

CHP Bond Financing – Case Studies

The Illinois Development Finance Authority had the opportunity to partner with the department of Veterans Affairs to provide conduit financing for two Co-Generating plants located in the Chicagoland area.

Projects

The first, a \$20 million project to construct a 5-MegaWatt CHP Center with 150,000lb/hr of steam generation capacity on the campus of the Department's North Chicago Medical Center. Output will be used for the North Chicago VA Medical Center, (ii) the Great Lakes Naval Training Center, and (iii) the Finch School of Medicine which is located in North Chicago.

The second, which followed on the footsteps of the North Chicago project, is will be located in the Illinois Medical District. The energy center will house a natural gas fired combustion turbine rated at 1,800KW peak electric generating capacity and 150,000 lb/hr of steam generating capacity. The Center will produce approximately 80.0% of the annual electric use for the Chicago West Side VA Medical Center and new 95,000sq.ft. VA Benefits Center.

Financing Structure

- **Enhanced Use Leases**

The Department has entered into enhanced use leases that make it possible to finance projects nationwide by using state and local conduit financiers. Here is how it works:

1. An Owner Trust is established . The Trust is a special purpose entity that is governed by state laws where it is established (in both of my cases Illinois law) under which the sole beneficiary is the Department (VA). The Trust will not terminate prior to the payment of all amounts payable under the Trust Agreement.
2. The Owner is a bank having trust powers (in these cases Cole Taylor Bank)
3. The Owner Trust will have no assets other than the project and revenues derived from it to be applied in accordance with the Indenture
4. The Department and the Owner Trust will enter into a Development and Management Agreement with the developer to provide (i) design, (ii) development, (iii) construct, (iv) operate, and (v) maintain the project.

- **Energy Services Agreement**

Under the Agreement the Owner Trust and the Developer will furnish and the Department will purchase the facility's electricity and steam required for the Department's facilities. The department's obligation to make payments under the Energy Services Agreement is subject to the annual appropriation of the necessary funds by the United States Congress.

The Bonds

Federal Regulations prohibit a state or local government conduit financier from issuing tax-exempt debt to finance a Federal Government project.

1. Taxable Industrial Revenue bonds are the appropriate vehicle – they provide a bond structure
2. Bonds can be either floating rate or fixed rate bonds having up to 40-year maturities or 120.0% of the average lives of the assets financed, whichever is shorter
3. Allows the Department easy access to financial markets by bypassing Federal financing mechanisms which are geared to US Government debt
4. Important because amounts are significantly smaller than amounts financed by agencies such as Fannie Mae, Freddie Mac and others

North and West Chicago Bonds

1. Both issues came to the market as serial and term fixed rate bonds
2. Financing team was composed of both Illinois-based and national members *e.g.* AG Edwards, the underwriter is based in Atlanta a, Patton Boggs, VA Counsel, based in Washington, Global Investment Advisors, Financial Advisor, based in Arlington, VA
3. Bonds were MBIA insured
4. IDFA acted as the local conduit financier and the bonds were sold in the national market

Summary

This pilot program provides an efficient and mutually advantageous way to partner with local financing agencies to finance major Government Agency project. These projects boost economic development provide and jobs.