

Illinois Finance Authority
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Report to the General Assembly of the State of Illinois
Recovery Zone Facility Bonds and Recovery Zone Economic Development Bonds
Qualified Energy Conservation Bonds
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Executive Summary

Recovery Zone Facility Bonds (“RZ-FB’s”) and Recovery Zone Economic Development Bonds (“RZ-EDB’s”) were created in February 2009, as part of the American Recovery and Reinvestment Act. The usefulness of these powerful financing tools in Illinois could have been diluted by the fact that allocations were made directly to counties and major municipalities, making it difficult for any one entity to amass sufficient allocations to meet the needs of major projects.

Through the passage of HB2369, which went into effect as PA 96-1020 on July 12, 2010, the Illinois Finance Authority (“IFA”) was able to serve as the mechanism in Illinois for collecting and re-allocating unused RZFB authorizations. As a result, the IFA was able to finance eight major RZFB projects employing nearly \$203 million in RZFB allocations throughout the State. These projects are expected to retain approximately 2,000 exiting jobs, and create 844 new jobs and 730 construction jobs. In addition, the IFA was able to re-allocate \$7.27 million in RZFB allocations for the city of Greenville, Illinois, and about \$15 million in RZ-EDB allocations for the benefit of DuPage County.

Qualified Energy Conservation Bonds (QECCB’s) are taxable tax credit bonds. Illinois received \$133.8 million in allocations that were sub-allocated to counties and major municipalities based on census. To date, \$30.37 million have been issued by the City of Chicago and Champaign County, and an additional \$20.0 million has been approved by the IFA for the City of Deerfield.

Background

In February, 2009, the United States Congress passed the American Recovery and Reinvestment Act. As part of that act, two programs were created:

- Recovery Zone Facility Bonds (“RZ-FB’s”) were designated to be used to finance certain kinds of business development activities in areas of significant economic distress, with \$15 billion in bond issuing authority available nationwide; and

- Recovery Zone Economic Development Bonds (“RZ-EDB’s”) were designated to be used to finance government projects with economic development outcomes, with \$10 billion in bond issuing authority available nationwide.

Recovery Zone Facility Bonds (“RZFB’s”)

Under this program, each Illinois county and certain larger municipalities were given direct allocations of tax-exempt private activity bond issuing authority for RZFB’s to finance certain kinds of business facilities in Recovery Zones. Because Exempt Facility Bonds are considered private activities (i.e., they benefit businesses or individuals), they were not tax-exempt unless they were issued under the traditional state Bond Cap Allocation Program, or under the RZFB program.

A Recovery Zone is defined as an area having significant poverty, unemployment, home foreclosures, or general distress; or an area that has already been federally designated as an Empowerment Zone or Renewal Community. In addition to the federally designated areas, the county or municipality was allowed designate areas within their jurisdictions as Recovery Zones.

RZFB’s could be used by taxpayers engaged in certain types of businesses to finance the purchase of depreciable business property within a Recovery Zone, provided the taxpayer acquired the property after the area had received the Recovery Zone designation. Some kinds of property specifically did not qualify under the program, including land, rental property, and property used for certain kinds of activities such as golf courses, country clubs, and several others listed in the federal tax regulations.

Cumulatively, 102 Illinois counties and 8 municipalities received a total of \$1,000,457,000 in RZFB allocations. Importantly, if a county or municipality did not plan to use all of its allocation, under the federal rules, the allocation could be waived and released to the State to be reallocated to other jurisdictions. The enactment by the 96th General Assembly of HB2369, which went into effect as PA 96-1020 on July 12, 2010, enabled the Illinois Finance Authority (“IFA”) to serve as the mechanism in Illinois for collecting and re-allocating unused RZFB authorizations.

Recovery Zone Economic Development Bonds (“RZEDB’s”)

Under this program, each Illinois county and certain larger municipalities received Original Allocations by formula of authority to issue a new type of tax credit bond called a Recovery Zone Economic Development Bond to finance economic recovery activities in a Recovery Zone.

Economic development activities qualified under this program included:

- Capital expenditures paid or incurred for property in Recovery Zones;
- Expenditures for public infrastructure and construction of public facilities; and
- Expenditures for job training and educational programs.

Private activities, defined as those in which a substantial portion of the bond or tax credit proceeds benefit a private business or individual, could not be financed with this program.

Cumulatively, 102 Illinois counties and 8 municipalities received a total of \$666,972,000 in RZEDB allocations. Again, if a county or municipality did not plan to use all of its allocation, under the federal rules, the allocation could be waived and released to the State to be reallocated to other jurisdictions. Under PA 96-1020, the IFA served as the mechanism for re-allocation within Illinois.

