



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 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 fixed-rate, long-term basis with a Capital Provider (i.e., Bond Purchaser).



Note: In Illinois, Residential PACE (“R-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 PACE bond issue funds the project. PACE bonds are repaid through an assessment imposed on the commercial property pursuant to the Assessment Contract, and PACE bonds 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: Property Assessed Clean Energy Act (50 ILCS 50/) enacted in Illinois.
 - 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

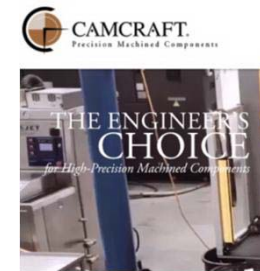


- ❖ As recommended by the U.S. Department of Energy's "*Lessons in Commercial PACE Leadership: The Path from Legislation to Launch*" dated February 2018, a strategic state support model is beneficial as the state develops standard materials, protocols and offerings; localities use these as they see fit.



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 June 30, 2020, IFA's bonds issued on behalf of for-profit, not-for-profit, and local government borrowers totaled more than \$24.67 billion in outstanding principal.
 - In Fiscal Year 2020 alone, IFA successfully closed and funded over 37 bond transactions totaling more than \$1.78 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 adopted 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 introduced PACE Act trailer bill (SB2773).
 - Passed Senate May 2, 2018
 - Passed House May 30, 2018

- ❖ August 19, 2018: Governor signed Public Act 100-0980 (SB2773).
 - Effective January 1, 2019

- ❖ SB2773 provided that counties and municipalities may permissively assign Assessment Contracts to IFA for purposes of PACE bond financing and made new construction financeable under property assessed clean energy programs.

- ❖ SB2773 also permitted 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



Springfield, IL



State Support Model

- ❖ February 14, 2019: Six weeks after the effective date of the PACE Act trailer bill, IFA unveiled its strategic state support model based on three foundational principles:
 - **STANDARDIZATION**
 - ✓ Standardized PACE documents 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 PACE ordinance to:
 - Designate a Program Administrator to administer a PACE program on its behalf
 - ✓ No cost to local taxpayers
 - ✓ Competitive procurement process and contractual relationship with county or municipality not necessary (e.g. Lean & Green Michigan™ model) as Program Administrator fees are strictly transaction-based
 - Describe the territory within the PACE area
 - ✓ Jurisdictional boundaries or project-based parcel
 - Approve the Program Administrator's Program Report
 - Approve the form of Assessment Contract

- ❖ Capital Providers originating a shovel-ready project in a rural county or municipality have affiliates or strategic partners willing to be Program Administrators.

- ❖ On a parallel track, IFA Board of Directors adopts PACE Bond Resolutions for Capital Providers that are either Accredited Investors or Qualified Institutional Buyers.





PACE Bond Financing

- ❖ Once a PACE program is launched and operating upon adoption of the local PACE ordinance, 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 Assessment Contract and related Assignment Agreement, IFA issues PACE bonds under a direct-purchase/private placement structure to the project's originating Capital Provider (or its Designated Transferees).
 - 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!

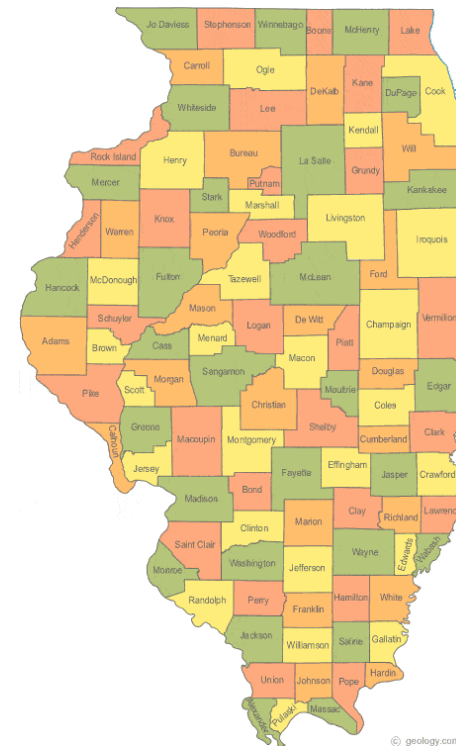
- ❖ Following development of IFA's strategic state support model, various counties and municipalities created PACE areas in their communities:

- **COUNTIES**

- ✓ DuPage County
- ✓ Kane County
- ✓ McHenry County

- **MUNICIPALITIES**

- ✓ City of Chicago (Cook County)
- ✓ City of Fairview Heights (St. Clair County)
- ✓ Village of Rosemont (Cook County)
- ✓ City of Markham (Cook County)
- ✓ City of Beardstown (Cass County)



- ❖ Please visit <https://www.il-fa.com/programs/c-pace> for an up-to-date listing.



