



# 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 and municipalities establish Commercial Property Assessed Clean Energy programs so commercial property owners in their communities can avail themselves to the 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 enabled by law.

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# How C-PACE Works

- ❖ Record owner of a commercial property voluntarily executes a PACE assessment contract with county or municipality that has established itself as a “PACE area” to finance an energy project. Proceeds of a bond issue fund the applicable energy project.
  
- ❖ PACE lien is recorded and attached to the record owner’s property tax bill. Like any other property tax, the PACE lien is senior to a commercial mortgage.
  - Mortgage holder consent is required.
  - PACE repayment obligation transfers to any 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
  
- ❖ PACE financing term = useful life of energy project (~20 years)





# Statutory Qualifications

- ❖ An evaluation of the existing water or energy use and a modeling of expected monetary savings must be conducted for any proposed energy project.
- ❖ PACE assessment contracts cannot exceed 25% of the greater of (i) the assessed value of the property by the county assessor, (ii) the market value of the property, as determined by a licensed appraiser, or (iii) *pending legislative approval*, the value of the property calculated using either an automated valuation model provided by an independent third-party or broker price opinion.
- ❖ 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 in a current bankruptcy proceeding
- ❖ 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.



# Implementation

- ❖ August 11, 2017: Illinois Property Assessed Clean Energy Act (50 ILCS 50/) enacted.
  - Public Act 100-0077 (HB2831)
  - Deemed cost-prohibitive at the local level by program administrators and capital providers; counties and municipalities lacked subject-matter expertise and resources.



- ❖ 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.
- ❖ February 15, 2018: In response to 6 months of failed implementation, IFA Board of Directors adopts a Resolution conveying its support to develop PACE financing options.



# About IFA

- ❖ 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.).



- ❖ A body politic and corporate with statewide jurisdiction, IFA is governed by a 15-person Board of Directors appointed by Governor and confirmed by Senate.
  - Principal office in downtown Chicago; satellite offices in Springfield and Mt. Vernon
- ❖ IFA does not receive state appropriations or taxpayer support for operating expenses.
  - Revenue generated from fee income and investment earnings
  - Approximately 13 full-time staff; annual budget of ~\$4.0 million



# PACE Act Trailer Bill

- ❖ April 17, 2018: IFA introduces PACE Act trailer bill (SB2773).
  - Passes Senate May 2, 2018
  - Passes House May 30, 2018
  
- ❖ August 19, 2018: Governor signs Public Act 100-0980 (SB2773).
  - Effective January 1, 2019
  
- ❖ Provides that local units of government may assign assessment contracts to IFA for purposes of bond financing, and makes new construction financeable under property assessed clean energy programs.
  
- ❖ Permits interim financing (e.g. construction financing, aggregation of small energy projects for economical PACE bond issuance, etc.) of energy projects secured by assessment contracts in anticipation of bond financing.
  - ✓ Capital provider warehouse account = 36-month maximum dwell time
  - ✓ IFA or governmental unit fund = unlimited dwell time



*Springfield, IL*



# Conduit Bond Issuance

- ❖ 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.
  - IFA state statutory general bond debt limit = \$28.15 billion
  - In Fiscal Year 2018 alone, IFA successfully closed and funded over 42 bond transactions totaling more than \$3.17 billion.



- ❖ February 14, 2019: IFA begins offering conduit PACE bond financing services.
  - IFA state statutory PACE bond limit = \$2.0 billion
    - ✓ PACE bonds are issued by IFA under a direct-purchase structure; each capital provider funds an unlimited number of energy projects it originates under its own separate, distinct trust.
    - ✓ Capital providers can retain PACE bonds as an investment (i.e. portfolio lenders) or sell PACE bonds into the secondary market (securitization).



# State Support Model

## ❖ **STANDARDIZATION**

- Standardized PACE bond documents (drafted at IFA's expense) improve capital flow by making secondary market more accessible for capital providers.
- Significantly reduced program administrator start-up and legal costs.

## ❖ **EFFICIENCY**

- PACE bond approval and issuance by an experienced, existing statewide conduit bond issuer diminishes capital provider operating costs vs. PACE bond approval and issuance by a variety of counties and municipalities located throughout the state.
- PACE Bond Resolution adopted by IFA Board of Directors for an applicable capital provider provides 3 years of authorization to fund energy projects in all PACE areas in the state; specific project approval and bond issuance delegated to IFA staff.

## ❖ **AFFORDABILITY**

- No application fee upon governmental unit assigning assessment contract to IFA.
- Open market model allows transaction participants to engage their own financing team; no procurement issues.



# Warehouse Fund

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

- **WAREHOUSE FUND GOALS**

- ✓ Provide borrowers on-demand funding and offer capital providers an affordable cost of capital so small energy projects do not experience delay during an aggregation period in anticipation of a pooled PACE bond issuance.
- ✓ Address policy concerns in the event (1) a capital provider is unable to originate enough assessment contracts in a program administrator's market to economically issue a pooled PACE 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 in a program administrator's market reaching economies of scale in the Warehouse Fund for bond financing, IFA would 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 offered by IFA, counties and municipalities began the first steps of engaging program administrators to develop PACE programs and establish PACE areas in their communities .
  - 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 IFA's model local ordinance establishing city limits as a PACE area and authorizing IFA to issue PACE bonds on its behalf.



# Questions?

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