The IFA was able to assist DuPage County by providing re-allocation of some RZEDB volume cap to enable the County to issue \$46,100,000 in taxable General Obligation alternative revenue source-recovery zone economic development bonds in October 2010.

Putting the Programs Into Use for Economic Development in Illinois

During the short time between the effective date of PA 96-1020 on July 12, 2010, and expiration of the program on December 31, 2010, the IFA was able to collect \$295,923,000 in unused allocations and reallocate them for the benefit of eight specific transactions that totaled \$211,488,000, and provide one municipality that had no original allocation with \$7,267,000 in re-allocated cap. A brief description of each transaction that benefited from the program follows.

Annex II

Annex II LLC was established in June, 2010, with the sole purpose of developing, owning, and leasing space comprising the Project to the National Archives and Records Administration (“NARA”) in order to provide records storage capacity for federal records.

In order to issue the \$4,585,000 in Recovery Zone Facility Bonds for the Annex II financing, the IFA was able to employ \$2,389,000 in unused allocation from Monroe County, and \$2,196,000 in unused allocation from Randolph County. The issue provided increased job security for 103 workers, and is expected to create 5-to-10 new jobs and 30-to-50 construction jobs.

Navistar International Corporation

Navistar is an OEM manufacturer of diesel engines and medium- and heavy-duty trucks. IFA-issued bonds will enable Navistar to maintain its headquarters in Illinois by purchasing, renovating, equipping and constructing building additions to nine existing buildings located on the former Lucent Technologies Research Center in Lisle. The Lisle facilities will become Navistar's new corporate headquarters and research and development facility. Additionally, bond proceeds will be used to finance leasehold improvements to equip a warehouse facility in Joliet.

In order to issue the \$135,000,000 in Recovery Zone Facility Bonds for Navistar's financing, the IFA was able to employ \$16,614,000 in unused allocation from the City of Rockford, \$11,965,000 in unused allocation from the City of Naperville, \$4,799,000 in unused allocation from the City of Joliet, \$38,594,000 in unused allocation from DuPage County, \$17,447,000 in unused allocation from Winnebago County, and \$45,581,000 in unused allocation from Lake County. The issue provided increased job security for 1,532 current workers, and is projected to create 542 new jobs and 400 construction jobs.

Neuco (BPJ Investments):

Neuco is a national distributor of HVAC systems, HVAC controls and HVAC repair parts. IFA-issued bonds will enable Neuco to expand its current facility from 37,000 SF for 55,000 SF, thereby enabling the Company to increase its selection of HVAC controls and parts to its customers.

In order to issue the \$2,803,000 in Recovery Zone Facility Bonds for Neuco's financing, the IFA was able to employ \$2,803,000 in unused allocation from Iroquois County. The issue provided increased job security for 65 current workers, and is projected to create 7 new jobs and 25 construction jobs.

Microsun:

MicroSun designs and manufactures rechargeable batteries for portable devices including computer, medical, and military applications. IFA-issued bonds will enable MicroSun to consolidate and expand its Lisle and Boulder City operations at a 98,500 SF facility in Woodridge, Illinois.

In order to issue the \$3,500,000 in Recovery Zone Facility Bonds for MicroSun's financing, the IFA was able to employ \$3,500,000 in unused allocation from the City of Joliet. The issue provided increased job security for 103 current workers, and is projected to create 80 new jobs and 20-30 construction jobs.

Mayo-Moran:

Moran Transportation Corporation was originally established in 1980 in Elk Grove Village as a LTL (“less than load”) carrier, and now currently operates distribution/warehouse/terminal facilities located in Roscoe, Illinois and two facilities in Elk Grove Village. IFA-issued bonds will enable Moran to acquire land, construct and equip one or more buildings in Elk Grove Village to be used for the Company’s warehousing, logistics, and trucking operations.

In order to issue the \$4,100,000 in Recovery Zone Facility Bonds for Moran’s financing, the IFA was able to employ \$2,358,000 in unused allocation from the City of Joliet, and \$1,742,000 in unused allocation from the City of Elgin. The issue provided increased job security for 111 current workers, and is projected to create 39 new jobs and 15 construction jobs.

Rochelle Energy Center:

Rochelle Energy Center LLC was established in August, 2010, to develop a landfill gas-to-energy facility project facility producing 4.8 MW hourly, on the Rochelle Municipal Landfill No. 2 site located in Rochelle, Illinois.

