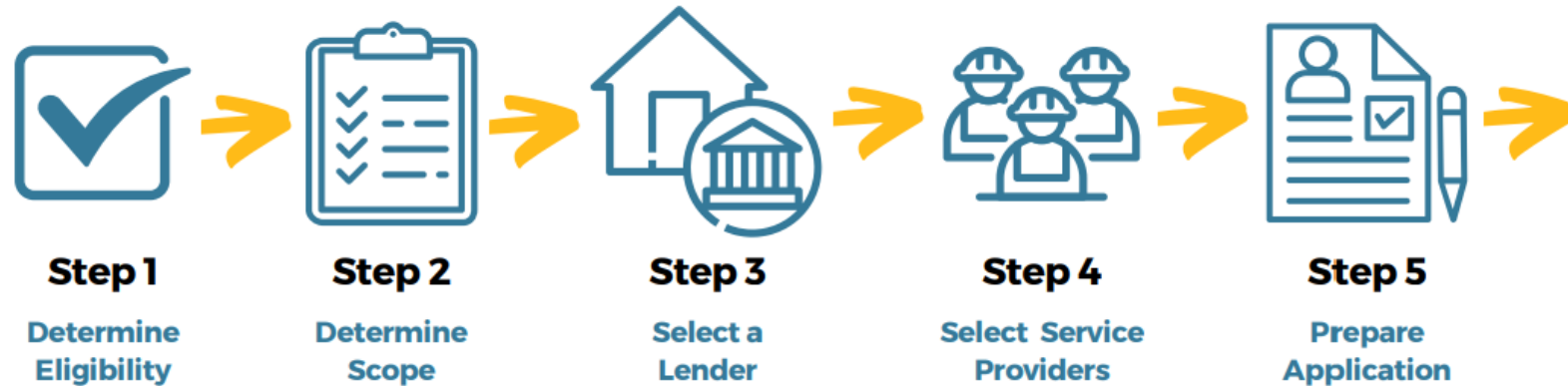
Sample Development Capital Stack:



TPA's PROJECT DEVELOPMENT PROCESS

www.texaspaceauthority.org/quick-start-guide

Phase 1 Pre-Application Feasibility



Phase 2 Post-Application Execution



PACE PROJECT DIVERSITY

www.texaspaceauthority.org/project-list

- Urban and rural
- Office, mixed-use, non-profit, hospitality, multi-family, parking garage, retail, manufacturing
- Energy efficiency, water conservation, distributed generation & demand reduction/resiliency projects
- Project sizes: \$68,000 - \$48,000,000
- All received 100% financing



PACE UNDERWRITING CRITERIA

Savings to Investment Ratio (SIR)

- SIR \geq 1 required
 - Utility/Operating Savings >50% --- Financial Savings < 50%
 - Verified by Independent Third Party (Texas Licensed PE)

Loan to Value (LTV)

- PACE financing can be up to 25% of CAD-assessed property value
 - Variance for market value/as stabilized basis

Loan Term

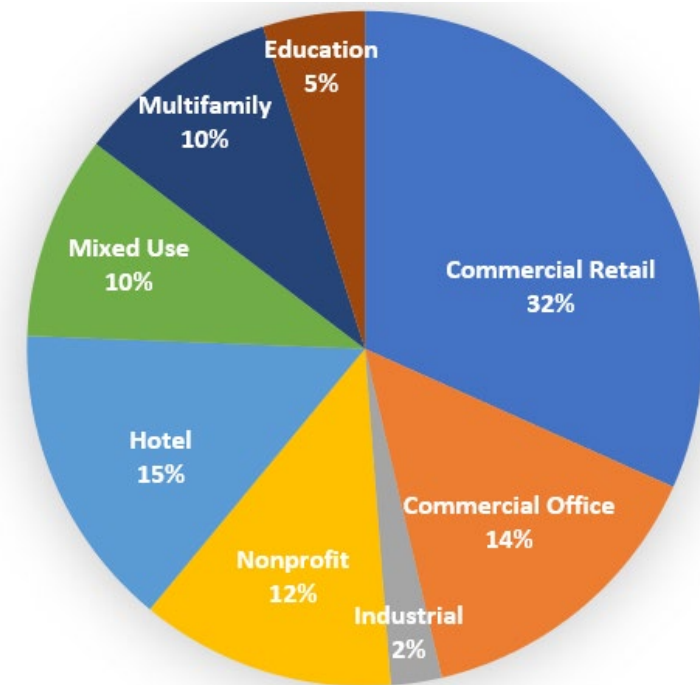
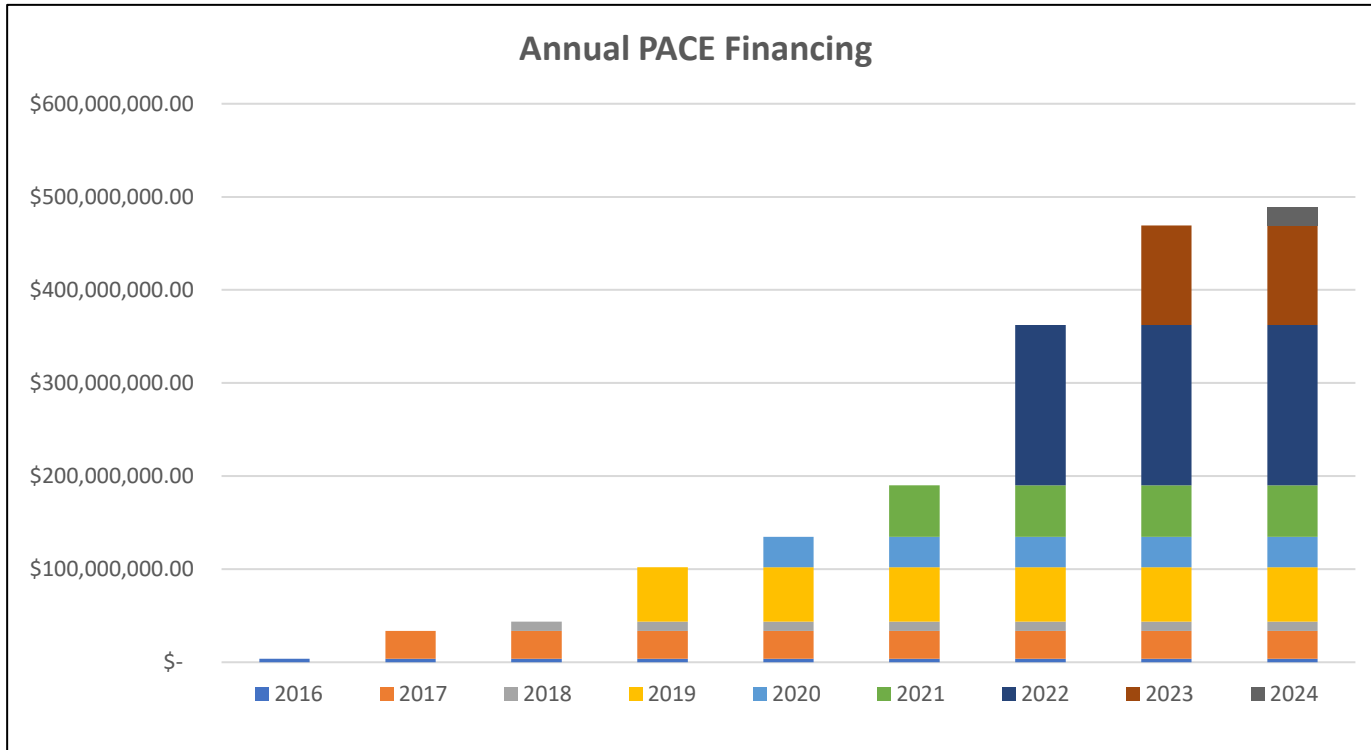
- \leq to weighted useful life of PACE-financed measures

