

ILLINOIS FINANCE AUTHORITY

Energy Initiative

Program Guidelines

September 9, 2009

Adopted by Resolution of the Board of the Illinois Finance Authority at the 11:30 a.m. Board Meeting on September 9, 2009.

Members present and voting for: William A. Brandt, Jr., Chairman, Michael W. Goetz, Vice-Chairman, Dr. William J. Barclay, James J. Fuentes, Dr. Roger D. Herrin, Edward H. Leonard, Sr., Terrence M. O'Brien, Juan B. Rivera, and Bradley A. Zeller

Members present and voting against: None

Members absent: Ronald E. DeNard, April D. Verrett

FINANCIAL ASSISTANCE FOR CLEAN COAL, COAL AND RENEWABLE ENERGY PROJECTS

EXECUTIVE SUMMARY

- I. RISK ASSET ACCEPTANCE CRITERIA
- II. PROJECT APPROVAL PROCESS AND REQUIREMENTS
- III. ASSET GUARANTEE AND APPLICATION PRICING
- IV. PORTFOLIO MANAGEMENT, TRANSACTION MONITORING, AND REPORTING REQUIREMENTS

EXECUTIVE SUMMARY

Pursuant to Public Act 96-103 (20 ILCS 3501/825-65; 20 ILCS 3501/825-70; 20 ILCS 3501/825-75), the IFA is authorized to provide up to \$3 billion in “Additional Security” (moral obligation) loan guarantees or bonds to help facilitate the development of Renewable Energy, Coal and Clean Coal projects in Illinois.

Although reducing default risk is a priority of all IFA financings, risk management is especially important for transactions employing Illinois “Additional Security” (moral obligation) or Illinois State Guarantee assistance. To appropriately manage the default risk, the IFA plans to engage in a rigorous review of a proposed project, together with its business and finance plans, before approving and issuing, such guarantees.

This document details the credit underwriting criteria, due diligence standards and credit origination and risk management process the IFA staff will follow to manage this program.

Specifically, the document memorializes the board approval for the following items -

- i. Risk Asset Acceptance Criteria;
- ii. Project approval process and requirements;
- iii. Asset guarantee and application pricing;
- iv. Portfolio management, transaction monitoring and reporting requirements.

I. RISK ASSET ACCEPTANCE CRITERIA (RAAC)

The general RAAC is outlined below for energy transactions to qualify for credit support through an “Additional Security” (moral obligation) guarantee or bond. As appropriate, the IFA will develop specific credit criteria for specific market segments that will supersede the general RAAC.

GENERAL PROJECT RAAC

Comply with Act 096-0103	The project fully complies with all legal requirements included in the \$3.0 billion in bond or debt guarantee program.
Borrower:	Standard background and due diligence checks, acceptable to the IFA.
Technology Risk:	For commercially available technology - proven technology, with proven and operating facilities. For innovative technology, smaller scale operating test plant and IET review of and approval of the technology is desirable. Independent engineering studies and/or other third party support for feasibility are required. No start up or venture capital risk is provided credit support at this time.
Predictable source of debt repayment:	Long-term off-take, power purchase agreement, or payment obligation from acceptable counter-party that will fully amortize the IFA bond or debt guarantee. Counterparty risk acceptable to IFA, ideally investment grade. Refinancing risk, to the extent accepted, is mitigated by future contractual cash flows from a long-term off-take, power purchase agreement or credit