In order to issue the \$10,000,000 in Recovery Zone Facility Bonds for Rochelle Energy’s financing, the IFA was able to employ \$270,000 in unused allocation from the Gallatin County, and \$1,550,000 in unused allocation from Kankakee County, in addition to allocations already secured by the Borrower. The issue provided increased job security for 1 current workers, and is projected to create 10 construction jobs.

JH Naperville Hotel, LLC

JH Naperville Hotel, LLC, was established as a special purpose entity to develop, renovate, construct, own, and operate a full-service 462-room hotel located adjacent to the I-88/Naperville Road/Naper Blvd. interchange in Naperville.

In order to issue the \$30,000,000 in Recovery Zone Facility Bonds for JH Naperville Hotel’s financing, the IFA was able to employ \$6,628,000 in unused allocation from the City of Elgin, \$7,850,000 in unused allocation from Kankakee County, \$1,938,000 in unused allocation from Henry County, \$2,766,000 in unused allocation from Douglas County, \$8,959,000 in unused allocation from DeKalb County, and \$1,859,000 in unused allocation from the City of Aurora. The issue provided increased job security for 85 current workers, and is projected to create 143 new jobs and 125 construction jobs.

SMART Hotels/Olympia Chicago, LLC

SMART Hotels, LLC was established in 2008 specifically to develop hotels on or near college and university campuses. The key principals of SMART Hotels have extensive experience in hotel development and management, new construction, and LEED Certification. The current project is designed to finance construction and equipping of a new, select-service, 130-room hotel as part of the mixed-use Harper Court Development Project, located adjacent to The University of Chicago's Hyde Park campus near the intersection of East 52nd Place and South Harper Court.

In order to issue the \$23,000,000 in Recovery Zone Facility Bonds for the Harper Court Development Project's financing, the IFA was able to employ \$150,000 in unused allocation from the City of Elgin, \$1,350,000 in unused allocation from the City of Aurora, and \$20,000,000 in unused allocation from the City of Chicago. The issue projected to create about 26 new jobs and roughly 100 construction jobs.

City of Greenville

Finally, the IFA assisted the City of Greenville, Illinois, in acquiring \$7,267,000 in Recovery Zone Facility Bond allocations to enable the City to act as issuer for a project in that locality. The IFA was able to reallocate \$150,000 in unused allocation from the City of Elgin, and \$56,476,000 in unused allocation from Coles County.

Qualified Energy Conservation Bonds

The Federal QECB program provides governmental issuers or private activity borrowers a taxable financing option that provides a 70% federal rebate on the interest paid to bondholders. Projects eligible for this type of financing include governmental capital projects for buildings and facilities that reduce energy consumption by at least 20%. In addition to public facilities, the funding of "green community programs" may also qualify for use of QECB financing.

To date, three projects in Illinois have closed, and one is pending. They are, in brief:

- City of Chicago Water Facilities/Water Plant QECB's: \$29.665 million.
- Champaign County School District 116: \$585,000 of QECB's sold as one series of a \$17.5 million school improvement financing project.
- Rantoul Township High School: \$120,000 of QECB's sold as one series of a \$4.0 million school improvement financing project.

There is one project that has been approved by the IFA Board that is anticipated to close shortly.

The Qualified Energy Conservation Bonds will be used to finance major improvements to the Village of Deerfield's Wastewater Reclamation Facility. The facility provides wastewater treatment and environmental protection for the residents of the Village. The improvements will enhance the reliability and efficiency of the facility through replacement and renovation of aged equipment and structures, installation of modern instrumentation and control systems and elimination of dated treatment processes and technologies.

Conclusion

Recovery Zone Facility Bonds and Recovery Zone Economic Development Bonds were powerful tools for economic development. However, they were difficult to use because of the wide distribution of volume cap directly to counties and municipalities, and because they were only available to be used for projects that could close by December 31, 2010.

Through the vision of the General Assembly to pass HB2369, and with the diligent effort of IFA staff and county and local government officials, the IFA was able to finance eight major RZFB projects employing nearly \$203 million in RZFB allocations throughout the State. These projects are expected to retain approximately 2,000 exiting jobs, and create 844 new jobs and 730 construction jobs.

Qualified Energy Conservation Bonds are another valuable federal financing tool that can significantly reduce the cost of borrowing, particularly for governmental entities. No mechanism currently exists in Illinois for the reallocation of QECB volume cap, but the IFA stands ready to assist with any voluntary transfers of allocations to enable larger projects to take advantage of this form of financing.