Mortgage Holder Consent

- Senior lender must consent to PACE assessment (if applicable)

PACE BY THE NUMBERS

\$497.5 million of Investment



MEASURE TYPE

Energy Efficiency: 55% / Water Conservation: 33% / Distributed Gen: 12%

THE ALLEN

San Antonio

Measures

- Lighting
- HVAC
- Envelope

Assessment Total

\$1,559,719

Annual Utility Savings

Electric: 57,071 kWh



INTERCONTINENTAL HOTEL

San Antonio

Measures

- Lighting
- HVAC
- Envelope
- Plumbing/Water Conservation

Assessment Total

\$28,000,000

Annual Utility Savings

Electric: 3,686,497 kWh

Water: 966 Kgal



1303 LORENZO

Castroville

Measures

- Lighting
- HVAC
- Envelope
- Plumbing/Water Conservation

Assessment Total

\$690,000

Annual Utility Savings

Electric: 76,495 kWh

Water: 162 Kgal



1201 FIORELLA

Castroville

Measures

- Lighting
- HVAC
- Envelope
- Plumbing/Water Conservation

Assessment Total

\$390,000

Annual Utility Savings

Electric: 59,890 kWh



EDGE AT RANDOLPH

Universal City

Measures

- Lighting
- HVAC
- Envelope
- Plumbing/Water Conservation

Assessment Total

\$898,828

Annual Utility Savings

Electric: 14,616 kWh

Water: 85 Kgal



PACE is a WIN-WIN-WIN (WIN-WIN)

- ✓ **Property Owners** – lower utility bills, energy independence, energy efficiency, property value increase
- ✓ **Contractors** – source of increase in business, more local hiring, best practices, keeping up with technology advancements
- ✓ **Lenders** – new loans, steady & stable process, fully collateralized, Tax Assessment lien position, improved asset value
- ✓ **State of Texas** – reduced peak demand, enhanced grid reliability, distributed generation as resilient power source, improved air quality, water resource conservation
- ✓ **Communities** – increased economic development and jobs, improved building infrastructure, more appealing building stock and plants

CONTACTS

- ❑ Jack Belt – jack@texaspaceauthority.org
- ❑ Dr. Teresa Smith – teresa@texaspaceauthority.org
- ❑ Lyle Hufstetler – LHufstetler@aacog.com

Your trusted local expert for all things PACE

The Allen Redevelopment

Jack Belt, Moderator

George Wommack, Headwall Investments
Brian Adams, PACE Equity
Andrew Ozuna, Broadway Bank

Introductions

Round One: Presentations

1. The Project – George Wommack
2. The PACE Loan – Brian Adams
3. The Long Term Mortgage – Andrew Ozuna

Round Two: Open Questions
to all Panelists

Round Three: Q & A from the Audience

The Project – George Wommack



Headwall

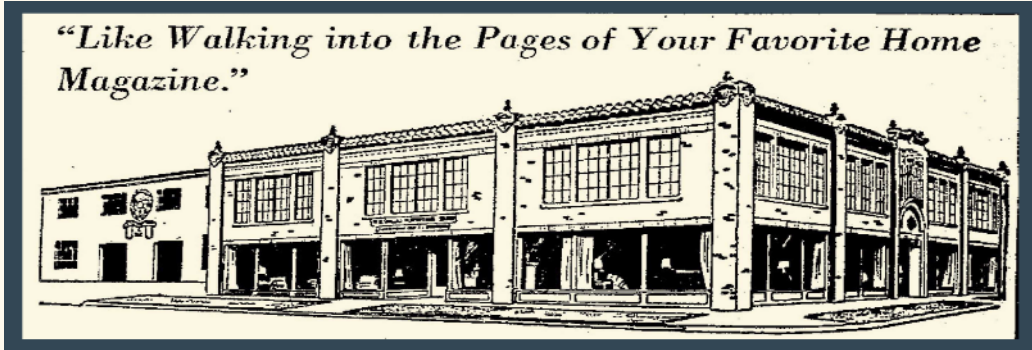
INVESTMENTS

Slides from Investment Summary

HW McCullough, LLC
2101 McCullough Ave. San Antonio, TX 7812

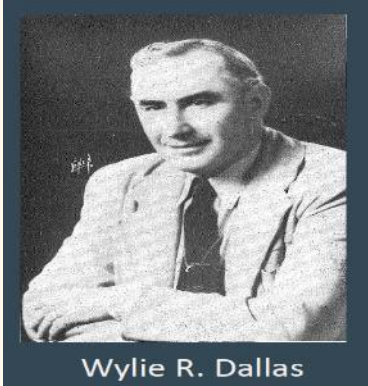
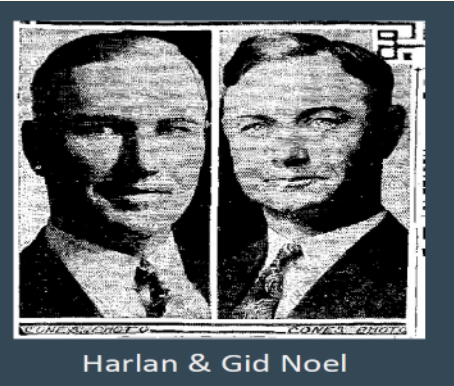
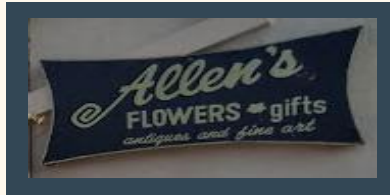
September 30, 2024

History



Significant Dates

- 1928 – Noel Brothers Furniture Store
- 1938 – Rear Warehouse, Link, and Storage Buildings added by this date
- 1939 – W.R. Dallas Furniture Studio in building by this date
- 1950 – Monte Visits Residential Historic District period of significance ends
- 1964 – Interior remodel (air conditioning added)
- 1966 – Allen's Flowers and Gifts
- 1993 – Link Building remodeled



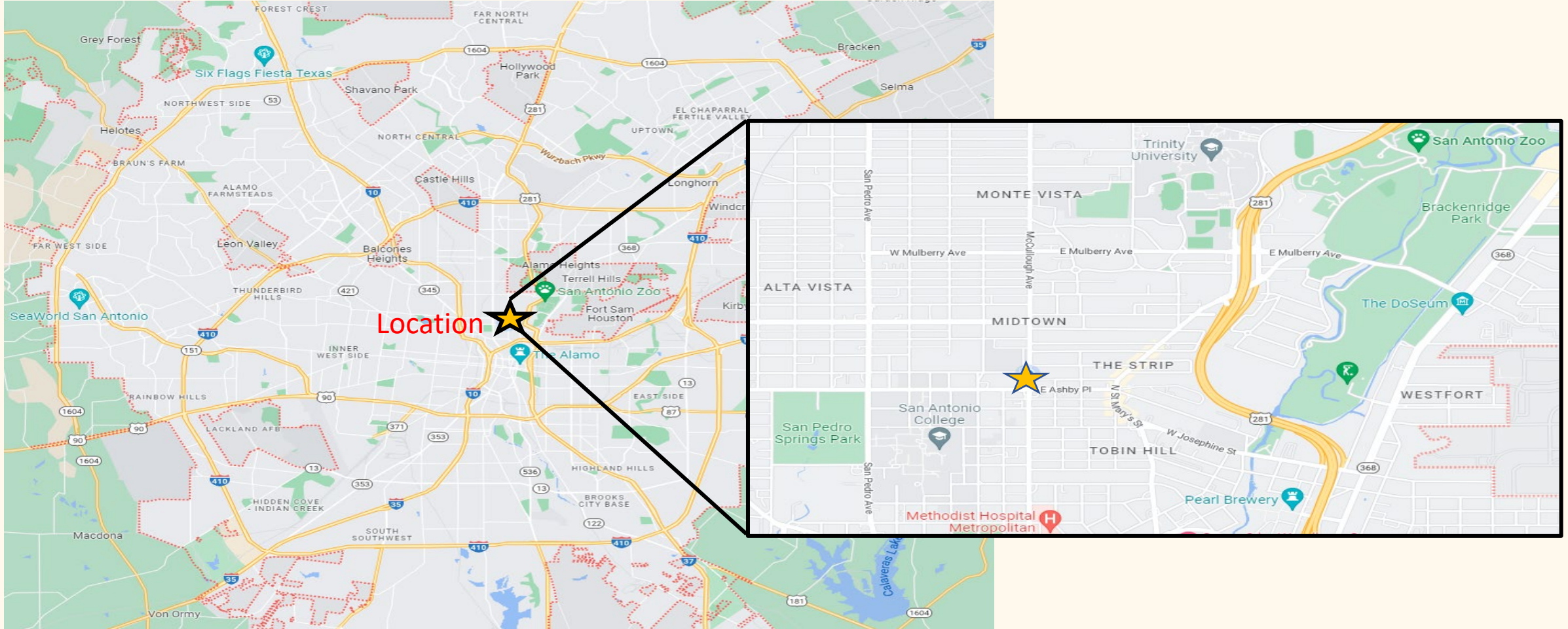
You can find it at...