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	worthy payment obligation.
Third Party Pari-Passu Credit Participation:	Pari-passu credit obligation, in all respects, from one of the following: <ol style="list-style-type: none">1. Third party regulated financial institution,2. Federal government agency guarantee or direct obligation, or3. Public or private placement of debt that is rated investment grade by one nationally recognized rating agency.
Cash Equity Requirement:	Minimum of 15% to 20%, net of any developer fees and/or cash grants from the state or federal government.
Debt Service Coverage Requirement:	Minimum 1.25x for each year of the forecast period. Debt service is defined as (EBITDA – maintenance capital expenditures – cash taxes)/ (principal and interest) for all borrower debt.
Interest Rate Hedging:	Acceptable interest rate hedging, mitigating interest rate volatility and mismatch between contractual cash flow obligations and debt service obligations.
Acceptable project due diligence:	Due diligence to include, but not be limited to, the following: <ol style="list-style-type: none">1. Engineering studies, reviewed and acceptable to the IET2. Environmental studies, reviewed and acceptable to IET3. Zoning and permitting due diligence confirmed by IFA third party legal counsel4. Developer model reviewed and verified by a third party accounting firm, acceptable to the IFA5. Any other due diligence deemed appropriate by Illinois Energy Team and/or IFA.
Legal documentation:	Standard legal documentation, prepared or reviewed by approved IFA counsel, to include perfected first lien security interest in all project assets, including turbine, PPA, land (or land lease for term equivalent to the term of the PPA), and other physical assets or contracts required to operate the project. Documentation will also include standard cash traps (based on poor financial performance and dividend blocks)

Mitigating factors for the aforementioned credit criteria include personal guarantees with identifiable unencumbered assets, secondary sources of repayment or acceptable third party corporate guarantee, and other factors will be considered, all subject to final board approval.

WIND PROJECT RAAC

Given expected wind development activity and the 75% wind requirement under the Illinois Renewable Portfolio Standard (“RPS”), the IFA has developed specific wind RAAC criteria:

Borrower:	Standard background and due diligence checks, acceptable to the IFA.
Power Purchase Agreement:	A Power Purchase Agreement (PPA) is required with price certainty for at the full term of the debt and, at a minimum, eighteen months beyond the final maturity of the debt. Debt is fully amortized from cash flows from PPA with no balloon payments or construction contingency. Approved



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PPA counterparties include ComEd, Amren and the IPA. Any other PPA counterparty requires both a BBB+/Baa1 rating and IFA Board approval.

Third Party Pari-Passu Credit Participation:	Pari-passu credit obligation, in all respects, from either <ol style="list-style-type: none">1. Third party regulated financial institution,2. Federal government agency guarantee or direct obligation, or3. Public or private placement of debt that is rated investment grade by one nationally recognized rating agency.
Cash Equity Requirement:	Minimum of 15% to 20%, net of any developer fees and/or cash grants from the state or federal government.
Debt Service Coverage Requirement:	Minimum 1.25x for each year of the forecast period. Debt service is defined as (EBITDA – maintenance capital expenditures – cash taxes)/ (principal and interest) for all borrower debt.
Amortization:	Loan to fully amortize over the life of the PPA supported only by cash flows from the PPA. Any balloon risk, if accepted, is mitigated through remaining cash flows adequate to fully amortize the balloon loan at maturity.
Interest Rate Hedging:	Acceptable interest rate hedging, mitigating interest rate volatility and mismatch between contractual cash flow obligations and debt service obligations.
Construction Financing:	Construction risk will be mitigated in an acceptable manner, which will include fixed price contracts, liquidated damages etc
Acceptable project due diligence:	Due diligence to include, but not be limited to the following: <ol style="list-style-type: none">1. P90 Wind Study required from reputable engineering firm with experience in Illinois or surround state wind projects. The engineering study will also be required to estimate long-term maintenance capital expenditures and operating costs for the project.2. Environmental studies, reviewed and acceptable to IET3. Zoning and permitting due diligence confirmed by IFA third party legal counsel4. Developer model reviewed and verified by a third party accounting firm, acceptable to the IFA
Legal documentation:	Standard legal documentation, prepared or reviewed by approved IFA counsel, to include perfected first lien security interest in all project assets, including turbine, PPA, land (or land lease for term equivalent to the term of the PPA), and other physical assets or contracts required to

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operate the project. Documentation will also include standard cash traps (based on poor financial performance and dividend blocks)

No modifications of the RAAC are permitted without subsequent IFA board approval.

II. Staff and Board Approval Process:

There will be six major phases to this transaction review process:

Phase I – Initial Discussion with Applicants

A prospective applicant must provide to the IFA general project information, such as background on the developer, the technology, the project and the financial projections, and must meet the minimum criteria listed below regarding the project economics, project readiness, regulatory process, capitalization, technology feasibility and the project team qualifications, to meet the initial hurdles for consideration.

