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New report: PACE financing can help scale water reuse projects in Texas

AUSTIN, TEXAS – September 15, 2021 – AUSTIN, Texas – Water reuse projects are a proven solution to the state’s water availability challenges, but many more could be built if developers took greater advantage of a statewide financing program for water and energy conservation improvements known as PACE (Property Assessed Clean Energy).

So concludes [a new report by Texas Water Trade and the National Wildlife Federation](#) highlighting the vast potential – as well as the challenges – of using PACE to finance the upfront capital costs of water reuse, including development of onsite infrastructure for capturing and reusing non-potable water such as rainwater and air conditioner condensate as well as connecting and reusing a utilities’ recycled wastewater (known as purple pipe infrastructure).

“Increasing the development of water reuse projects is an urgent priority in water-stretched Texas, and PACE financing is a viable tool to make it happen,” said Sharlene Leurig, CEO of the nonprofit group, Texas Water Trade, who co-authored the report. “It’s especially attractive because it enables developers to build these projects without having to use their own upfront capital.”

“We’ve seen water reuse projects work successfully in Texas, but financial barriers are preventing widescale adoption,” added Jennifer Walker, deputy director, Texas Coast and Water Program, at the National Wildlife Federation, another report co-author. “Utilities, water planners and state agencies should take a closer look at PACE as a tool to help communities meet their future water needs.”

“This is an exciting report that illustrates both the importance and the viability of water reuse projects and a path for enabling them with low-cost financing,” said Charlene Heydinger, president of the Texas PACE Authority “We look forward to working with Texas Water Trade and the National Wildlife Federation to promote this important water conservation financing tool as a key part of the PACE financing toolbox.”

Since being established by the Texas Legislature in 2013, PACE has financed more than \$155 million of traditional energy efficiency and water efficiency improvements across Texas. But little or none of that financing has been spent on water reuse that is seen as a key water supply strategy as the state’s population swells and the climate gets hotter and drier.

The state's latest [water plan](#) projects that direct non-potable water reuse could yield as much as 180,000 acre-feet of water – enough to fill nearly 90,000 Olympic-sized pools – every year by 2030. [Austin's](#) 100-year water plan estimates that nearly a third of the city's future water supplies could be achieved with water reuse, much of it from buildings that capture and repurpose non-potable water onsite.

Such projects are becoming more commonplace, especially in San Antonio and Austin, which offer attractive financial incentives for water reuse – as much as \$500,000 per project. Among the recent examples: Credit Human's new headquarters in San Antonio is outfitted with a 139,000-gallon cistern that collects and reuses rainwater and AC condensate – a key reason why the 12-story building uses 97 percent less potable water than comparable structures; in Austin, the residential skyscraper, the Austonian, the Central Library and Permitting and Development Center are reusing rainwater, condensate and even wastewater, thereby extending the city's primary drinking water supplies from the Colorado River and Highland Lakes.

Yet, even as these efforts are achieving water-saving gains and long-term value for property owners, widescale adoption of water reuse statewide is not happening quickly enough. And a big reason why is the high upfront capital costs that must be absorbed by developers and building owners.

"Water reuse is a critical part of Austin's water future, and we've already seen important successes, both in commercial and non-commercial properties," said Kevin Critendon, assistant director, Environmental, Planning and Development at Austin Water. "But we still need to make it easier for developers to capitalize these projects. PACE financing, combined with the City's new financial incentives for water reuse projects, will certainly help."

Today's report makes clear that PACE financing can help developers get around this financial roadblock. "The core strength of PACE financing is that it allows property owners to invest in energy and water improvements with little to none of their own upfront capital," the report says, noting that the utility cost savings typically exceed the amounts needed to repay the PACE loan. However, the report's optimism comes with an important caveat: the economics of water reuse financing can be challenging due to the lower cost savings of water reuse compared to energy efficiency measures – a testament to water being broadly underpriced as a commodity.

Working with the Texas PACE Authority and Austin Water, the report modeled the cost savings of various water reuse approaches for commercial and multi-family residential buildings to determine whether water reuse projects could meet stringent PACE financing criteria. The modeling showed that the economics of these projects may require either utility rebates (as San Antonio and Austin are already doing) or co-financing with energy efficiency measures to qualify for PACE financing.

The study offers specific recommendations to help more water reuse projects qualify for PACE and other types of financing, among those:

- **Combine Water Reuse and Energy Efficiency Efforts:** By packaging water reuse and energy efficiency measures together, developers will have a better chance of securing PACE financing for water reuse projects.

- **Develop Incentives for Water Reuse:** Municipalities and utilities should consider offering financial incentives for water reuse, such as customer rebates or reduced utility connection fees. Such incentives are a win-win for utilities and ratepayers because they put commercial capital to work to develop important water supplies, thus sparing utility ratepayers from paying for other, more expensive new drinking water supplies that may be needed.
- **Municipal and School Projects Can Finance Water Reuse with LoanSTAR:** PACE financing is restricted to private real estate holdings, making public properties ineligible. However, the Texas Comptroller of Special Accounts oversees a similar program, LoanSTAR, for properties owned by the state, local governments and other public entities. LoanSTAR offers lower financing costs than PACE loans, making water reuse an ideal candidate for this financing.
- **Legislature Should Expand PACE to include Greenfield projects:** PACE financing in Texas is limited to previously developed building sites. While this does not prevent PACE from being used in existing buildings – building renovations and new-builds on previously developed land are both eligible– it still excludes developments that are being done on so-called Greenfield sites. The Legislature should expand PACE to allow for such projects.

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