

COMMERCIAL PROPERTY ASSESSED CLEAN ENERGY ("C-PACE") FINANCING:



STRATEGIC STATE SUPPORT
OFFERED TO MUNICIPALITIES BY THE
ILLINOIS FINANCE AUTHORITY

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What is C-PACE Financing?

Under Illinois law, cities, villages, and incorporated towns (each a “Municipality”) may create PACE Areas at the request of for-profit and non-profit owners of commercial, industrial, and multi-family (of 5 or more units) properties. By creating PACE Areas, Municipalities can offer long-term, fixed-rate financing or refinancing for up to 100% of the costs of property owners’ respective ***electric vehicle charging station projects, energy efficiency improvement projects, renewable energy improvement projects, resiliency improvement projects, and water use improvement projects*** (each an “Energy Project”).

As a more economical alternative to conventional financing or mezzanine debt, bonds or notes issued by the Illinois Finance Authority to fund Energy Projects for commercial real estate owners and developers are purchased by approved Capital Providers or their designated transferees at affordable, low interest rates.





Public Purpose

- ❖ Energy Projects permanently affixed to private property (including new construction) constitute a ‘valid public purpose’ eligible for C-PACE financing in Illinois, as follows:
 - Electric Vehicle (“EV”) Charging Stations
 - ✓ Equipment and related components
 - Energy Efficiency Improvements
 - ✓ Decrease energy consumption or enable more efficient use of electricity, natural gas, propane, etc.
 - Renewable Energy Improvements
 - ✓ Wind energy, solar thermal energy, geothermal energy, photovoltaic cells and panels, etc. that benefit the property
 - Resiliency Improvements
 - ✓ Improve durability of infrastructure, e.g. flood mitigation, microgrids, etc.
 - Water Use Improvements
 - ✓ Water conservation, including green roofs, porous pavement, etc.

- ❖ Additionally, C-PACE financings in Illinois can fund replacement of any lead pipe service lines supplying water to commercial real estate due to health concerns for tenants and employees at such locations.



Springfield, IL



Assessment Financing

- ❖ Eligible property owners in a PACE Area **VOLUNTARILY** enter into an Assessment Contract with the Municipality, and the issuance of a bond or note secured by the applicable Municipal Assessment Contract funds the Energy Project. Such bond or note is repaid through the special assessment imposed on the applicable property pursuant to the Municipal Assessment Contract, and the related bond or note is never a general or moral obligation of neighboring taxpayers.



- ❖ The Municipal Assessment Contract reflecting the business terms and conditions of the proposed financing is recorded with the county recorder by a title company, thus constituting a lien against the applicable property (similar to a mortgage).
 - Lien runs with the property until the special assessment is paid in full
 - Capital Providers entitled to delegable powers and rights the applicable Municipality has regarding delinquent property taxes
 - Capital Providers or their Servicers bill and collect the special assessments similar to a conventional loan between a borrower and bank, and keep 100% of any default interest



Low-Cost Alternative

- ❖ Unlike traditional financing sources, C-PACE financings offer:
 - Fixed interest rates for terms of up to 30 years (and prospectively up to 40 years for certain Resiliency Improvements), enabling special assessments to be more than offset by the reduced utility and maintenance expenses over the useful life of an Energy Project
 - ✓ *Note: In contrast, commercial banks typically only offer loans at fixed interest rates for terms of 5, 7, or 10 years with higher annual debt service payments and/or large balloon payments*
 - Improved cash flows and related metrics such as Net Operating Income
 - Ability to transfer any special assessment (along with the ongoing savings) to any new property owner upon the sale of the improved property
 - Up to 100% financing of Energy Project-related costs to preserve capital of property owners and displace more expensive mezzanine debt for developers

- ❖ Moreover, C-PACE financings are non-accelerating upon a default or late payment.
 - Amounts due under a Municipal Assessment Contract survive any such event and continue until paid in full



Sponsor Requirements

- ❖ A property owner must adhere to the following statutory requirements in order to fund an Energy Project, in whole or in part, with C-PACE financing in Illinois:
 - No delinquent taxes, special assessments, or water or sewer charges on the property
 - No notices of default or other evidence of property-based debt delinquency have been recorded and not cured
 - Property owner is current on all mortgage debt on the property, the property owner has not filed for bankruptcy in the last 2 years, and the property is not an asset in a current bankruptcy proceeding



- ❖ Special assessments are capitalized over the useful life of the Energy Project.
 - ✓ Note: Record owners should always consult with their accountant



Lending Considerations

- ❖ C-PACE financings cannot exceed 25% of the value of the property as determined by an appraisal conducted by a licensed appraiser.
 - ✓ *Note: The Illinois Finance Authority additionally requires that such appraisal reports be prepared or co-signed by a State certified general real estate appraiser, as defined in the Real Estate Appraiser Licensing Act of 2002 (225 ILCS 458/1 et. seq.)*

- ❖ Evaluation of the existing water or energy use and a modeling of expected monetary savings must be conducted for any proposed Energy Efficiency Improvement, Renewable Energy Improvement, or Water Use Improvement (unless the Water Use Improvement is undertaken to improve water quality, e.g. *lead pipe removal*).