A GUN CABINET
or a milk stool... originals from the Texas Spoke-Leg Furniture Collection exclusively at W. R. Dallas Furniture Studios, San Antonio. Built by master craftsmen under the personal supervision of Wylie Dallas, this furniture adheres to stringent design and quality standards that will assure you years of satisfaction. Imagine the pride of a man lucky enough to display his gun collection in this handsome piece or the friendly addition of the milk stool to your room. The Gun Cabinet — 42" wide, 16" deep, 80" high, choice of pulls, Reg. \$250.00, Special \$219.00. Milk Stool — 12"x18"x12" high, Reg. \$17.50, Special \$12.50. Visit us soon and see the marvelous furniture and accessories available for your selection. A staff of Interior Designers is available to assist you. Deferred payments can be arranged.

W. R. DALLAS
Furniture Studios

901 McCollough at Ashby PE 4-4255
(2 blocks East of the Right Hawk)
9:00 A.M. - 5:00 P.M.

Location





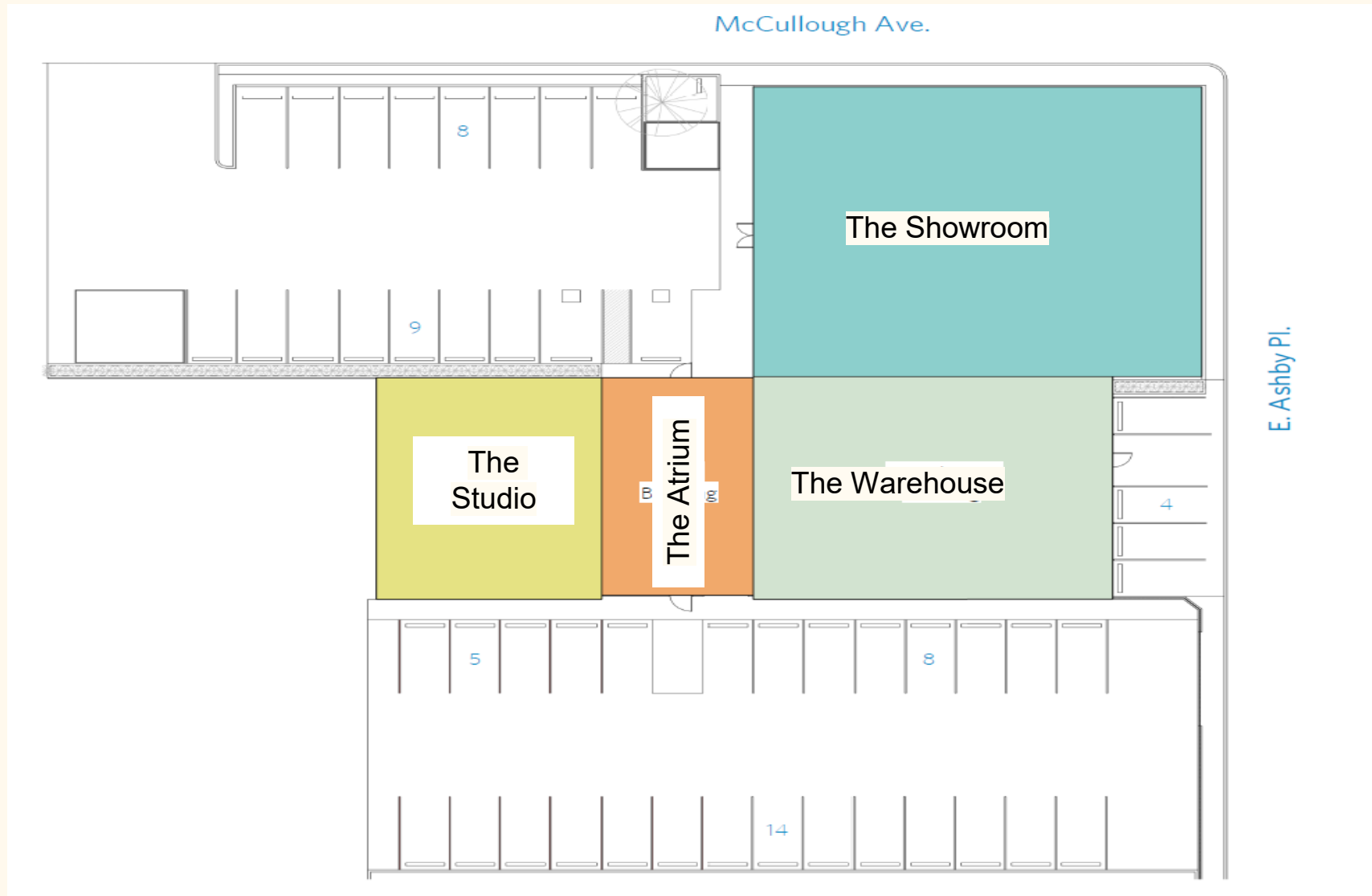
Artistic Renderings



Design Concept Photos



Preliminary Design Concepts

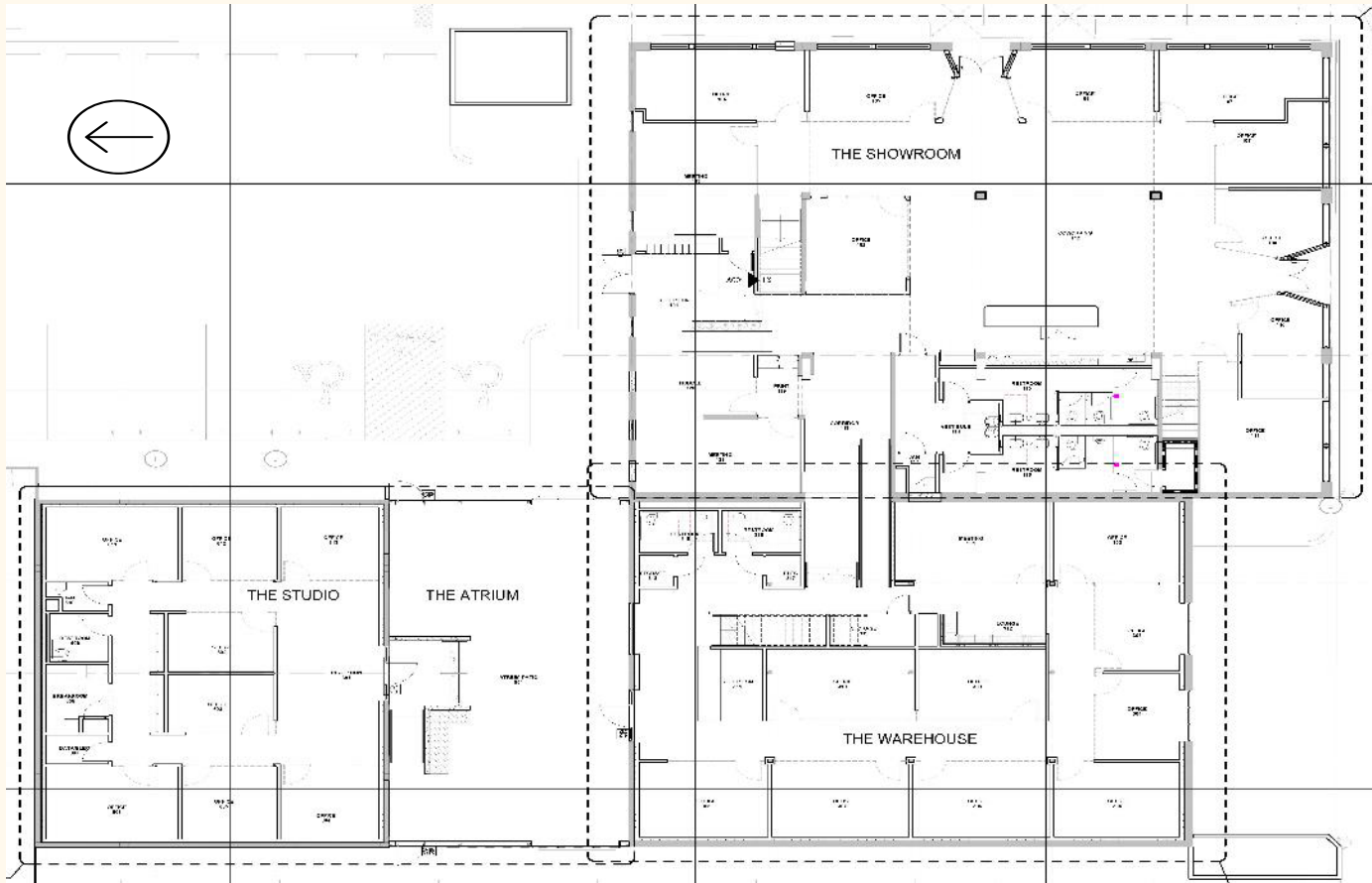




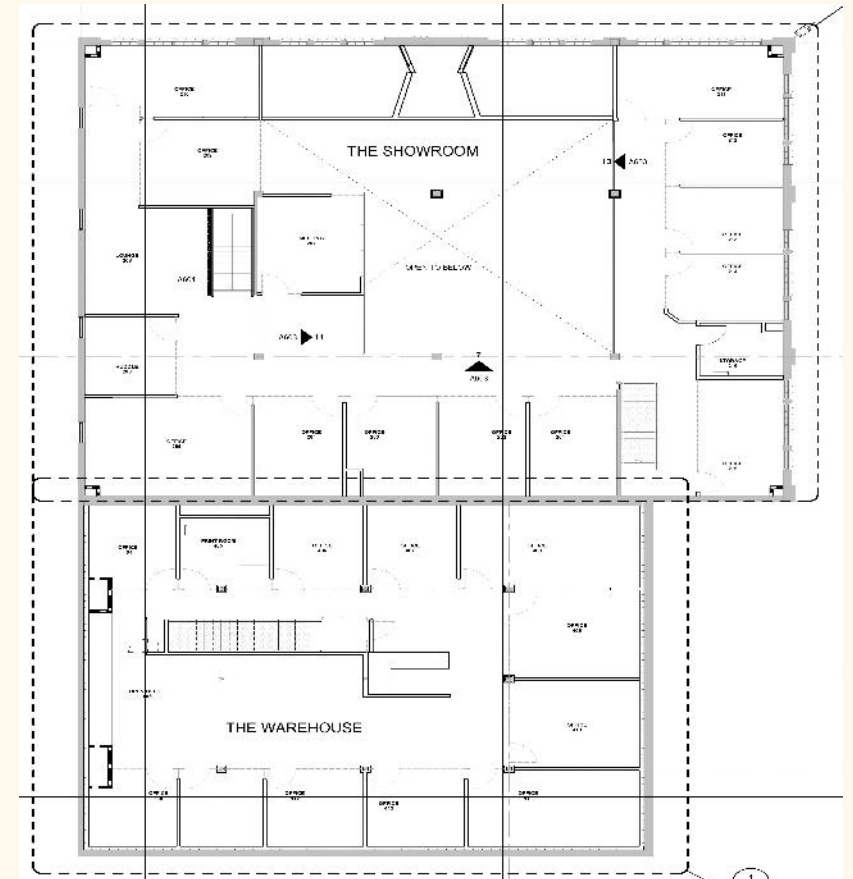


Preliminary Design Concepts

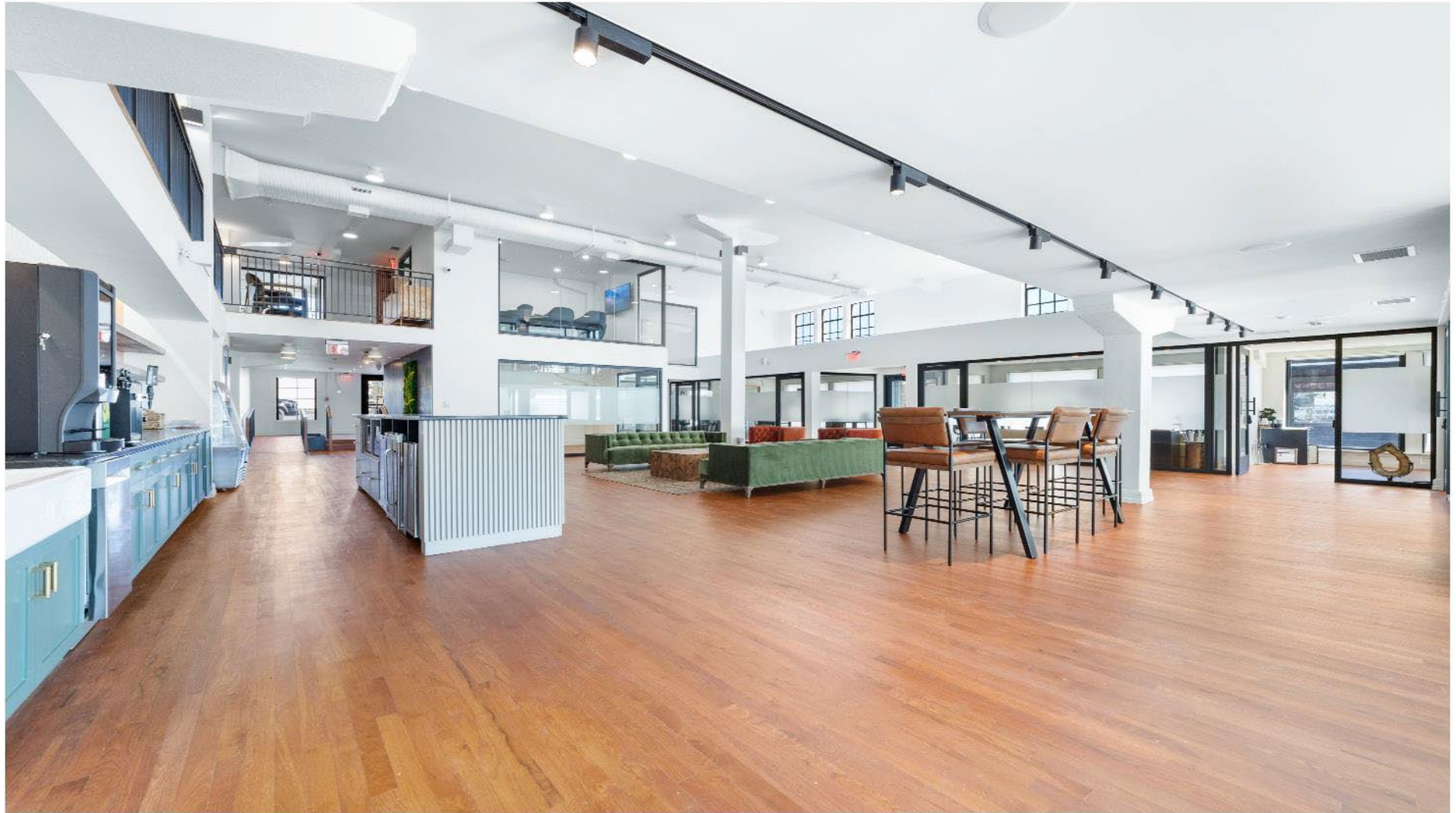
First Floor



Second Floor









Legal Disclosures

HW McCullough, LLC (the “Company” or “we”, “us” or “our”) is furnishing this Memorandum to you solely for your own internal use. The information contained in this Memorandum is confidential, and you are not authorized to distribute, photocopy, forward, disclose, or alter the information provided in this Memorandum without the prior written consent of the Company.

This Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any securities of the Company by any person in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation. Neither the Securities and Exchange Commission nor any state securities commission or regulator has approved or disapproved of the securities of the Company or determined that this Memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

Certain information contained in this presentation may be derived from information provided by industry sources. We believe such information is accurate and that the sources from which it has been obtained are reliable. However, we cannot guarantee the accuracy of, and have not independently verified, such information.

Neither the Company nor its affiliates makes any representations as to the legal, tax, credit or accounting treatment of any transactions mentioned herein, or any other effects such transactions may have on you or any other parties to such transactions and their respective affiliates. Further, neither the Company nor its affiliates makes any representation as to the financial suitability of an investment in the Company for you. You should consult with your own advisors as to such matters and the consequences of the purchase and ownership of membership interests in the Company.

