THE BOND BUYER

Illinois PACE efforts gain traction as first deal closes

By

Yvette Shields

Published

December 09 2019, 3:57pm EST

PACE bond financing in Illinois is picking up steam with the closing of the first such deal — $21.3 million for a new Chicago hotel — and authorizations in place for hundreds of millions of dollars more.

“After approximately a decade of gestation in the General Assembly and three major pieces of legislation” in 2017, 2018 and earlier this year, the Illinois Finance Authority closed on the first PACE bond financing in Illinois in collaboration with the city, said IFA executive director Chris Meister.

Illinois' first PACE bond sale will finance improvements for a new hotel to be housed at the 208 S. LaSalle Street Building.

MBRE and The Prime Group

The board has approved $800 million in borrowing authorization totaling for seven capital providers.

The state's goal of offering commercial Property Assessed Clean Energy program financing as an affordable alternative for energy efficiency, renewable energy, water conservation, resiliency improvements and other green projects initially fell short, spurring additional legislative changes.

The bonds are repaid with local real estate taxes and assessment payments agreed to the property owner and amortized over the useful life of the project that ranges from five to 30 years.

For the IFA, the PACE program represents a key piece of its efforts to offer new financing products to promote economic development and green projects that complement its tax-financing conduit activities and to bolster its revenues. The initiative was launched after passage of federal tax reforms in late 2017 that killed advance refundings.

"To date, PACE is the most significant revenue and impact result of the Transformation Initiative," Meister said of the program that underwent some technical statutory updates in the spring session and was signed by Gov. J.B. Pritzker on July 29.

The legislative overhaul brought the PACE statute up to standard with other special assessment laws in the state after a $2 billion commercial PACE program failed to attract much interest. That prompted the IFA to look at other states' successes as a model.

The changes incorporated public health and natural disaster protections into the PACE Act and promoted sustainability initiatives. It was also aimed at addressing market concerns over the act's language that some believed required more clarity. The legislation classifies green upgrades and installations as a public benefit.

"From our perspective that expands our ability to contribute to the capital stack of developments and enhance the economics of energy retrofits for existing buildings," said Eric Alini, managing partner at Counterpointe Sustainable Real Estate LLC, the capital provider on the first deal.

The IFA, which administers the program on the state's behalf, has seven authorizations so far this year including the up to $200 million authorization in February on behalf of Counterpointe SRE as the capital provider. The most recent was approved in November for up to $100 million of borrowing with Enhanced PACE Finance LLC as the capital provider. The IFA authorizations note that the bond issues are not rated.

The board also earlier this year approved a $125 million authorization for Greenworks Lending LLC, a $75 million for Lever Capital Funding LLC, a $100 million authorization for Inland Green Trust, a $100 million authorization for SFA Partners LLC, and a $100 million authorization for Clean Fund Titling Trust, according to vice president Brad Fletcher.

The $21.3 million financing was completed by the IFA and Counterpointe in cooperation with Chicago's PACE program. The program falls under the auspices of the city's Department of Planning and Development but is administered by Loop-Counterpointe PACE LLC, a joint venture between Loop Capital Markets LLC and Counterpointe Energy Solutions LLC, a separate entity from Counterpointe SRE.

Loop Capital is as the bond placement agent and Counterpointe is the assessment contract/bond servicer. Proceeds will fund energy efficiency and water use improvements in connection with a gut rehab of the five upper floors of the new Reserve Hotel in downtown Chicago.

The use of PACE is estimated to save $3 million in operating costs over 25 years, according to the IFA. Like all PACE issues, the Chicago-based project loan is repaid through a special tax assessment. The rate on the transaction was set at 5.5% over 27 years.

Counterpointe SRE, which specializes in commercial PACE finance nationally, says the $200 million its authorization provides is just the beginning. "Our goal is to help grow green throughout the city. There are 3,000 buildings the city with greater than 50,000 square feet" that could meet the criteria and could benefit, Alini said.

Chicago PACE is promoting the financing alternative for projects of $100,000 to $100 million or more although the PACE assessment to value can be no more than 25% of the assessed or appraised property value and the financing term can be no greater than the improvement with the longest useful life up to 30 years.

Following the November closing on the Chicago deal, a second PACE deal is slated to close Tuesday. SFA Partners served as the capital provider. The bonds pay a rate of 5.80% the final maturity is in 2044, according to the final offering statement that was published Monday. Proceeds will finance improvements to three hotels and a restaurant. Hotel Mannheim Chicago LLC is the owner and developer. Loop Capital Markets served as the placement agent.

In addition to the PACE authorizations, the IFA board in November approved an up to $210 million refunding for Lutheran Life Communities Obligated Group. BC Ziegler and Co. and Herbert J. Sims & Co. are underwriters of the portion being publicly offered. A portion being issued as taxable “Cinderella” bonds that can be converted to tax-exempt on the first optional redemption date of the bonds being refunded are being directly purchased by First Midwest.

The board also approved a refunding for up to $140 million for the Illinois Institute of Technology Chicago. Wells Fargo Securities is the underwriter. Moody’s Investors Service last month revised IIT’s Baa3 rating outlook to stable from negative.

Deals up for approval at the IFA board’s December meeting Tuesday include preliminary consideration for a $15 million issue for junk-rated Roosevelt University to cover the costs of its recently announced plans to acquire Robert Morris University.

The non-rated bonds are being directly purchased Preston Hollow Capital LLC. PHC purchased the university’s $200 million issue last year that has played prominently in the Dallas-based private lender’s civil lawsuit accusing Nuveen of pressuring banks and broker-dealers to shun the firm on high-yield deals.

The board will also consider final approval for a $50 million issue by the University of Chicago Medical Center to refund outstanding debt. The bonds will not carry a rating are being directly purchased by JP Morgan Chase Bank.

Moody's last week downgraded the system to A1 from Aa3. At the same time, Moody's upgraded Ingalls Health System's rating to A1 from Baa2, reflecting a change in bondholder security through the substitution of notes as Ingalls entered the obligated group. The outlook for both UCMC and Ingalls Health System was revised to stable from negative.

Updated December 10, 2019 at 9:32AM: The story was updated with a second PACE deal that is about to close.