



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 (“C-PACE”) 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 alternative energy improvement, energy efficiency improvement, renewable energy improvement, resiliency improvement, or water use improvement projects on a long-term basis with a Capital Provider (i.e., Bond Purchaser).



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

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Special Assessment

- ❖ Record owner of commercial property in a “PACE area” voluntarily enters into an assessment contract with a county or municipality, and a bond issue funds the project. PACE bonds are repaid through an assessment imposed on the commercial property pursuant to the assessment contract, and are never general or moral obligations of taxpayers.

- ❖ The special assessment is recorded and attached to the record owner’s property tax bill. Like any other property tax, the PACE lien is senior to the commercial mortgage.
 - Mortgage holder consent is required
 - Repayment obligation transfers to any new property owner upon the sale of the improved commercial property (along with the ongoing savings)
 - Capital Provider entitled to delegable powers and rights county or municipality has regarding delinquent property taxes

- ❖ Allows PACE financing to exceed standard commercial lending terms.
 - PACE financing term = useful life of project





Statutory Qualifications

- ❖ Term of an assessment cannot exceed the useful life of the project financed or refinanced under an assessment contract; provided that an assessment contract financing or refinancing multiple projects with varying lengths of useful life may have a term that is calculated in accordance with the principles established by the program report.
- ❖ Aggregate amount financed or refinanced under one or more assessment contracts cannot exceed 25% of the greater of (i) the value of the property as determined by the office of the county assessor or (ii) the value of the property as determined by an appraisal conducted by a licensed appraiser.



- ❖ 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*).



Implementation

- ❖ August 11, 2017: Illinois Property Assessed Clean Energy Act (50 ILCS 50/) enacted.
 - Public Act 100-0077 (HB2831)
 - Contemplated a limited or no state support model - state involvement limited to enabling legislation; programs locally or privately driven (the least inherently standardized model)
 - 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.



Experience Needed

- ❖ Historically, IFA as a statewide body politic and corporate has served as the primary conduit bond issuer for the public financing of projects voluntarily undertaken by private borrowers such as healthcare systems, educational institutions, small manufacturers, etc.



- ❖ As of December 31, 2018, IFA's bonds issued on behalf of for-profit, not-for-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
 - IFA state statutory general bond debt limit = \$28.15 billion
- ❖ **February 15, 2018:** In response to 6 months of failed PACE implementation, IFA Board of Directors adopts a Resolution conveying its desire to develop PACE financing options for governmental units based on its market experience.



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

- ❖ SB2773 provides that counties and municipalities may permissively assign assessment contracts to IFA for purposes of PACE bond financing, and makes new construction financeable under property assessed clean energy programs.

- ❖ SB2773 also permits interim financing secured by assessment contracts in anticipation of PACE bond financing for construction financing, aggregation of small projects, etc.
 - Capital provider warehouse account = 36-month maximum dwell time
 - IFA or governmental unit warehouse fund = unlimited dwell time



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State Support Model

- ❖ February 14, 2019: Six weeks after the effective date of the PACE Act trailer bill, IFA unveils its strategic state support model based on three foundational principles:
 - **STANDARDIZATION**
 - ✓ Standardized PACE bond documents (*provided by IFA*) to significantly reduce Program Administrator legal costs and improve flow of capital by making secondary bond market more accessible for Capital Providers
 - ✓ Issuance of PACE bonds by IFA as an experienced, statewide conduit bond issuer to diminish Capital Provider operating costs vs. disorderly issuance of PACE bonds by a variety of counties and municipalities
 - **EFFICIENCY**
 - ✓ Each PACE Bond Resolution adopted by IFA Board of Directors will authorize applicable Capital Provider to purchase PACE bonds to fund projects in *all PACE areas* throughout the state for incremental periods of 36 months
 - ✓ Approval of specific projects originated by Capital Provider and delivery of related Issuance Certificate and PACE bonds delegated to IFA staff
 - **AFFORDABILITY**
 - ✓ Open market model to allow transaction participants to engage their own financing team; no IFA application fees



Getting Started

- ❖ County or municipality adopts local ordinance selecting a Program Administrator to administer a PACE program on its behalf at no cost to taxpayers.
 - Program Administrator fees are transaction-based
 - Competitive procurement process and contractual relationship with county or municipality not necessary (e.g. Lean & Green Michigan™ model)
 - Capital Providers originating a shovel-ready project in a rural county or municipality have affiliates or partners willing to be Program Administrators

- ❖ County or municipality adopts local PACE ordinance (*provided by IFA*) approving the program report provided by the Program Administrator to establish the PACE program.
 - Describes the territory within the PACE area
 - ✓ Jurisdictional boundaries or project-based parcel
 - Includes form of assessment contract (*provided by IFA*)
 - Meets basic statutory requirements

- ❖ On a parallel track, IFA Board of Directors adopts PACE Bond Resolutions for Capital Providers.