Nothing in these materials shall commit the Company or any of their affiliates to enter into any transaction described in this Memorandum. No assurance can be given that any transaction discussed in this Memorandum will in fact be executed by the Company or the other parties thereto. Any financial information included herein has not been presented in accordance with U.S. generally accepted accounting principles (“GAAP”) or reconciled to GAAP financial metrics, and such financial information has not been audited by a registered public accountant.

This Memorandum also discloses the past performance of our target property and the Company’s management. Such performance is not indicative of the future results of an investment in the Company, which may vary significantly from our target property’s or our management’s past performance.

Cautionary Note About Forward-Looking Statements

This Memorandum contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements are subject to significant risks and uncertainties, and investors are cautioned against placing undue reliance on such statements. Without limiting the foregoing, the words “believes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “plans,” “targets,” “initiatives,” “potentially,” “outlook,” or similar expressions or future conditional verbs such as “may,” “will,” “should,” “would,” and “could” are intended to identify forward-looking statements. These forward-looking statements are not based on historical fact but instead represent assumptions that we believe are reasonable as of the date of this memorandum.

Actual results could differ materially from those projected in forward-looking statements due to many factors, including without limitation, (i) economic disruptions adversely affecting our existing or future tenants’ ability to pay rent or other parts of our business operations, (ii) the creditworthiness and diversification of our tenant mix, (iii) the availability of credit and our ability to adequately source and deploy capital, (iv) the adoption of new laws, rules, or regulations, or changes to existing laws, rules, or regulations or the interpretations thereof, that adversely impact our business operations, (v) the accuracy of our financial models, our reliance on third party vendors, the risk of security breaches and potential fraud, including cyberattacks, and potential adverse weather events in San Antonio, Texas and the surrounding geographic area, (vi) our ability to compete successfully with other retail shopping centers providing similar goods and services in our targeted market, and (vii) the risks inherent in owning membership interests in the Company, such as the lack of an established trading market for such interests, the transfer restrictions applicable to such interests, and the pass through of certain tax attributes arising from the Company’s operations to investors.