The following are the minimum threshold requirements to be met for a project to be considered for further review:

Minimum Threshold Requirements for Prospective Applicants

Project Economics	Output Sales and Supply Purchase Agreements	Term sheet executed by the project and a third party to secure output sales contracts with creditworthy buyers and supply purchase contacts from reliable suppliers (if applicable). These agreements shall have terms matching the term of the debt, mitigate pricing risk and ensure ongoing debt coverage.
Project Readiness	The Site	Identified and controlled by the developer
	The Wind Resource (for wind power projects only)	A completed wind study or other evidence of ample wind.
Regulatory Process	Zoning, Permitting, Environmental	Completed or likely to be completed within 18 months
Capitalization	Development Budget	At least 50% of the development budget required to reach financial close has been raised or committed.
	Project Equity	At least 25% of the required equity has been raised or committed, with a credible plan for raising the balance from internal resources, existing investors or a recognized equity arranger.
Technological Viability	Commercially Available	Key technology has been



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		successfully employed in projects of similar application and scale. Independent engineering studies and/or other third party support for feasibility.
	Innovative Technologies, with a reasonable likelihood of success	Technology has been proven at smaller scale or in comparable applications. IET review of technology hurdles. Independent engineering studies and/or other third party support for feasibility.
The Project Team	Management and the Project Operator	Experience managing and operating a similar project
	The Development Team	Experience developing similar projects

Interested developers will be provided with this list of the minimum threshold requirements to be considered for this funding program. To the extent that a project does not meet these minimum criteria, suggestions for meeting these criteria will be provided by the IFA, and the applicant will be invited to resubmit their project for consideration once these milestones have been achieved.

Phase II - Approval to proceed (green light) from IFA Energy Credit Committee

If a project does meet the minimum threshold requirements outlined above, a short summary of the project will be presented to the Energy Credit Committee (“ECC”) to seek their approval to proceed. The ECC will be composed of members of the Board Energy Committee, representatives from IL EPA, representatives from GOMB and representatives from DCEO. Once a project receives an approval to proceed, the developer will be permitted to apply to the IFA for bond and/or loan guarantees. The ECC may recommend that a project seek preliminary approval from the Board Energy Committee or even the full IFA Board. In addition, the ECC may recommend that a member of the Illinois Energy Team complete a full technical and/or environmental review of the project.

If an applicant is notified that the project will not be subject to further consideration in the review process at this time, IFA will, to the extent reasonable, provide the developer the basis of this decision and suggested actions the Applicant can take to cure the deficiencies. Any Applicant whose proposal is denied further review at this stage will not be barred from re-submitting an updated or revised project proposal. Information and review status on projects being reviewed by IFA will be provided to both GOMB and the IFA Board on an on-going basis.

Phase III – Application by Applicants

Once a project receives the green light from the ECC, the applicant will be invited to submit a formal application to the IFA. This application should be signed by the Applicant and be accompanied by a \$25,000 retainer for third party review costs associated with this project. Such third party reviews will include, but not be limited to, such items as: the project financial feasibility, the technical aspects of the technology, and the environmental impact of this project. To the extent all of these fees have not been used to cover expenses, any excess will be returned to the applicant. In addition, the IFA retains the right to request additional funds to cover these third party reviews throughout this application process, as necessary.



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This application must contain, at a minimum, the following items:

