

JAMES A. LOVELL FEDERAL HEALTH CARE CENTER

General

North Chicago is one of seven VA Medical Centers (VAMC) of the Veterans Integrated Service ("VISN") 12 Network. The other six VA facilities within VISN 12 are located in Iron Mountain, Michigan; Tomah, Wisconsin; Madison, Wisconsin; Milwaukee, Wisconsin; Hines, Illinois; and Chicago, Illinois. As of October 1, 2010, the North Chicago VAMC officially became the James A. Lovell Federal Health Care Center (FHCC) following a full integration with the Great Lakes Naval Hospital.

History

The history of the North Chicago VA Medical Center (NCVAMC) is closely related to that of the Great Lakes Naval Training Center. The Medical Center property was procured from the Navy by an Executive Order of President Calvin Coolidge on April 7, 1924. Within a short time, construction began on a hospital to serve the veterans of the Spanish-American War and World War I. On March 1, 1926, the hospital officially opened with five buildings and a bed capacity of 325.

During the years from 1928 to 1939, an additional six buildings were constructed. Until 1939, the hospital's official name was North Chicago. That summer the name was officially changed to Veterans Administration Hospital, Downey, Illinois. Because of a demand for more beds, between the years 1940 to 1949, another five buildings were constructed. In 1949, the hospital bed capacity was 2,500.

During the 1950s, green houses, a 9-hole golf course, a pavilion, Lake Voiture, and five additional new buildings were added to the VA medical complex.

The original mission of the hospital was the care of long-term, chronic psychiatric patients. However, supporting medical and surgical services were staffed for the inpatient population.

On July 26, 1974, the VA Administrator confirmed the establishment of an affiliation between North Chicago and the University of Health Sciences/Chicago Medical School. Today, North Chicago continues this affiliation with the renamed Chicago Medical School, now called Rosalind Franklin University. The medical school is located adjacent to North Chicago on land leased to it from the Department. Each year, residents in medicine and psychiatry train at North Chicago.

In the spring of 1976, the name Downey was dropped. Effective September 1978, because of the growing diversity of medical procedures, all VA Hospitals were redesignated as VA Medical Centers.

March 15, 1989, marked the transition of the Veterans Administration to the Department of Veterans Affairs and elevated it to the President's Cabinet. North Chicago began significant sharing agreements with the Great Lakes Naval Training Center in the

1980s. Also, Naval Hospital Corps School students began receiving training at North Chicago.

The four-story, 270,000 net square foot clinical addition was activated in 1993. The clinical addition, which was part of construction projects costing \$139.2 million, provides veterans more efficient care by consolidating all outpatient services, except mental health, into one location.

On March 1, 2001, the Great Lakes Naval Hospital and North Chicago formalized a limited resource sharing agreement that allows military beneficiaries to receive care at the VA Medical Center and veterans care at the navy hospital. The Capital Asset Realignment for Enhanced Services (CARES) decision called for enhancing sharing opportunities between North Chicago VAMC and the Naval Hospital Great Lakes. Improvements approved in the implementation plan called for projects that would modernize the existing facility as well as facilitate shared services with the Navy.

Under a proposed VA-DoD Health Care Services Sharing Agreement, NCVAMC/VISN 12 will be responsible for hiring the necessary personnel to care for Navy workload in the areas of inpatient mental health, surgery, inpatient medicine and surgery, urgent care/emergency services, and ancillary support for these services. The agreement and implementation plan documents were approved by VHA in June 2004 and forwarded to the Navy's Bureau of Medicine (BUMED) for concurrence. BUMED is currently finalizing their approval of the health care sharing documents. Integral to the implementation of this agreement is the modernization of the NCVAMC surgical and emergency care facilities. Under this agreement, the VA is responsible for all construction and capital expenditures needed to upgrade the current NCVAMC facilities.

The major construction project to modernize the NCVAMC surgical and emergency care facilities was awarded in September 2004. This project was completed and activated in June 2006. The Navy has transferred all inpatient medical and surgical services to NCVAMC.

In consideration of a new Navy/VA Joint Ambulatory Care Clinic the Navy had a private consultant study the following alternatives: a) construct a new Federal Ambulatory Care Center (JACC) on the campus of NCVAMC and demolish existing NHGL, b) close NHGL outsource ambulatory care and demolish existing NHGL, c) renovate the existing NHGL facility or d) construct a replacement JACC on Great Lakes Naval Training Center grounds and demolish the existing NHGL. Co-location with the VA on the NCVAMC campus was the preferred alternative. A new Federal Health Care Center (FHCC) on the NCVAMC campus became operational October 1, 2010. This included the opening of a new 208,575 sq. ft. Ambulatory Care Center.