PACE Bond Financing

- ❖ Once a PACE program is launched and operating, counties and municipalities permissively assign assessment contracts originated by Capital Providers to IFA in order to utilize IFA's standardized, efficient, and affordable conduit PACE bond financing services.
 - IFA state statutory PACE bond limit = \$2.0 billion



- ❖ Upon receipt of each project's executed assessment contract and related assignment agreement (*provided by IFA*), IFA issues PACE bonds under a direct-purchase structure to the project's originating Capital Provider.
 - Each Capital Provider funds an unlimited number of projects it originates under its own separate, distinct trust
 - Capital Providers retain PACE bonds as an investment (i.e. portfolio lenders) or sell PACE bonds into the secondary bond market (i.e. securitization)



C-PACE Launch!

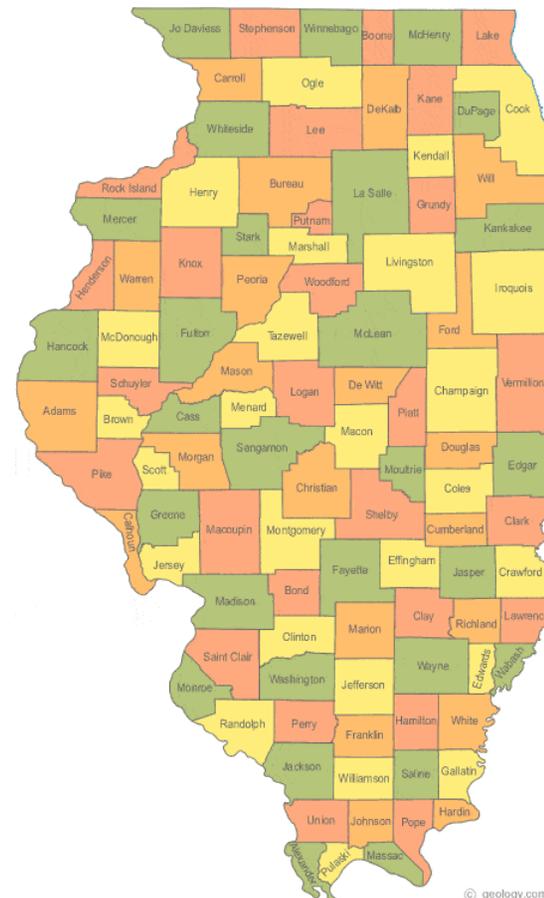
❖ Based on the strategic state support model developed by IFA, the following counties and municipalities have taken steps necessary to launch and operate PACE program in their communities:

▪ **LAUNCHED PACE PROGRAM**

- ✓ City of Chicago
- ✓ DuPage County

▪ **PROGRAM IN-DEVELOPMENT**

- ✓ Kane County
- ✓ Cook County





Technical Rewrite

- ❖ May 17, 2019: IFA introduces PACE Act technical rewrite (HB3501).
 - Passes Senate May 24, 2019
 - Passes House June 1, 2019

- ❖ **Governor's signature pending.**
 - Immediate effective date

- ❖ HB3501 is a technical rewrite of the PACE Act necessary to bring the statute up to standard with comparable Illinois special assessment laws in anticipation of closing the first Illinois PACE bond transactions.

- ❖ By conforming provisions of the Property Assessed Clean Energy Act to provisions found in existing Illinois special assessment laws and eliminating ambiguity throughout the Act, HB3501 provides crucial assurance to the market that C-PACE transactions can be capably executed, attracting hundreds of millions of dollars of private capital throughout the state as a result.



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Resiliency + Lead Pipes

- ❖ HB3501 broadens the scope of the Property Assessed Clean Energy Act to include the financing of “resiliency improvements” in order to safeguard commercial properties against natural disasters.
 - “Resiliency improvement” means any fixture, product, system, equipment, device, material, or interacting group thereof intended to increase resilience or improve the durability of infrastructure, including but not limited to, seismic retrofits, flood mitigation, fire suppression, wind resistance, energy storage, microgrids, and backup power generation



- ❖ Additionally, in response to ongoing public health considerations, HB3501 expands the definition of “water use improvement” to include the financing of lead pipe replacement in the supply of water to commercial properties due to health concerns for tenants and employees at such locations.



Warehouse Fund

- ❖ Finally, pursuant to the foundational principles of IFA's strategic state support model, IFA is developing a complementary product whereby its unrestricted assets can be dedicated to interim funding small projects that are otherwise uneconomical for purposes of long-term PACE bond financing.
- ❖ The contemplated Warehouse Fund and related standardized documents will provide borrowers on-demand funding and offer Capital Providers an affordable cost of capital so small projects do not experience delay during an aggregation period in anticipation of pooled PACE bond issuance.
 - Request for Comments published on IFA website
 - ✓ Due: **June 30, 2019**
- ❖ Upon a critical mass of assessment contracts in a Program Administrator's market reaching economies of scale in the Warehouse Fund for PACE bond financing, IFA issues a pooled PACE bond.
 - Borrowers with small projects pay only a reduced, pro-rated costs of issuance
 - Assessment contracts are never cross-collateralized or cross-defaulted





Questions?

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