

CONFORMING RESOLUTION
RATIFYING COMBINED HEATING AND POWER CO-GENERATION SYSTEM
NEW FINANCING STRUCTURE

A Recommendation

1. **Division and Department:** Finance and Administration Division, Facilities Management Department

2. **Introduction:** On October 7, 2013, the Board of Trustees (Board) approved Chevron Energy Solutions (Chevron) as the public/private partner for project development and construction of a combined heat and power co-generation system (Project). The purpose of the Project was to install a co-generation system in the University's existing Central Heating Plant; replacing a 56 year old boiler that has exceeded its life expectancy. The Project is expected to provide long term financial benefit and enhance the Oakland University (University) sustainability efforts.

In August 2014 Chevron sold its renewable energy subsidiary to OpTerra Energy Services (OpTerra). OpTerra specializes in energy savings projects and clean energy technology systems. As a result of the sale, the Chevron Project management team moved to OpTerra, resulting in a seamless Project management transition for the University.

OpTerra is to complete the Project with no capital cost to the University, and with annual payments to OpTerra being equal to or less than the projected annual utility savings.

Pursuant to its proposal, OpTerra was to finance the Project without adding debt to the University, by structuring the transaction through a special purpose, bankruptcy remote, tax-exempt entity to be formed by OpTerra (SPE). The SPE was to obtain tax-exempt financing from the Oakland County Economic Development Corporation (EDC), hold title to the Project, and lease the Project to the University with title to the Project to be transferred to the University at the end of the lease. See Attachment A.

Ultimately, because OpTerra was unable to create an SPE satisfactory to the EDC, the Project financing structure was modified. The SPE was replaced by UMB Bank, n.a., a national banking association (UMB), which will hold title to the Project after construction by OpTerra, and UMB will then lease the Project to the University for fifteen years with title to the Project transferring to the University at the end of the lease (Capital Lease). However, under this structure, the University was required to issue \$16 million of Certificates of Participation in the Capital Lease (COP) to finance the Project directly (completed December 23, 2014), with UMB also serving as the Trustee under an Indenture of Trust for the COPs (collectively, the New Project Finance Structure). The New Project Finance Structure has no impact on the expected long term financial

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benefit to the University, and the energy savings from the Project are still projected to cover the Capital Lease payments, as originally proposed.

3. **Previous Board Action:** On October 7, 2013, the Board approved Chevron as the public/private partner for the Project.
4. **Budget Implications:** This Project includes no capital cost to the University. Annual payments to UMB will be equal to or less than the projected annual utility savings over the time of the Capital Lease. Savings in years sixteen and beyond will accrue to the University.
5. **Educational Implications:** Educational opportunities, such as a live dashboard, new clean energy courses, and job shadowing internships, will support the current academic programs by expanding the capabilities of the School of Engineering's Clean Energy Research Center.
6. **Personnel Implications:** None.
7. **University Reviews/Approvals:** This recommendation was formulated by the Vice President for Finance and Administration and President after consultation with the Board Chair.
8. **Recommendation:**
RESOLVED, that the Board of Trustees hereby ratifies the New Project Finance Structure; and, be it further

RESOLVED, that the Board of Trustees authorizes the President, the Vice President for Finance and Administration, and their respective designees, to perform all acts and deeds and to execute and deliver all contracts, instruments and documents that are necessary, expedient and proper in connection with the Project and the ongoing administration of the Project; and, be it further

RESOLVED, that said contracts, instruments and documents shall be reviewed by and be in a form acceptable to the Vice President for Legal Affairs and General Counsel prior to execution, and be in compliance with the law and with University policies and regulations and conform to the legal standards of the Vice President for Legal Affairs and General Counsel.

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9. **Attachments:**

A. Original Project Finance Structure

Submitted to the President
on 2/27, 2015 by



John W. Beaghan
Vice President for Finance and Administration
and Treasurer to the Board of Trustees

Recommended on 2/27, 2015
to the Board of Trustees for Approval by



Dr. George W. Hynd
President

Oakland University

Project Finance Structure

- Finance without OU debt
 - OU leases project back or purchases utility plant commodities
 - Special Purpose Entity (SPE) debt secured with revenue pledge
 - Compare taxable / tax exempt financing
 - SPE is “bankruptcy remote”
 - Capital lease on OU’s books
 - Property reverts to OU at end of lease

- OU leases the “space” to the SPE to construct the co-gen plant