The forgoing list is intended to identify the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included herein and is not intended to represent a complete list of all of the risks and uncertainties applicable to our business. The forward-looking statements included herein are made as of the date hereof, and we undertake no obligation to update any forward-looking statement to reflect circumstances or events that occur after the date of this Memorandum.



2101 McCullough Ave
San Antonio, Texas 78212
(210) 343-2186
www.headwallinvestments.com

George J. Wommack
President & CEO

george@headwallinvestments.com
om
Mobile: (210) 268-6932

Sam Peacock
Executive Vice President

sam@headwallinvestments.com
Mobile: (210) 289-4155

Henry Vaughan
VP – Investor Relations

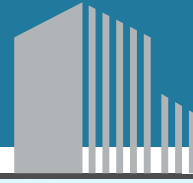
henry@headwallinvestments.com
m
Mobile: (713) 992-0221

Dunn Armstrong
Tobin Hill Fund Manager

dunn@headwallinvestments.com
Mobile: (210) 889-0546

The PACE Loan – Brian Adams

Office/Retail Property Captures Low Carbon Status



PACE Equity exceeded our expectations in every regard. Their proactive approach to client education assisted tremendously in making the process easy to navigate.

George Wommack, President/CEO
Headwall Investments

CIRRUS LOW CARBON REDEVELOPMENT DELIVERS KEY BENEFITS

The Allen is located just north of the Central Business District of San Antonio. Formerly retail space, The Allen was originally constructed between 1928 and 1938. The property redevelopment houses the headquarters of Headwall Investments, the property developer, along with additional office and retail.

The property is a CIRRUS Low Carbon property—verified by PACE Equity and the New Building Institute. This means it met the low carbon design specification and qualified for a reduced cost of capital. In addition, the developer/owner can promote the property as having achieved the low carbon status, thereby building the brand and improving the appeal of the property for sustainably-minded tenants.

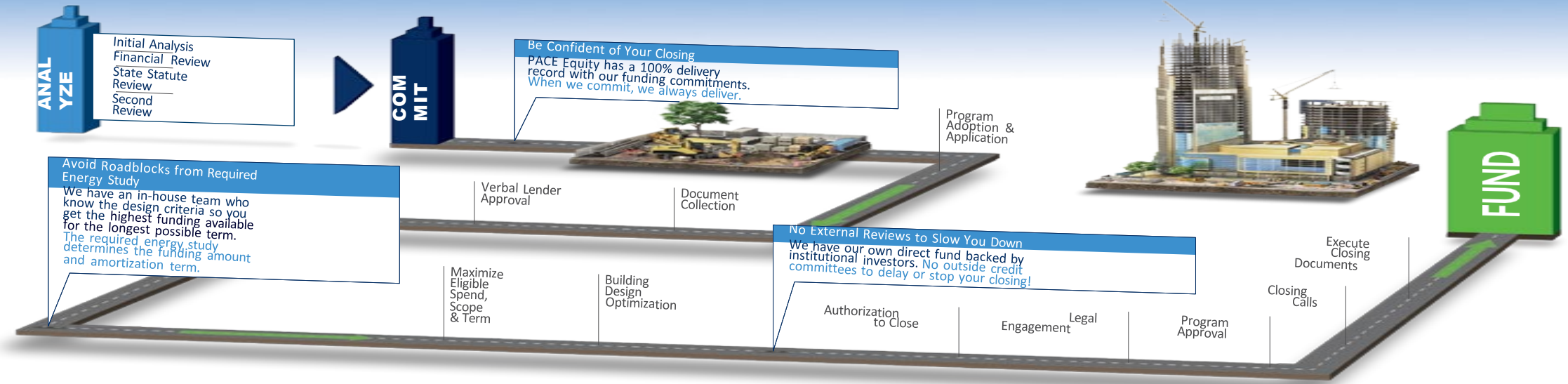
Our firm layers the CIRRUS Low Carbon analysis into our world-class end-to-end project management process, delivering a seamless customer experience. The developer/owner also benefits from the dynamic low carbon program that sets the property apart while it delivers positive financial and brand impacts.