- ❖ Mortgage holder consent is required.
 - In a foreclosure scenario, only the past due portion of an assessment is senior to a mortgage holder's claim
 - ✓ *Note: Based on their experience and established commercial banking relationships, Capital Providers are best suited for working with a property owner's mortgage holder(s) in order to obtain consent*



Legislative History

- ❖ In 2017, the Property Assessed Clean Energy Act (50 ILCS 50/1 et seq.) was first enacted in Illinois.
 - Contemplated a limited or no State support model whereby State involvement was limited to adoption of enabling State legislation
 - Deemed cost-prohibitive at the local level by Capital Providers; Municipalities lacked subject-matter expertise and resources to create PACE Areas

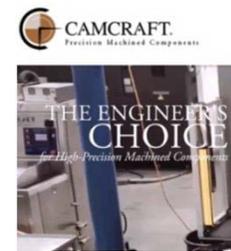


- ❖ As recommended by the U.S. Department of Energy’s “*Lessons in Commercial PACE Leadership: The Path from Legislation to Launch*” dated February 2018, a ‘Strategic State Support Model’ is beneficial as the State develops standard materials, protocols and offerings; localities use these as they see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



Market Access

- ❖ As a body politic and corporate created under the laws of the State of Illinois, the Illinois Finance Authority has historically served as the primary statewide conduit issuer for the public financing of projects voluntarily undertaken by private borrowers such as healthcare systems, educational institutions, small manufacturers, etc.



- ❖ Accordingly, the Illinois General Assembly adopted amendments to the Property Assessed Clean Energy Act in 2018 and 2019 so that that cities, villages, and incorporated towns in Illinois may permissively assign Municipal Assessment Contracts to the Illinois Finance Authority to assist market stakeholders.
- ❖ Now, the Illinois Finance Authority's C-PACE Strategic State Support Model offers Capital Providers an independent, nonpolitical marketplace for opted-in cities, villages, and incorporated towns in Illinois. In Cook County, the Illinois Finance Authority is also the exclusive conduit bond issuer for PACE programs operated by third parties on behalf of the City of Chicago and Village of Rosemont.



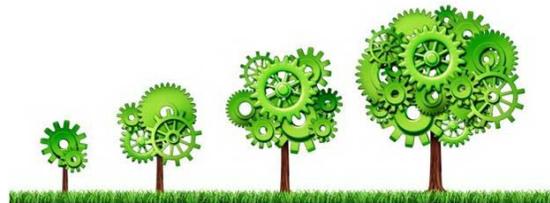
State Support Model

- ❖ The Illinois Finance Authority's Strategic State Support Model is available for all Municipalities in Illinois and based on three foundational principles:
 - **STANDARDIZATION**
 - ✓ Standardized legal and financing documents to significantly reduce PACE Area costs and create uniformity in the Illinois C-PACE market
 - ✓ Long-term bonds or notes issued by the Illinois Finance Authority as statewide conduit diminishes Capital Provider costs compared to disorderly issuance of bonds or notes by more than 1,297 Municipalities
 - **EFFICIENCY**
 - ✓ Each Resolution adopted by the Illinois Finance Authority to approve an eligible Capital Provider for its Strategic State Support Model allows the Capital Provider to fund Energy Projects in all PACE Areas throughout the state for incremental periods of 36 months
 - ✓ Approval of specific Energy Projects, and delivery of the related Issuance Certificate and bonds or notes, is delegated to staff for market expediency
 - **AFFORDABILITY**
 - ✓ Open market model allows C-PACE transaction participants to engage their own legal and financing teams



Municipal Opt-In

- ❖ To create a PACE Area, a city, village, or incorporated town adopts a local ordinance supplied by the Illinois Finance Authority to opt into the C-PACE Strategic State Support Model.
 - Includes a finding that the financing or refinancing of Energy Projects is a valid public purpose
 - Approves standardized (non-negotiable) form of Municipal Assessment Contract for all future Energy Projects that is acceptable as collateral for issuance of long-term bonds or notes by the Illinois Finance Authority
 - Creates the territory of the PACE Area
 - ✓ Energy Project-based parcel(s) or jurisdictional boundaries of Municipality



- ❖ Capital Providers should contact the Illinois Finance Authority about Energy Projects once verbal awards are made for C-PACE financing to ensure there are no construction delays and interest rate commitments can be honored when requesting that the applicable Municipality opts in.