- (i) a business plan including (1) an overview of the proposed project, (2) a description of the applicable technology, its manufacturer and licensees, if any, and its generally accepted life cycle, (3) the estimated total project costs (including escalation and contingencies), (4) the timetable for construction and commencement of operation, (5) proposed location of the project, (6) identity and experience of the contractor, (7) identity and experience of the operator of the project and (7) description of any supply and/or off-take contracts providing financial support for the project.
- (ii) Copies of any Feasibility Studies completed.
- (iii) a description of the Applicant, including (1) financial ability to undertake and support the project and (2) its experience in project investment, development, construction, operation and maintenance;
- (iv) a financing plan, describing (1) the equity to be invested and the timing and sources of such equity contributions, (2) the amount of the total debt obligations to be incurred and the funding sources of all such debt, (3) the amount and source of any debt or performance guarantees and (4) a financial model detailing the investments and cash flows generated from the project over the term of the proposed financing and projections for a minimum of three years beyond the scheduled debt repayment date;
- (v) a detailed term sheet, setting forth the proposed terms and conditions of any bonds to be issued by the IFA or loans to be guaranteed through the State Moral Obligation;
- (vi) a description of how the project will comply with the requirements of a Clean Coal, Coal and Renewable Energy Project, as described in the Authorizing Statute, and, if such project is a “new electric generating facility”, a copy of the application, if any, submitted to the Illinois Department of Commerce and Economic Opportunity for financial assistance to energy generation facilities and the disposition thereof;
- (vii) an outline of the potential environmental impacts of the project and how these impacts will be mitigated, including any environmental studies completed to date, and any discussions with the US EPA or State of Illinois EPA;
- (viii) identification of any and all government assistance (e.g., financial assistance, tax credits, other loan guarantees), from whatever source (federal, State, any other state, local, or foreign) which has been obtained or applied for, or expected to be obtained or applied for, to support financing, acquisition, construction, or operation of the project;
- (ix) a description of how the proposed project meets the purposes of the Authorizing Statute – including the level of Illinois’ coal resources to be used and whether the location of any new generating facilities constitutes an area of Illinois where demand for power exceeds generating capacity; and
- (x) an executive summary briefly stating the key project features and attributes, and its economic market analysis

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- (xi) copies of any engineering studies completed to date.
- (xii) Description of all permits and authorizations required and their status, including zoning, environmental etc.

A Funding Manager will review this application and maintain contact with the Applicant throughout this process. Applications that are deemed complete and acceptable from a risk asset perspective will be allowed to move to the next phase of this review process.

Phase IV - Approval of Inducement Resolution and Conditional Approval Letter by Board Energy Committee, IFA Board and GOMB

After consultation with and approval from the Board Energy Committee, a formal submission to the IFA Board and GOMB will be made to approve an inducement resolution for projects that are deemed suitable to participate in this program and a Conditional Approval Letter for the proposed support from the State. No term sheet or conditional approvals will be issued on any project prior to the approval by the IFA Board and GOMB.

If the IFA determines that a project is suitable and appropriate for bond financing or loan guarantees through the IFA, the IFA will notify the Applicant in writing and will provide the Applicant with a Conditional Approval Letter that may contain conditions precedent that must be met prior to closing.

If the IFA determines not to proceed further with an Application for a project, the IFA will inform the Applicant in writing of its denial, and the basis for such denial, permitting the Applicant to correct such deficiencies and reapply.

Upon IFA's receipt back of the acceptance by the applicant of the terms and conditions of the IFA's Conditional Approval Letter, documentation will be commenced based upon the Conditional Approval Letter approved by the Board. Any material changes to these terms and conditions will be discussed thoroughly with the Energy Committee and if appropriate, the IFA Board. The IFA will issue bonds or loan guarantees for Applicant's project if and only if all funding and other contractual, statutory and regulatory requirements, or any other condition precedent, have been satisfied, which will include such issues as the zoning, environmental and other permitting requirements for the project. The Applicant will be required to provide to the IFA on a timely basis any and all updated information in the event of any changes to the terms of the project financing or the project prior to the issuance of the bonds, which will be discussed with the IFA Board, as appropriate.

Phase V - Board Approval of Final Resolution (with any changes from Conditional Approval Letter)

Once an Applicant has successfully completed the prior phases, and is moving to the closing of the financing, a submission will be made to the IFA Board to request approval of the Final Resolution, which will also incorporate any changes to the original Conditional Approval Letter approved by the Board.

Prior to the closing date, the Authority will confirm that the documentation for the project contains all terms and conditions agreed to by the Authority and the Applicant in the Conditional



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Approval Letter, or as otherwise represented by the Applicant to the Authority in the Application. Any issuance of bonds or loan guarantees by the Authority will be subject to compliance with the limitations on financing contained in the Authorizing Statute, and will be subject to the approval of the Final Resolution by the IFA Board. The IFA Board will delegate authority to the Executive Director or the General Counsel to determine if all conditions precedent have been met prior to closing.