CAPITAL STACK \$10.1 M

CONSTRUCTION LOAN		
.....43%		\$4.3 M
EQUITY	42%	\$4.2 M
PACE Equity.....	16%	\$1.6 M

THERE ARE 87 STEPS NEEDED TO EXECUTE PACE FINANCING. Don't worry, we do all 87.

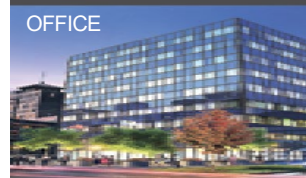
End-to-End Project Management



WHAT IS PACE EQUITY?

PACE legislation allows for a new funding vehicle in your capital stack. Your construction budget can use our funding for quantifiable utility, water, renewable or seismic (select states) efficiencies. The repayment of the capital is made through a long-term special tax assessment on the property. PACE Equity is available in 25 states and growing.

FUNDING FOR A VARIETY OF ASSET CLASSES



LOWER COSTS FOR LOWER CARBON

Substantial rate reduction when you meet our CIRRUS Low Carbon design specification.



WE FUNDED IT FIRST.

We figured out first how to use our capital for new construction plus NMTC/OZ/TIF. We'll help you solve your financing challenge

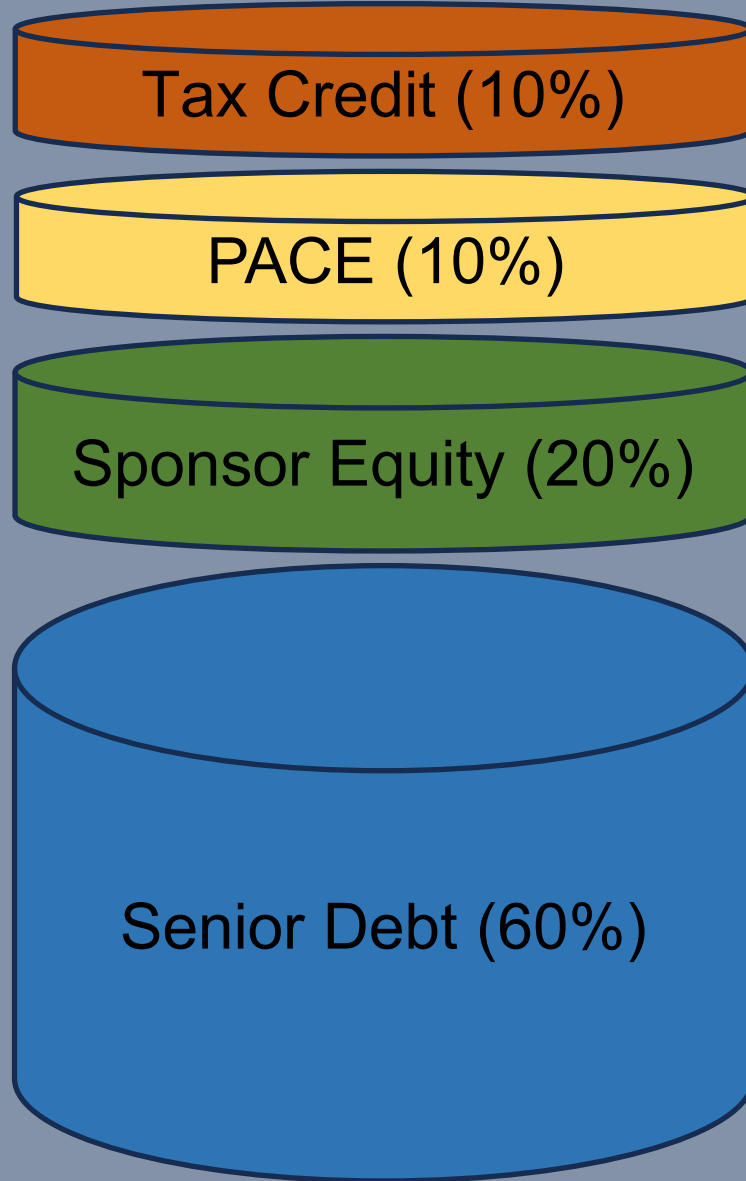
UPFRONT FUNDING COMMITMENT

with certainty of funding and a 100% delivery record.



NEAR PERFECT CUSTOMER SATISFACTION (4.95 OUT OF 5 STARS)

The Long Term Mortgage – Andrew Ozuna



Lender Documents:

Mortgage (Senior Lender) consent to PACE lien

AGREEMENT

1. Lender hereby consents to the Assessment and the PACE Agreement and agrees that Property Owner shall not be in default under the Loan Documents because it enters into the PACE Agreement or the financing documents referenced therein, or because the Property is subject to the Assessment imposed against the Property pursuant to the PACE Agreement.
2. Lender hereby also agrees that, pursuant to Texas Local Government Code Section 399.014, the Assessment will constitute a lien against the Property from and after the date on which the notice of contractual assessment is recorded and that such lien will have the same priority status as a lien for any other ad valorem tax. In no circumstances will the amount owing on the Assessment be accelerated on account of a payment default or for any other reason, including bankruptcy. Any proceeding to enforce the lien shall be limited to collection of the amount then currently due with respect to the Assessment, together with past-due interest, past-due fees and costs of collection as permitted under the PACE Act and Texas Tax Code, as they are amended from time-to-time.
3. Property Owner and Lender agree that the principal amount of the Assessment shall not exceed the Maximum Amount of Assessment Principal Authorized, as specified above, without the consent of Lender.

Lender Consideration:

Recourse and Security

Pace loans are secured by the real property on which the improvements are located and are non-recourse to the Borrower. The lien of the PACE loan runs with the property, even if the property is transferred to a third party following a sale (including foreclosure).

PACE loan has a lien priority similar to ad valorem taxes and PIDS and therefore have priority over the existing recorded mortgages and subsequent mortgage findings.

PACE loans cannot be accelerated, even in the event of a missed assessment payment. In the event of a PACE loan foreclosure, only the amount of the assessment of the past due will be owed at the time of the foreclosure. Future assessments will remain due and payable in the future, and the property remains encumbered by the PACE loan.

Risks:

SIZING OF THE PACE. OBTAIN AN INDEPENDENT THIRD-PARTY ENERGY AUDIT THAT DETAILS THE EXPECTED OPERATING COSTS DUE TO THE PACE IMPROVEMENTS. RISK THAT AUDIT WILL NOT COVER THE COSTS AND REQUIRE VE CHANGES OR MORE EQUITY.




TENANT PASS-THRU NNN FOR PACE ASSESSMENT MAY PUSH RENT HIGHER THAN MARKET. CAN PROJECT COVER THE ASSESSMENT WITHOUT NNN PASS THRU?



APPRAISAL RISK – DOES APPRAISAL PICK UP THE VALUE ADDS FOR THE ENERGY IMPROVEMENTS? IMPACT TO LTV AT UNDERWRITING?



HOW DOES BANK TREAT THE PACE ASSESSMENT? OPERATING EXPENSE OR 2ND LIEN DEBT OBLIGATION?



SUPERIOR LIEN CREATED BY PACE. CONSIDER SAY 12 MONTH ESCROW OF PAYMENTS DURING THE LEASE-UP PHASE OF THE PROJECT? INCLUDE SAY 21 MONTHS OF PACE PAYMENTS IN THE CONSTRUCTION BUDGET (NEGATIVE CARRY).

