



Make Way for C-PACE Funding in Illinois:

*Strategic State Support Provided
by
Illinois Finance Authority*

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What is C-PACE?

In Illinois, counties, cities, and villages establish Commercial Property Assessed Clean Energy programs so commercial property owners in their communities can avail themselves to the taxable municipal bond market to economically finance or refinance up to 100% of their energy efficiency, renewable energy, and water conservation projects on a long-term basis with a Capital Provider (i.e., Bondholder).



Note: In Illinois, residential PACE is not currently enabled by law.

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How C-PACE Works

- ❖ Commercial property owner voluntarily executes a PACE assessment contract with local unit of government to finance an energy project. Proceeds of a bond issue by a unit of local government that has established itself as a “PACE area” fund the energy project.

- ❖ PACE lien is recorded and attached to the commercial property owner’s property tax bill. Like any other property tax, a PACE lien is senior to a commercial mortgage.
 - Mortgage holder consent is required.
 - PACE repayment obligation transfers to a new property owner upon the sale of the improved commercial property (along with the ongoing energy savings).
 - Bondholder(s) entitled to same rights and remedies that a local unit of government has regarding delinquent property taxes.
 - Allows PACE financing to exceed standard commercial lending terms that are otherwise typically only 5-7 years.

- ❖ PACE financing term = useful life of energy project (~20 years)





Statutory Qualifications

- ❖ Required: an assessment of the existing water or energy use and a modeling of expected monetary savings have been conducted for any proposed PACE project.
- ❖ PACE assessment contracts cannot exceed 25% of the greater of (i) the assessed value of the property or (ii) the appraised value of the property, as determined by a licensed appraiser.
 - Appraisal must not be older than 12 months
- ❖ No delinquent: (i) taxes, (ii) special assessments (including any existing assessments under a PACE program), or (iii) water or sewer charges on the commercial property
- ❖ No involuntary liens on the commercial property, including, but not limited to, construction or mechanics liens; no environmental or eminent domain proceedings; and commercial property must not be an asset to a current bankruptcy
- ❖ No pending real estate legal actions against record owner of commercial property. Record owner must also be current on all mortgage debt on the commercial property and not have filed for bankruptcy in the last 2 years.



C-PACE History in IL

- ❖ August 11, 2017: Illinois Property Assessed Clean Energy Act becomes law.
 - Public Act 100-0077 (HB2831)

- ❖ February 15, 2018: IFA Board of Directors adopts a Resolution to assist local units of government with C-PACE financing due to 6 months of failed C-PACE implementation.

- ❖ April 17, 2018: IFA introduces PACE Act trailer bill (SB2773).
 - Passed Senate May 2, 2018
 - Passed House May 30, 2018

- ❖ August 19, 2018: PACE Act trailer bill (SB2773) becomes law.
 - Public Act 100-0980 (SB2773)
 - Effective January 1, 2019

- ❖ February 14, 2019: IFA finalizes standardized bond documents and launches PACE bond financing services for all Illinois counties, cities, and villages.



Springfield, IL



Implementation

- ❖ As recommended by the U.S. Department of Energy’s “*Lessons in Commercial PACE Leadership: The Path from Legislation to Launch*” dated February 2018, a strategic state support model is beneficial as the state develops standard materials, protocols and offerings; localities use these as they see fit.



- ❖ PACE Act trailer bill (SB2773) provides path for successful C-PACE implementation in Illinois by utilizing a strategic state support model to be provided by IFA.





About IFA

- ❖ IFA is a body politic and corporate governed by a 15-person Board of Directors appointed by the Governor and confirmed by the Senate.

- ❖ IFA receives no taxpayer support or state appropriation for operating expenses.
 - Revenue generated from fee income and investment earnings
 - Approximately 13 full-time staff; annual budget of ~\$4.0 million

- ❖ Principal IFA office location is in downtown Chicago.
 - Satellite offices in Springfield and Mt. Vernon

- ❖ As of December 31, 2018, IFA's bonds issued on behalf of for-profit, non-profit, and local government borrowers totaled more than \$24.50 billion in outstanding principal.
 - In Fiscal Year 2018 alone, IFA successfully closed and funded over 42 bond transactions totaling more than \$3.17 billion



State Support Model

- ❖ Counties, cities, and villages can assign assessment contracts to IFA to finance PACE projects on their behalf, which offers the following benefits:
 - **STANDARDIZED**
 - Standardized PACE bond documents improve capital flow by making the secondary market more accessible for capital providers.
 - Reduces local program administrator start-up costs and legal fees.
 - **EFFICIENT**
 - PACE bonds issued by an experienced, existing statewide conduit bond issuer diminishes program administrator and capital provider operating costs vs. bond financing by a variety of local jurisdictions across the state.
 - Local unit of government still earns a fee while retaining accountability with its procured program administrator.
 - **AFFORDABLE**
 - No IFA application fee upon assignment of an assessment contract.
 - Open market model allows transaction participants to engage their own financing team, including bond counsel and capital providers.
 - No procurement issues



Conduit Bond Issuance

- ❖ Historically, IFA has served as the primary statewide conduit bond issuer for the public financing of projects voluntarily undertaken by private borrowers (healthcare systems, educational institutions, small manufacturers, etc.).
 - State statutory general bond debt limit of \$28.15 billion



- ❖ Public Act 100-0919 (SB0043) clarified IFA has an additional \$2.0 billion of state statutory bonding authorization for PACE projects, separate and apart from \$28.15 billion general bond debt limit noted above.
 - Judicial validation of PACE Bonds issued by IFA not required
 - PACE bonds issued by IFA are taxable municipal bonds



Warehouse Fund

- ❖ IFA is examining concepts whereby a portion of its unrestricted balance sheet assets can be dedicated for interim funding small energy projects that are otherwise uneconomical for purposes of long-term bond financing.

- WAREHOUSE FUND GOALS

- Provide borrowers affordable and on-demand funding rather than have small energy projects experience delay during an aggregation period in anticipation of a pooled bond issuance.
- Address policy concerns that arise if (1) a capital provider is unable to originate enough assessment contracts in a program administrator's market area to issue a pooled bond, or (2) a commercial bank originates an assessment contract as a service to an existing client but does not wish to otherwise participate in the Illinois PACE market.



- ❖ Upon a critical mass of assessment contracts reaching economies of scale for bond financing, IFA will issue a pooled PACE bond.
 - Borrowers with small energy projects pay a reduced, pro-rated costs of issuance.
 - Ensures PACE available for every small business in established PACE areas.



C-PACE Launch!

- ❖ Given the state support model and contemplated warehouse fund offered by IFA, local units of government began the first steps of procuring program administrators to develop and establish PACE programs in their communities as well as adopt the PACE ordinance prepared by IFA.
 - July 17, 2018: DuPage County approved Illinois Energy Conservation Authority as Program Administrator
 - July 25, 2018: City of Chicago approved Loop-Counterpointe PACE LLC as Program Administrator
 - August 14, 2018: Kane County approved Illinois Energy Conservation Authority as Program Administrator



REQUEST FOR PROPOSALS (RFP) For
PACE Program Administrator
Issued by:
City of Chicago
(Department of Planning and Development)



**Kane Energy
Efficiency Program
(KEEP)**

- October 31, 2018: City of Chicago approves ordinance establishing city limits as PACE area, authorizes IFA to issue PACE bonds on its behalf.



Questions?

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