Phase VI - Closing

Subsequent to the approval by the IFA Board of the Final Resolution, and the meeting of all conditions precedent required for this transaction to close, the contemplated financing can be closed.

III. Asset Guarantee and Application Pricing

APPLICATION RETAINER FEES

Each Application shall be accompanied by a retainer of \$25,000. These funds will be used to pay the out-of-pocket costs incurred by the IFA for the reasonable fees and expenses of counsel to the IFA and financial advisor to the IFA, in each case as selected by the IFA. Also, the IFA may retain one or more professionals to assist it in the review and analysis of the project, including any technical material, feasibility studies, legal matters, IEPA etc. The Applicant will be responsible for paying the out-of-pocket costs incurred by the IFA in the retention of such consultants. In addition, IFA reserves the right to request additional fee retainers as the project review process continues, as necessary. If there are any funds left from this retainer when a project financing closes, or the IFA determines not to proceed with a project, such excess funds will be returned to the Applicant.

CLOSING FEES: Equal to 0.50% of the notional amount of debt

ONGOING CREDIT ENHANCEMENT FEES:

- i. The annual enhancement fee is equal to 0.75% - 1.5% multiplied by the notional amount of the moral obligation guarantee. The enhancement fee is paid quarterly in advance on a non refundable basis.
- ii. Standard fees are set for each asset class when credit criteria are approved: a standard fee for wind projects meeting the wind project criteria, bio fuel projects, etc.
- iii. The enhancement fee includes a prepayment penalty (minimum fee payment requirement – equal to 1/5 of the guarantee tenor multiplied by the enhancement fee) to compensate for allocation of risk.
- iv. All excess enhancement fees and closing fees, net of IFA expenses, are returned to the State of Illinois once the final guarantee is retired.
- v. The enhancement fee is continually reviewed by the IFA Board to insure it does not exceed approximately 1/2 of the difference between the unenhanced market spread to LIBOR and the IFA moral obligation supported LIBOR spread.

OTHER FEES



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In addition, fees may be assessed for the use of volume cap. The IFA's fees for bond issuance will be provided at the time of the Application.

The IFA may assess other administrative charges relating to the IFA's subsequent monitoring and servicing of the project and the bond issue.

IV. Portfolio Management, Project Monitoring and Reporting Requirements

Portfolio Management

IFA staff will monitor the portfolio of loans within the energy sector on a continuing basis. It will be important to track transactions for compliance with the limitations contained in the authorizing legislation, as well as for the credit quality of the projects being financed. The energy group will report to the Energy Committee and the IFA Board on the quality of the portfolio on a quarterly basis.

Project Monitoring

Regular monitoring of all projects supported by IFA/State credit enhancement is critical to managing the State's exposure. IFA's loan monitoring practices should generally follow the practices that commercial banks use to monitor loans and other credit facilities extended to finance energy projects. These practices help banks to anticipate problems before they arise, develop procedures to guide actions and respond quickly and effectively to evolving conditions.

During Construction: To the extent that IFA is prepared to finance the construction phase of projects, IFA should engage an independent construction engineer to monitor progress and alert IFA to cost overruns, delays or other problems that could cause the developer to exhaust the project budget before completing the project. Depending on the project, it may be appropriate for other senior lenders and/or guarantors to share the services of the construction engineer. Lien waivers may be required, as appropriate.

This early warning, together with rights to approve all construction draws, gives IFA leverage to force the developer to promptly address construction problems before they become major issues. IFA should review construction progress reports on a monthly basis.

During Operation: IFA staff should monitor individual projects on a quarterly basis, tracking quarterly financial results and position versus forecast, and compliance with covenants and loan benchmarks established for each project. On an annual basis, staff should make a site visit, call on management and re-underwrite the asset. All annual reviews will include an update on loan classifications outlined below.