Equity Funding:

- PACE equity funds Pari Passu vs First Draw Equity Funding. This is a challenge if Bank requires all equity in the project on a first draw basis.



Draw Process:

PACE relies on the Bank's draw process to initiate their draws:

Down Date Title

Third Party Inspection

Signed Pay Apps

Balanced Budget



PACE Benefit to Borrower:



Fully capitalizes the project at preferred interest rate (vs investor equity which has pref and promote)



PACE annual assessment can be passed thru to the tenant in a NNN lease.



Enhances the efficiency and overall sustainability of the building.



Enhances the leasing of the building as an “energy efficient” standout.



PACE is non-recourse debt. Reduces liability to the Sponsor

Round Two – Open Questions

1. How would you describe your PACE experience from each of your points of view?
2. What are your thoughts on how to make explaining PACE less confusing and complex?
3. Any last thoughts or comments that to help Property Owners, PACE Lenders, and Long Term Mortgage Holders to be more open to PACE?

Round Three – Q & A with the Audience



AACOG
Alamo Area Council
of Governments

PACE for Local Governments

Presented by
Lyle Hufstetler | Natural Resources Project Administrator | AACOG

October 3, 2024



MODERATOR

Lyle Hufstetler

Natural Resources Project Administrator, AACOG

PANELISTS

Doug Melnick

Director, City of San Antonio Office of Sustainability

Elan Vallender

Director, City of Converse Economic Development Corporation

Recap: What is TX-PACE?

- Commercial, non-profit, industrial (manufacturing & agricultural), & multi-family (5+ units) properties

- 100% long-term, low-cost **private** financing unlocked by assessment lien imposed on property

- Energy efficiency, water conservation, distributed generation, and demand reduction (resiliency)



What is TX-PACE?

- TX PACE Act enacted in 2013 - Local Gov't Code Chapter 399

- Allowed cities and counties to create individual PACE programs within their jurisdictions

- Cities and counties must adopt PACE for property owners to take advantage of it

- Voluntary program requires no extra work with ILA



PACE UNDERWRITING CRITERIA

Savings to Investment Ratio (SIR)

- SIR \geq 1 required
 - Utility/Operating Savings >50% --- Financial Savings < 50%
 - Verified by Independent Third Party (Texas Licensed PE)

Loan to Value (LTV)

- PACE financing can be up to 25% of CAD-assessed property value
 - Variance for market value/as stabilized basis

Loan Term

- \leq to weighted useful life of PACE-financed measures

Mortgage Holder Consent

- Senior lender must consent to PACE assessment (if applicable)

Where is TX-PACE?

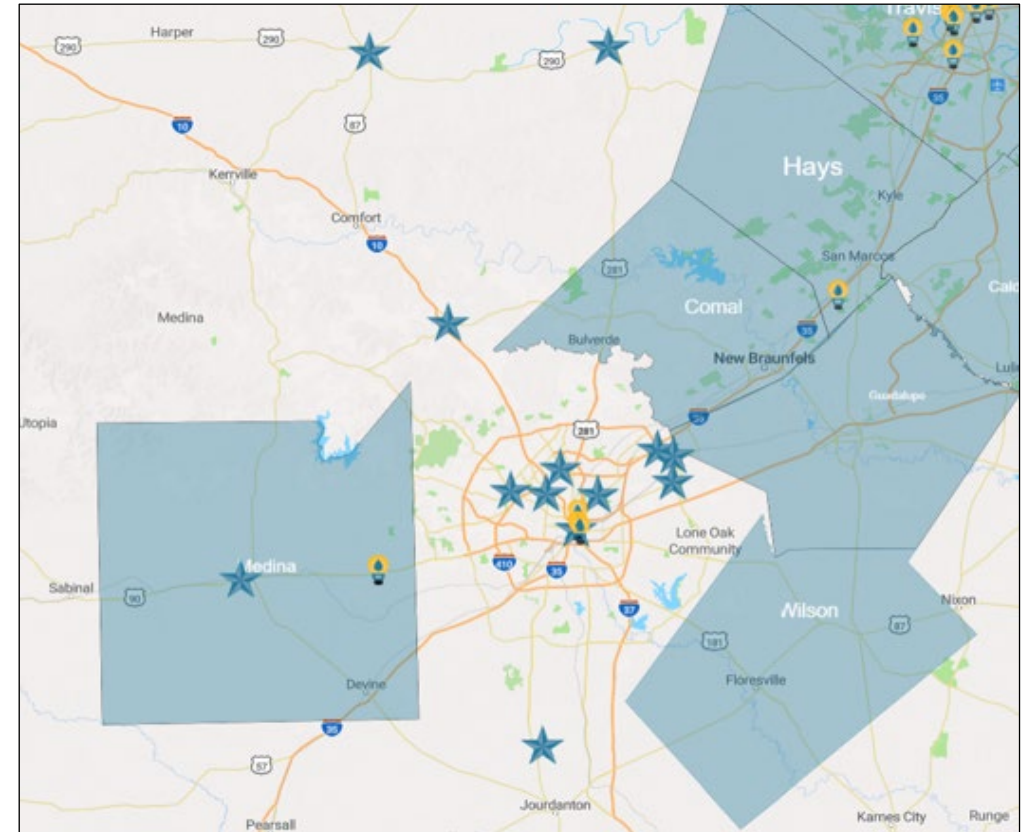
Cities

- Alamo Heights
- Balcones Heights
- Boerne
- Castle Hills
- Converse
- Fredericksburg
- Hondo
- Leon Valley
- Live Oak
- Poteet
- San Antonio
- Universal City

**16 PACE
programs and
counting...**

Counties

- Comal County
- Guadalupe County
- Medina County
- Wilson County





Why TX-PACE?

Local Governments

- Property owners/occupants substantially save in utility costs
- Increase economic development and jobs
- Reduce demand on electricity grid
- Improve air quality
- Enhance value and efficiency of buildings
- Support municipal resiliency plans and sustainability goals



Risk Avoidance

Local Governments

- Senior lien status – senior lender must consent
- Utilize existing debt servicing upon default
- No use of City funds or resources (ILA)
- Free market, hands-off approach
- Independent third-party review
- PACE-in-a-Box streamlines application and ensures success



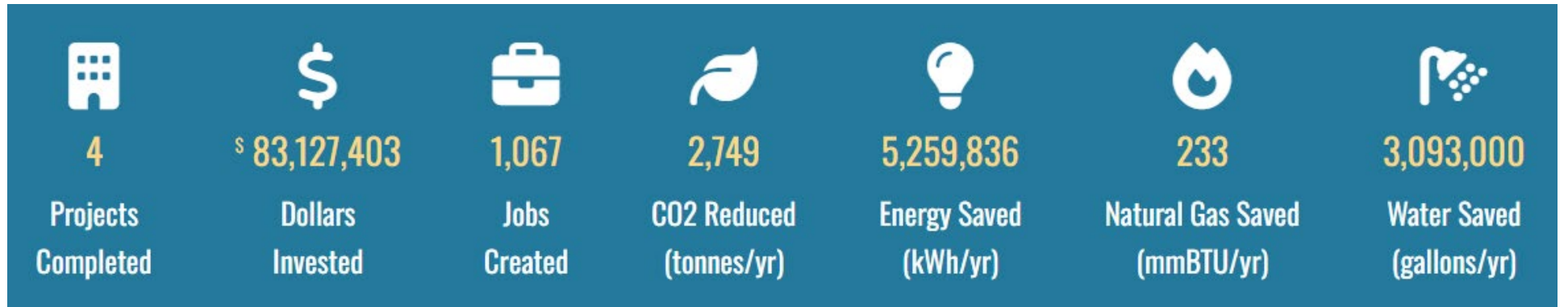
Why TX-PACE?