Mission

The original mission of the hospital was the care of long-term, chronic psychiatric patients. As needs for inpatient psychiatric beds diminished, the mission has changed. Today, Lovell's mission is to provide integrated, high quality, comprehensive mental

health, extended and primary care services to patients served by the VA Great Lakes Health Care System - VISN 12 and beneficiaries at the Great Lakes Naval Training Center. North Chicago consists of 100 operating hospital beds, 195 nursing home care beds, and 125 domiciliary beds for homeless veterans and veterans receiving treatment for alcohol and drug abuse.

North Chicago is affiliated with the Vet Center located in Evanston, Illinois. The medical center expanded services at the Vet Center in February 1997, and now provides primary care and mental health services to veterans. North Chicago also has a community based outpatient clinic in McHenry, Illinois and Kenosha, Wisconsin.

Employment Levels

Fiscal Year 2012 represents the second full year of a fully integrated Federal Health Care Center and results in a significant staffing increase. The following table presents the total number of full time employees in various categories serving the Lovell FHCC in fiscal years 2008 to 2012:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Number of Physicians	99	103	117	136	155
Total Number of Nursing Staff (Registered Nurses, Certified Registered Nurse Anesthetists, Licensed Practical Nurses, and Nursing Assistants)	386	416	407	450	485
All Other Clinical Faculty	446	320	360	618	617
Administrative Personnel	414	580	609	838 ¹	882
Total Medical Center Personnel	1,345	1,420	1,493	2,042	2,139
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Number of Assigned Medical Care Collections Fund Employees (Third Party collections)	12	12	12	12	12

¹Due to the integration of North Chicago VAMC and Great Lakes Naval Hospital and error was made in the administrative personnel data pull in 2011 that was corrected in 2012.

Usage

The following table presents usage data in various categories with respect to the North Chicago VAMC in fiscal years 2008 to 2012:

<u>Fiscal Year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Budgeted Hospital Operating Beds	161	161	100	100	100
Average Daily Census	90	90	52	63	57
Occupancy Rate	56%	56%	52%	63%	57%
Inpatients Treated	3,926	3,733	2,992	2,909	3,045
Outpatient Visits	235,925	254,494	262,966	318,752	361,150
Number of Additional Psychiatric Residential Treatment Beds	38	38	38	18	18

Mitigating Factors Against Closing of North Chicago

Although there is no guarantee that the Department will continue to operate North Chicago, as explained in "RISK FACTORS" below, the Secretary of Veterans Affairs announced in February 2002 the Department's decision to maintain and enhance the services provided there through at least 2010. Part of a plan to address veterans' health needs throughout the Department's Veterans Integrated Service Network (VISN) 12, the Secretary's announcement covers three separate VA markets: the Chicago area, Wisconsin, and the Upper Peninsula of Michigan. The plan, initiated by the Department in October 2000 and developed with the assistance of Booz-Allen & Hamilton, is the pilot effort in what ultimately will be Twenty-one (21) such plans covering all of the Department's VISNs. The goals of the planning process, named CARES (Capital Asset Realignment for Enhanced Services), is to evaluate all health care services the Department provides, identify the best ways to meet veterans' future health care needs, and realign the Department's medical facilities and services to meet those needs more effectively and efficiently. This information is contained in the "CARES REPORT", dated June 19, 2001, which may be found at www.va.gov/CARES.

The Chicago area market is broken down into two sub-markets: the Chicago City Submarket (consisting of one medical center – West Side) and the Suburban Sub-market (consisting of two medical centers -- Hines and North Chicago). The Suburban Submarket was projected to have a greater workload and a greater need for beds by 2010 than the City Sub-Market, with an estimated 65,555 enrollees care by that time. As a result, both North Chicago and Hines will be maintained and enhanced. Hines will be renovated to provide 675 beds (with a bed capacity of up to 709 – 84 over capacity as of May 17, 2002), including acute care, SCI, nursing home, long-term SCI residential care, residential rehabilitation and domiciliary beds, and will have no change in its current mission. North Chicago will be renovated to provide 528 beds (with a bed capacity of up to 598 –55 over capacity as of May 17, 2002), including acute care, nursing home, long-

term psychiatric and domiciliary beds. In addition, a number of sharing agreements are proposed between North Chicago and the Navy to enhance the health care services provided to veterans and the naval personnel assigned to the adjacent Great Lakes Training Center (including the Project).

