

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



*STRATEGIC STATE SUPPORT*  
OFFERED TO MUNICIPALITIES BY THE  
*ILLINOIS FINANCE AUTHORITY*  
AS THE  
*CLIMATE BANK OF THE STATE OF ILLINOIS*

# What is C-PACE Financing?

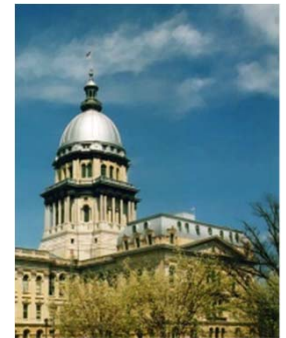
Under Illinois law, cities, villages, and incorporated towns may establish C-PACE programs and create related 'PACE areas' in order to offer for-profit and non-profit owners of commercial, industrial, and multi-family (of 5 or more units) properties long-term, fixed-rate financing or refinancing for up to 100% of the costs of their respective alternative energy, energy efficiency, renewable energy, resiliency, and water use improvement projects ("Projects").

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



# Public Purpose

- ❖ Projects permanently affixed to private property (including new construction) constitute a ‘valid public purpose’ eligible for C-PACE financing in Illinois, as follows:
  - Alternative Energy Improvements
    - ✓ Electric Vehicle (“EV”) charging stations 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

- ❖ An eligible record owner in a 'PACE area' voluntarily enters into an assessment contract with the municipality, and a bond issue secured by the assessment contract funds the Project. Such PACE bonds are repaid through a special assessment imposed on the applicable property pursuant to the assessment contract, and PACE bonds are never general or moral obligations of taxpayers.



- ❖ The assessment contract reflecting the business terms and conditions of the proposed financing is recorded with the county recorder, thus constituting a lien against the applicable property (similar to a mortgage).
  - Lien runs with the property until the 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 assessments similar to a conventional loan between a borrower and bank.



# 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 assessments to be more than offset by the reduced utility and maintenance expenses over the useful life of a 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 assessments (along with the ongoing savings) to any new property owner upon the sale of the improved property
  - Up to 100% financing of Project-related costs to preserve capital of record owner and displace more expensive mezzanine debt
- ❖ Moreover, C-PACE financings are non-accelerating upon a default or late payment.
  - Amounts due under an assessment contract survive any such event and continue until paid in full



# Sponsor Requirements

- ❖ A record owner must adhere to the following statutory requirements in order to fund a 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
  - Record owner is current on all mortgage debt on the property, the record owner has not filed for bankruptcy in the last 2 years, and the property is not an asset in a current bankruptcy proceeding



- ❖ Assessments are capitalized over the useful life of the 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 record 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 - State involvement limited to enabling legislation; programs locally or privately driven (the least inherently standardized model)
  - Deemed cost-prohibitive at the local level by Capital Providers; 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.





# 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 municipalities in Illinois may permissively assign assessment contracts to the Illinois Finance Authority to assist market stakeholders.
- ❖ Furthermore, effective September 15, 2021, the Illinois Finance Authority has been designated as the **Climate Bank of the State of Illinois** to aid in all respects with providing financial assistance, programs, and products to finance and otherwise develop and facilitate opportunities to develop clean energy and provide clean water, drinking water, and wastewater treatment in the State.



# State Support Model

- ❖ Based on this experience as a conduit issuer, the Illinois Finance Authority in its role as the Climate Bank of the State has developed a C-PACE strategic state support model for all municipalities in Illinois based on three foundational principles:
  - **STANDARDIZATION**
    - ✓ Standardized program and financing documents to significantly reduce legal costs and create uniformity in the C-PACE market
    - ✓ Issuance of PACE bonds by Illinois Finance Authority as statewide conduit to diminish Capital Provider operating costs (rather than disorderly issuance of PACE bonds by more than 1,297 municipalities)
  - **EFFICIENCY**
    - ✓ Each PACE Bond Resolution adopted by the Illinois Finance Authority authorizes the Capital Provider to fund Projects in all 'PACE areas' throughout the State of Illinois for incremental periods of 36 months
    - ✓ Approval of specific Projects originated by Capital Providers, and delivery of the related Issuance Certificate and PACE bonds, is delegated for expediency
  - **AFFORDABILITY**
    - ✓ Open market model allows C-PACE transaction participants to engage their own legal and financing team



# Getting Started

- ❖ To establish a C-PACE program and create a related 'PACE area,' a city, village, or incorporated town must adopt a local ordinance to:
  - Designate a Program Administrator to operate the program on its behalf
    - ✓ No cost to local or state taxpayers
    - ✓ Competitive procurement process not required
  - Approve the program report of the designated Program Administrator
    - ✓ Approves form of assessment contract
    - ✓ Describes territory of 'PACE area' (i.e., Project-based parcel(s) or jurisdictional boundaries of the municipality)
- ❖ Thereafter, record owners may submit Project applications for C-PACE financing to the selected Program Administrator.