Property Owners

- Long-term financing (up to 20+ years)
- Competitive interest rates
- Up to 100% of improvements financed (100% loan to value)
- Non-recourse (stays with the property)
- No financial covenants
- Does not tie up borrowing capacity

The Local Impact of PACE

San Antonio



Medina County





How to Adopt

- City Council Meeting #1
 - Post Report on how the program will work
 - **Agenda Item: Resolution of Intent**
- City Council Meeting #2
 - Agenda Item: Hold a Public Hearing
 - **Agenda Item: Resolution to Establish**
 - **Agenda Item: Approve ILA with AACOG**



Action items in red



Contractual Documents

- Closing documents include:
 - Owner and Local Government Contract – agrees to the assessment lien imposed on the property
 - Capital Provider and Local Government Contract – assigns proceeds of assessment to capital provider
 - Notice of Contractual Assessment Lien – AACOG will record notice of PACE assessment lien with county clerk
 - Mortgagee Consent (if applicable)

SECO Resources

The State Energy Conservation Office (SECO) partners with municipal and county governments, public K-12 schools, public institutions of higher education and state agencies, to reduce utility costs and maximize energy efficiency.

- **City Efficiency Leadership Council:** collaborate with city leaders across Texas to share energy efficiency best practices while strengthening ties among local governments
- **LoanSTAR Program:** Revolving loan that finances energy retrofits for public facilities supported by the state, units of local government, public schools and universities
- **Preliminary Energy Assessments (PEAs):** Free energy assessment that recommends cost-effective resource efficiency measures that could be implemented to reduce utility consumption or utility costs



SECO
State Energy
Conservation Office



Lyle Hufstetler

Natural Resources Program Administrator

Phone: 210-362-5225

Email: lhufstetler@aacog.com

Mariah Sanchez

Natural Resources Outreach Specialist

Phone: 210-461-8770

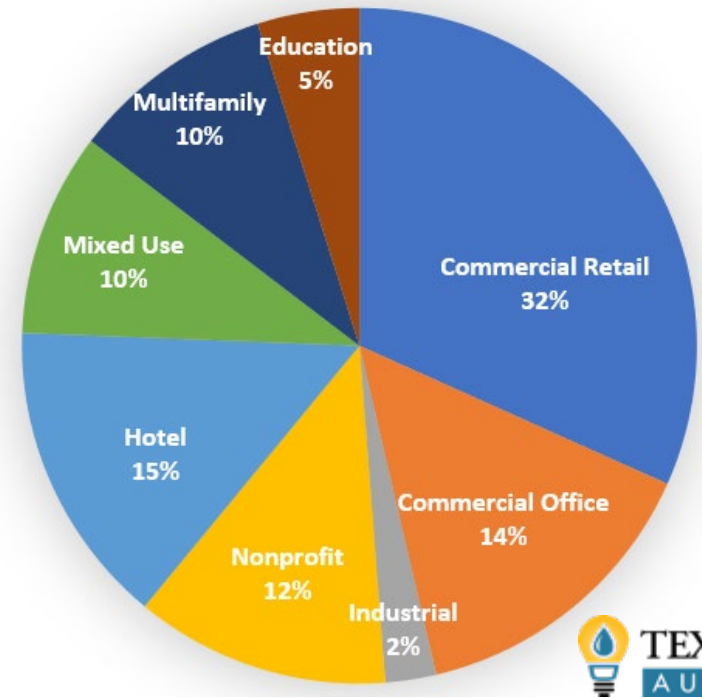
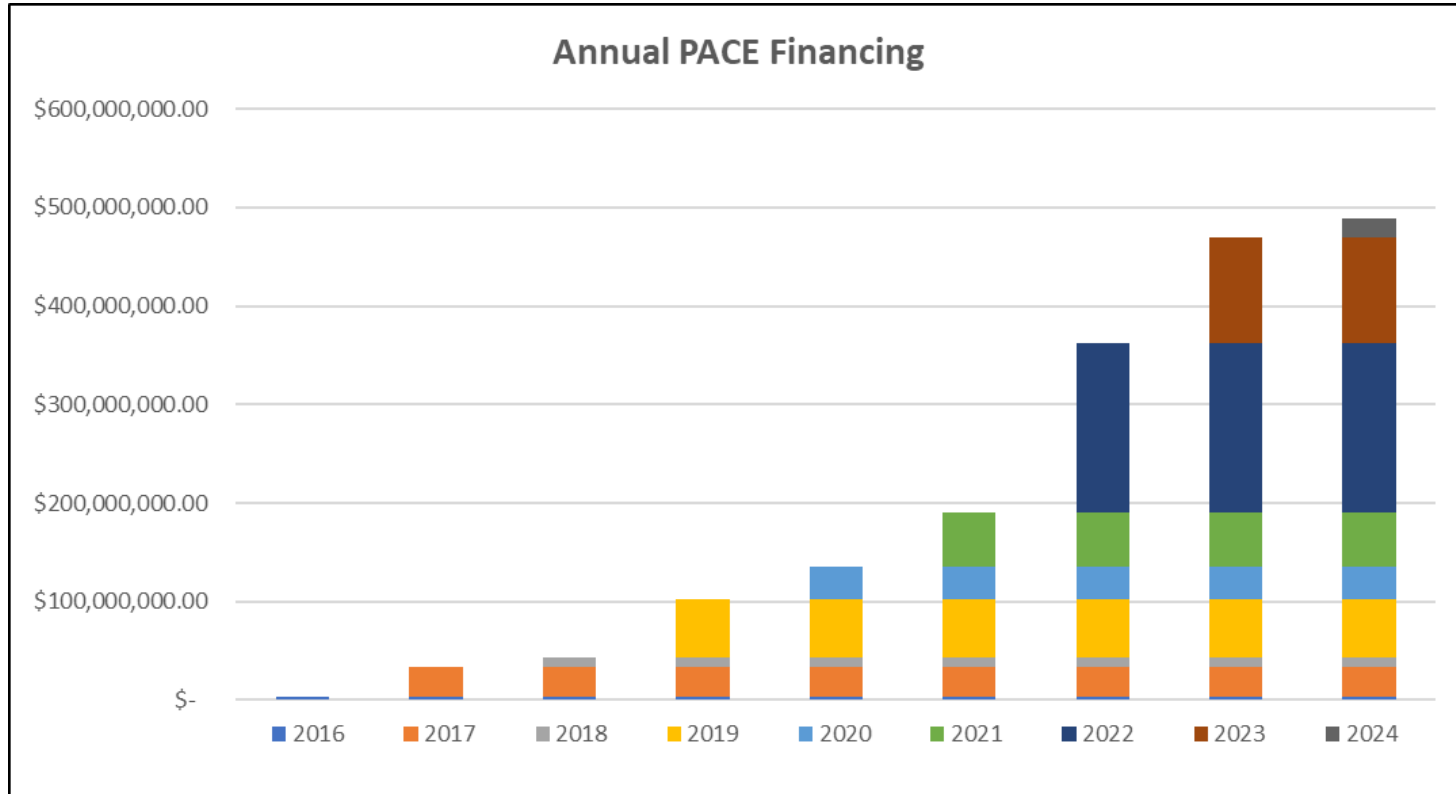
Email: msanchez@aacog.com

2700 NE Loop 410, Suite 101

San Antonio, Texas 78217



The Growing Texas PACE Market



102

PACE Programs

Established in Texas



87

Projects

Completed



\$ 497,581,510

Dollars

Invested



6,236

Jobs

Created



46,975

CO2 Reduced

(tonnes/yr)



82,081,380

Energy Saved

(kWh/yr)



80,324

Natural Gas Saved

(mmBTU/yr)



121,711,870

Water Saved

(Gal/yr)