Loan Classification



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IFA should develop a loan classification similar to the one developed by the Office of the Comptroller of the Currency (“OCC”) for federal chartered commercial banks. That system includes the following categories:

- Current: Performing as forecast
- Special Mention: Variance of 10% to 15% or more from forecast
- Substandard: High risk of payment default on loans guaranteed
- Doubtful: Probable that IF A will have to fund under the moral obligation pledge

Loss Reserves

IFA should consider reserving for expected losses by applying a recognized accounting principal such as FAS114 adopted by the Financial Accounting Standards Board or another appropriate accounting rulemaking body, using OCC guidelines.

Reporting Requirements

IFA staff should provide the Energy Committee and the Board with quarterly reports, summarizing trends within the loan portfolio – segregated between projects in development and projects that have begun operation. These reports should highlight any non-performing or troubled credits, and should track actual versus forecasted performance and reevaluate the loan’s risk rating. As staff becomes aware of major situations in a specific project, updates should be provided to the Energy Committee and the Board as soon as possible.

APPENDIX A

PUBLIC ACT 096-0103 FACT SHEET

SUMMARY The State of Illinois (State) wishes to encourage the construction of coal-fueled electric generating plants and renewable energy resource projects in Illinois. Toward that end, the IFA and the State have implemented a program to assist financially certain clean coal, coal and renewable energy projects in Illinois. The IFA is authorized to issue up to \$3.0 billion in bonds and loan guarantees in order to encourage such projects in Illinois. An applicant must submit an application for consideration by IFA for a bond issuance or loan guarantee under this program.

IMPLEMENTING

PUBLIC ACT 096-0103

PROGRAM

EFFECTIVE DATE January 1, 2010

DEFINITIONS

Clean Coal Projects include:

- (i) “clean coal facility” as defined in the Illinois Power Agency Act,
- (ii) “clean coal SNG facility” as defined in the Illinois Power Agency Act;
- (iii) transmission lines and associated equipment that transfer electricity from points of supply to points of delivery for Clean Coal Projects;
- (iv) pipelines or other methods to transfer carbon dioxide from the point of production to the point of storage or sequestration for Clean Coal Projects; and
- (v) projects to provide carbon abatement technology for existing generation facilities.

Coal Projects include:

new electric generating facilities, as defined in Section 605-332 of the Department of Commerce and Economic Opportunity Law of the Civil administrative Code of Illinois,

Renewable Energy Projects include:

- (i) projects that use renewable energy resources, as defined in Section 1-10 of the Illinois Power Agency Act;
- (ii) projects to use environmentally preferable technologies and practices that result in improvements to the production of renewable fuels, including but not limited to cellulosic conversion,

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water and energy conservation, fractionation, alternative feedstocks or reduced greenhouse gas emissions;

- (iii) transmission lines and associated equipment that transfer electricity from points of supply to points of delivery for projects described in (ii) above; and
- (iv) projects that use technology for the storage of renewable energy, including without limitations the use of battery or electrochemical storage technology for mobile or stationary applications.
- (v) pipelines or other methods to transfer carbon dioxide from the point of production to the point of storage or sequestration for Renewable Energy Projects

PROGRAM LIMITS

The principal amount of financing to be provided by the IFA for qualifying Clean Coal, Coal and Renewable Energy Projects is subject to the following limitations:

PROPOSED PROJECT	LIMITATION
Transmission facilities as described in clause (iii) under Clean Coal Projects and clause (iii) under Renewable Energy Projects above	Up to \$300 million
Pipelines and other methods for transfer of CO2 and carbon abatement projects for existing facilities as described in clauses (iv) and (v) under Clean Coal Projects above	Up to \$500 million
Clean coal facilities and clean coal SNG facilities as described in clauses (i) and (ii) under Clean Coal Projects above and Coal Projects as described above	Up to \$2.0 billion
Renewable energy projects described in clauses (i), (ii) and (iv) under Renewable Energy Projects above	Up to \$2.0 billion

In addition to the above limits, the total size approved by the legislation for this program is \$3 billion in total. The aggregate exposure of the categories outlined above may not exceed this \$3 billion limit. Further, an application for a loan financed from bond proceeds for a Clean Coal, Coal or Renewable Energy Project may not be approved for an amount in excess of \$450 million for any borrower or its affiliates.