# Funding

- ❖ On a parallel track with consideration and adoption of the local ordinance, the Illinois Finance Authority adopts PACE Bond Resolutions for Capital Providers that are either institutional Accredited Investors or Qualified Institutional Buyers seeking to fund Projects.
  - State statutory C-PACE debt limit = \$2.0 billion



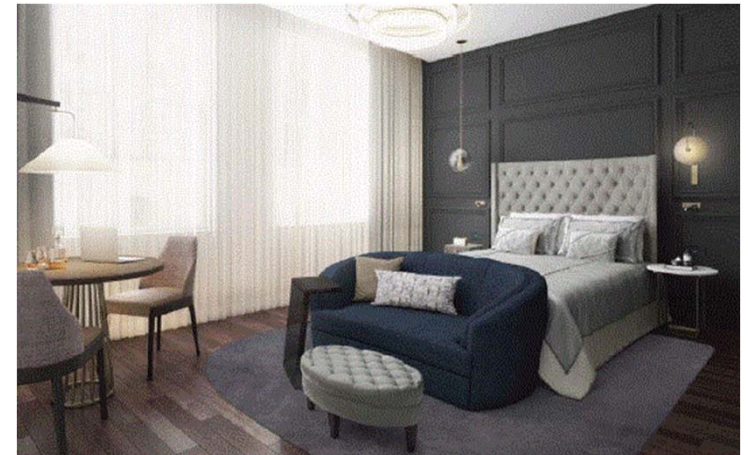
- ❖ Upon receipt of an assessment contract and related assignment agreement, the Illinois Finance Authority issues PACE bonds under a direct-purchase structure to the Project's originating Capital Provider (or its designated transferee).
  - Each Capital Provider may fund an unlimited number of Projects it originates under its own separate, distinct trust for the entire State of Illinois
  - Capital Providers may retain PACE bonds as an investment (i.e. portfolio lenders) or sell PACE bonds into the secondary bond market (i.e. securitization)



# 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:

<b>Energy Savings:</b>	<b>954,546 kWh and 4,875 therms</b>
<b>Energy Utility Bill Savings:</b>	<b>\$56,876 plus \$33,870 in Chilled Water</b>
<b>Water Savings:</b>	<b>2,272,700 Gallons</b>
<b>Water Bill Savings:</b>	<b>\$9,045</b>

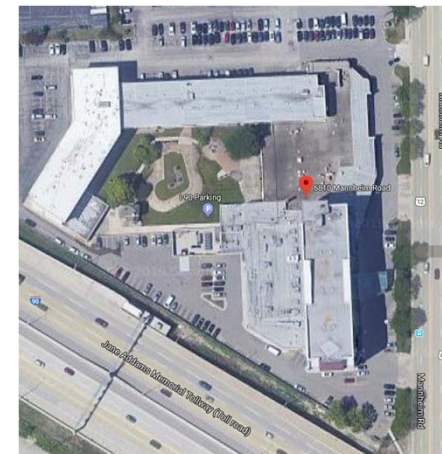




# Case Study #2

- ❖ \$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
Energy Utility Bill Savings:	\$268,077
Water Savings:	134,167 Gallons
Water Bill Savings:	N/A







# Case Study #3 (Refi)

- ❖ \$4,500,000 Illinois Finance Authority Taxable Property Assessed Clean Energy Revenue Bonds (ChicagoPACE), Series 2020A (Beardstown)
  - Dated Date: September 2, 2020
  - Project: Refinancing of costs related to installation of a commercial solar photovoltaic system located at 8295 Arenzville Road, Beardstown, IL for the benefit of an industrial pork processing plant
  - Governmental Unit: City of Beardstown
  - 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 #4 (Refi)

- ❖ \$4,600,000 Illinois Finance Authority Taxable Property Assessed Clean Energy Revenue Bonds (ChicagoPACE), Series 2021A (Chicago Prep)
  - Dated Date: March 17, 2021
  - Project: Refinancing of costs related to renovation of 105,890 sq. ft., single-story vacant industrial building located at 5801 West Dickens Avenue, Chicago, IL into 64 commercial kitchens for lease to tenants
  - Governmental Unit: City of Chicago
  - Annual Impact:

<b>Energy Savings:</b>	<b>378,928 kWh</b>
<b>Energy Utility Bill Savings:</b>	<b>\$59,491</b>
<b>Water Savings:</b>	<b>98,112 Gallons</b>
<b>Water Bill Savings:</b>	<b>\$785</b>





# 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, HB3501 (2019) specifically included language for the billing and collecting of special assessments by municipalities, Program Administrators, or third-party servicers
  - Under such circumstances, an annual report must be submitted to the respective 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 (similar to a default on property taxes)



# FAQs (continued...)

- ❖ What standardized documents does the Illinois Finance Authority provide?
  - Lender Notice and Consent
  - Municipal Ordinance creating PACE area and establishing related program
  - Form Assessment Contract approved by the Municipal Ordinance
  - Assurance Letter from Bond Counsel to Illinois Finance Authority providing comfort
    - ✓ This is not the Opinion of Bond Counsel
  - Assignment Agreement (assigning Assessment Contract from municipality to the Illinois Finance Authority)
  - PACE Bond 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)
  - Issuer Certificate and requisite Exhibits

# Questions?

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