Technical Rewrite

❖ May 17, 2019: IFA introduced PACE Act technical rewrite (HB3501).

- Passed Senate May 24, 2019
- Passed House June 1, 2019

❖ July 29, 2019: Governor signed Public Act 101-0169 (HB3501).

- Effective immediately



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- ❖ 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 PACE transactions can be capably executed and properly enforced, attracting hundreds of millions of dollars of private capital throughout the state as a result.



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.



Case Study #1

- ❖ \$21,250,000 Illinois Finance Authority Taxable Property Assessed Clean Energy Revenue Bonds (ChicagoPACE), Series 2019A
 - Dated Date: November 8, 2019
 - Project: Rehabilitation of 186,973 sq. ft. located on the 5 upper floors of 208 South LaSalle Street, Chicago, IL to be known as The Reserve Hotel
 - Governmental Unit: City of Chicago
 - Annual Impact:

Energy Savings:	954,546 kWh and 4,875 therms
Water Savings:	2,272,700 Gallons

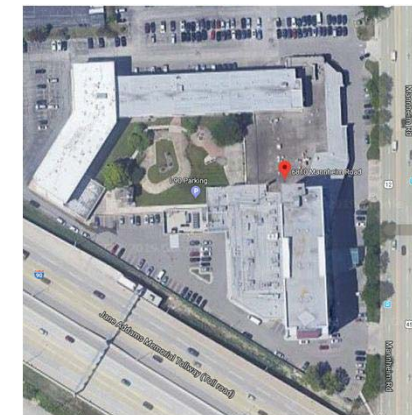




Case Study #2

- ❖ \$19,990,000 Illinois Finance Authority Taxable Property Assessed Clean Energy Revenue Bonds (SFA Partners, LLC), Series 2019A
 - Dated Date: December 11, 2019
 - Project: Rehabilitation of 365,032 square feet or 8.38 acres located at 6810 Mannheim Road, Rosemont, IL for three hotels and one restaurant
 - Governmental Unit: Village of Rosemont
 - Annual Impact:

Energy Savings:	2,681,625 kWh and 40,899 therms
Water Savings:	134,167 Gallons





FAQs

- ❖ Does Prevailing Wage apply to PACE projects?
 - According to the Illinois Department of Labor, projects that receive funds from a PACE financing qualify as “public works.” A private project that is funded by means of PACE financing through the issuance of PACE bonds by a governmental unit or the Illinois Finance Authority is covered by the Prevailing Wage Act. Similarly, interim financing of a private project secured by one or more assessment contracts under the PACE Act is covered by the Prevailing Wage Act because the loans or other funds are made available by or through the governmental unit’s execution of the applicable assessment contracts. However, a PACE refinancing is a financial transaction and not a public works. A contractor or subcontractor is not required to pay the prevailing wage on any work performed prior to the recording of an assessment contract under the PACE Act.

- ❖ 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



FAQs (continued...)

- ❖ What standardized documents does IFA provide?
 - Lender Notice and Consent
 - Local PACE Ordinance creating PACE area and establishing PACE program
 - Form Assessment Contract approved by the local PACE ordinance
 - Assurance Letter from Bond Counsel to IFA providing comfort
 - ✓ This is not the Opinion of Bond Counsel
 - Assignment Agreement (assigning Assessment Contract from county or municipality to IFA)
 - IFA PACE Bond Resolution for Capital Providers
 - ✓ Capital Providers must either be Accredited Investors or Qualified Institutional Buyers
 - Master Indenture and related Issuance Certificate(s)
 - Specimen Bond(s)
 - Certificate of IFA and requisite Exhibits



FAQs (continued...)

- ❖ What documents does IFA not provide?
 - Program Report drafted by Program Administrator selected by the county or municipality and any Program Administrator Servicing Agreement for billing/collection of special assessments
 - Certificates (other than the Certificate of IFA and requisite Exhibits), and Opinions of Counsel

- ❖ Is off-billing/collecting of special assessments permitted under the PACE Act?
 - Yes, HB3501 specifically included language for the billing and collection of special assessments by municipalities, Program Administrators, or third party servicers in the event the applicable county collector (i.e., county treasurer) cannot or will not bill special assessments with the property tax bills
 - Under such circumstances, an annual report must be submitted to the county of any delinquent special assessments by a date certain as agreed to with the county
 - Upon proper filing of such report, at the direction of the municipality, Program Administrator, or third party servicer, the county collector shall enforce the collection of the special assessments in the manner provided by law



Questions?

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