By contrast, the Chicago City Sub-Market was projected to experience a decline in enrollees for VA care by 2010 (from 76,605 as of May 17, 2002 to 43,105), with most of the veteran population concentrated in the West Side service area. As a result, the Secretary announced that West Side will be remodeled and provided a total of 177 beds (with a bed capacity of up to 201 – down from 276 as of May 17, 2002) for inpatient medical, surgical and psychiatric purposes. An additional 20 beds are allocated to West Side for residential rehabilitation. Inpatient services will be phased out at Lakeside, and a multi-specialty outpatient clinic will be established. Portions of the Lakeside property will be made available for other governmental and/or commercial uses through the Department's enhanced-use leasing authority.

Implementation of CARES over the rest of this decade will require significant additional investment by the Department at North Chicago and elsewhere within VISN 12, and increasingly innovative ways of sharing services with the Navy and other medical caregivers in the immediate area.

The foregoing information and data set forth in this section was provided by the Department by reference to the CARES Report.

THE PROJECT

The Project consists of the development, construction and equipping by the Developer, on behalf of the Owner Trust, of an energy facility for the production of electricity and steam, and related facilities and appurtenances to be located in North Chicago, Illinois.

The Owner Trust and the Department has entered into the Enhanced-Use Lease to provide for the lease of the Premises to the Owner Trust by the Department for a term of approximately 35 years ending May 1, 2037, subject to earlier termination in certain events. See Appendix C, "SUMMARY OF CERTAIN PROVISIONS OF THE COMMERCIAL DOCUMENTS–The Enhanced-Use Lease."

Pursuant to VA Energy Services Agreement, the Owner Trust and the Developer will furnish and the Department will purchase certain of the electricity and steam required by the Department's facilities on the campus at North Chicago (including the barracks to be built by the Navy) for an initial term of two years after the Commencement Date, with such initial term subject to renewal upon notice for successive two year terms ending on the earlier of repayment in full of the loan represented by the Loan Agreement (or repayment of any refinancing thereof approved by the Bond Insurer and the Department), the payment in full of all of the Bonds and the payment of all Reimbursement Obligations to the Bond Insurer or May 1, 2037, subject to extension or

earlier termination in certain events and to non-appropriation by the United States Congress. Pursuant to the Inter-Agency Agreement, it is anticipated that the Navy will agree to buy certain of the electricity and steam required for its new barracks at the Great Lakes Training Center from the Department. Therefore, a portion of the electricity and steam to be purchased by the Department under the VA Energy Services Agreement is anticipated to be sold to the Department of the Navy. The Navy will not be obligated to buy electricity and steam directly from the Owner Trust and the Navy will not enter into an energy services agreement with the Owner Trust. Chicago Medical School (CMS) has agreed to lease certain facilities located on the North Chicago campus from the Department and CMS has agreed to buy certain of the electricity and steam required for the buildings subject to the CMS Lease from the Owner Trust. It is anticipated that CMS will enter into an energy services agreement with the Owner Trust, which, if done, may produce additional Project revenues, although there is no assurance that CMS will enter into an energy services agreement and Bondholders should not rely on any such revenues as additional security for the Bonds. See Appendix C, "SUMMARY OF CERTAIN PROVISIONS OF THE COMMERCIAL DOCUMENTS."

The following represents the major equipment and systems that will be installed in the Project. The systems will all be installed on vacant land south of the old incinerator (Building 140) and immediately north of the fence line along the north side of the old golf course. All the major equipment and systems are based on technology already successfully in use in the United States and internationally. No untested or experimental major equipment or systems will be incorporated into the Project.

- One natural gas-fueled turbine-genset, or equivalent
- One heat recovery boiler (HRB) with natural gas-fueled duct burners, or equivalent
- Two fire-tube boilers, or equivalent
- One boiler make-up water treatment system (Softeners, Deaerator, Condensate Surge Tank, etc.)
- Energy Center building, pre-cast concrete construction
- Interconnection to existing North Chicago and planned Navy barracks steam and electric distribution systems
- Electrical switchgear
- Instrumentation, controls, and metering
- Natural gas compression system, or equivalent
- Back-up fuel oil storage system
- Other mechanical support systems and equipment
- Building space allocated for additional power-generating equipment (potentially dedicated to the neighboring Chicago Medical School)
- Building space allocated for additional steam generating equipment for load growth (to accommodate Navy load growth, to an ultimate build-out of seven barracks)
- Real estate allocated for additional power generating equipment (to accommodate Navy load growth, to an ultimate build-out of seven barracks)

RISKS TO BONDHOLDERS

Introduction

The following risks are not intended to be a comprehensive list of the risk factors relating to the purchase of the Bonds, but rather reflect some of the factors which should be considered prior to purchasing the Bonds. Potential investors should consult with their personal financial advisors in order to make an informed investment decision regarding the purchase of the Bonds.