Funding

- ❖ On a parallel track with consideration and adoption of the Municipal opt-in ordinance, the Illinois Finance Authority adopts Resolutions to approve Capital Providers that are either institutional Accredited Investors or Qualified Institutional Buyers seeking to fund Energy Projects (if not already pre-approved).
 - State statutory C-PACE debt limit = \$2.0 billion



- ❖ Upon receipt of a Municipal Assessment Contract and related Assignment Agreement, the Illinois Finance Authority issues bonds or notes under a direct-purchase structure to the Energy Project's originating Capital Provider (or its designated transferee(s)).
 - Each Capital Provider may fund an unlimited number of Energy Projects it originates under its own distinct, statewide trust
 - Capital Providers may retain bonds or notes as an investment (i.e., portfolio lenders) or sell the bonds or notes to their secured investors in the secondary market (i.e., securitization)



Case Study #1 (Refi)

- ❖ \$4,500,000 Illinois Finance Authority Taxable PACE Revenue Bonds
 - Fixed-Rate Term: Not to exceed December 1, 2035 (i.e., approximately 15 years)
 - Project: Refinancing of costs related to installation of a commercial solar photovoltaic system for the benefit of an industrial pork processing plant located at 8295 Arenzville Road
 - Municipality: City of Beardstown, IL
 - Annual Impact:

Energy Savings:	3,802,585 kWh
Energy Utility Bill Savings:	\$222,460
Water Savings:	N/A
Water Bill Savings:	N/A





Case Study #2

- ❖ \$1,885,000 Illinois Finance Authority Taxable PACE Revenue Bonds
 - Fixed-Rate Term: Not to exceed December 1, 2046 (i.e., approximately 25 years)
 - Project: Costs related to installation of (i) attic and wall insulation, floor insulation above attached garages, and insulated windows, (ii) furnace and air conditioner systems, (iii) power vent or demand water heaters, (iv) high-efficiency water fixtures, and (v) LED lighting for the benefit of five, new 3-story multi-family buildings located at the northeast corner of 425 Bloom Street and 2625 Waukegan Avenue
 - Municipality: City of Highland Park, IL
 - Annual Impact:

Energy Savings:	81,670 kWh
Energy Utility Bill Savings:	\$62,066
Water Savings:	575,590 Gallons
Water Bill Savings:	\$13,525





FAQs

- ❖ What types of property qualify?
 - Any privately-owned commercial, industrial, non-residential agricultural, or multi-family (of 5 or more units) real property or any real property owned by a not-for-profit

- ❖ Is off-billing/collecting of special assessments permitted under the Property Assessed Clean Energy Act?
 - Yes, House Bill 3501 in 2019 specifically included language for the billing and collecting of Municipal Assessment Contracts by Capital Providers or third-party servicers

- ❖ What are the Capital Provider's options if there is a default under a Municipal Assessment Contract for C-PACE financing?
 - Both the Municipality and the Illinois Finance Authority are indemnified
 - At the direction of a Capital Provider or its Servicer, the county collector shall enforce the collection of the special assessments in the manner provided by law (similar to a default on property taxes)
 - Alternatively, any Capital Provider or its Servicer always has the legal option to pursue an accelerated judicial foreclosure under Article 9 of the State's Municipal Code



FAQs (continued...)

- ❖ What is the maximum fixed-rate term for a special assessment in a PACE Area?
 - Subject to any Capital Provider's underwriting limitations, typically up to 30 years but prospectively up to 40 years for certain Resiliency Improvements

- ❖ Does the Illinois Finance Authority offer a short-term warehouse lending facility?
 - Yes, interim financing is authorized pursuant to 50 ILCS 50/35(k) for those Capital Providers that find closing and conventionally funding Municipal Assessment Contracts through their creditors' warehouse accounts bestows flexibility upon their origination efforts prior to the issuance of bonds or notes by the Illinois Finance Authority to long-term, secured investors
 - Interim financing by a warehouse account allows Capital Providers to fund Energy Projects secured by one or more Municipal Assessment Contracts for 36 months or less from the date of recording of the applicable Municipal Assessment Contract
 - Short-term warehouse agreements with the Illinois Finance Authority for interim financings can obviate negative arbitrage or achieve economies of scale related to bond transaction fees



FAQs (continued...)

- ❖ What standardized documents does the Illinois Finance Authority provide?
 - Lender Notice and Consent
 - Municipal Opt-In Ordinance creating PACE Area
 - Form Assessment Contract approved by the Municipal Opt-In Ordinance
 - Assignment Agreement (assigning Municipal Assessment Contract to the Illinois Finance Authority)
 - Form Program Report for Capital Providers
 - Bond or Note Resolution for Capital Providers
 - ✓ Adopted by Illinois Finance Authority at monthly meetings
 - ✓ Capital Providers must either be institutional Accredited Investors or Qualified Institutional Buyers
 - Master Indenture and related Issuance Certificate(s)
 - Specimen Bond(s) or Note(s)
 - Issuer Closing Certificate and requisite Exhibits
 - Assurance Letter from Counsel to Illinois Finance Authority providing comfort
 - ✓ This is not the Opinion of Counsel

Questions?

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