Closure of North Chicago Medical Center

Upon the recommendation of the Secretary of the Department and following the prior notice to and review by the United States Congress, the Department may close any of its medical centers, including North Chicago. The only Department medical centers that have been closed over the past several years also involved the development of replacement facilities nearby and, in all but two cases, the reuse of the older facilities for other purposes. There can be no guarantee that the Department will continue to operate North Chicago. If the Department closed or abandoned North Chicago, there is no guarantee that the Owner Trust or the Developer would be able, on a commercially reasonable basis, to locate other customers for that portion of the electricity and steam previously provided to and purchased by the Department under the VA Energy Services Agreement.

Failure of Developer to Construct the Project

The failure of the Developer to complete the Project in a timely manner by reason of Force Majeure, a labor or materials shortage or otherwise could delay the payment of revenues to the Revenue Fund pursuant to the VA Energy Services Agreement. The Developer expects to complete the acquisition, construction and equipping of the Project prior to the Scheduled Completion Date, i.e., April 21, 2004. The Bond proceeds include an amount sufficient to fund capitalized interest on the Bonds for a period through and including August 31, 2004. In addition, if the Commencement Date does not occur by July 21, 2004, the Developer has agreed in certain circumstances to pay liquidated damages to the Owner Trust in an amount equal to the principal and interest due on the Bonds, subject to a maximum aggregate payment to the Owner Trust of one year's debt service on the Loan. Pursuant to the Performance Guaranties, the Parent Guarantor has agreed to guarantee the punctual and full performance by the Developer of all of the Developer's liabilities and obligations arising under the Development and Management Agreement. See "INTRODUCTORY STATEMENT—Performance Guaranties" and "THE PROJECT."

Dependency on Appropriations Process of the United States Congress

The Department's access to funds requires an appropriation by the United States Congress. The Department's ability to make payments under the VA Energy Services Agreement requires such an appropriation to the general operating expenses budget of the Department from which the Department's obligations under the VA Energy Services Agreement will be paid. The Department's Medical Programs received the following federal appropriations from Congress since 1980.

DEPARTMENT MEDICAL PROGRAMS APPROPRIATIONS

<u>Federal Fiscal Year</u>	<u>Appropriation (000's)</u>	<u>Percent Increase</u>
1980	5,832,039	---
1981	6,339,396	8.7
1982	7,101,028	12.0
1983	7,773,254	9.5
1984	8,244,414	6.1
1985	8,941,169	8.5
1986	9,130,137	2.1
1987	9,728,203	6.6
1988	10,151,387	4.4
1989	10,887,671	7.3
1990	11,436,306	5.0
1991	12,335,330	7.9
1992	13,625,685	10.5
1993	14,645,723	7.5
1994	15,640,150	6.8
1995	16,147,994	3.2
1996	16,551,048	2.5
1997	17,013,447	2.8
1998	17,723,975	4.2
1999	17,818,771	0.5
2000	19,462,191	9.2
2001	20,949,897	7.6
2002	22,828,867	9.0
2003	25,621,562	12.2
2004	28,221,703	10.1
2005	31,035,210	10.0
2006	31,339,789	1.0
2007	36,186,823	15.5
2008	39,115,707	7.5
2009	41,764,132	5.3
2010	45,077,500	6.7
2011	50,674,395	11.0
2012	53,111,267	4.5

The portion of such federal appropriations allocated to North Chicago for operating and maintenance support during the past 17 years has been tied to patient caseloads. The following table shows the amount from the federal appropriation allocated by the Department to North Chicago for operating and maintenance support since 1985.

NORTH CHICAGO ALLOCATIONS

<u>Federal Fiscal Year</u>	<u>Operating and Maintenance Support¹</u>	<u>Percent Increase</u>
1985	\$79,737,847	---
1986	82,853,124	3.91
1987	86,090,112	3.91
1988	89,453,566	3.91
1989	92,948,427	3.91
1990	95,873,465	3.15
1991	100,363,719	4.68
1992	110,053,797	9.65
1993	116,526,650	5.88
1994	119,549,043	2.59
1995	120,167,303	0.52
1996	120,926,150	0.63
1997	115,284,477	-4.67
1998	111,238,976	-3.51
1999	106,518,678	-4.24
2000	111,199,993	4.39
2001	116,537,022	4.80
2002	116,916,388	0.30
2003	110,879,239	- 5.16
2004	120,910,543	9.05
2005	131,472,125	8.74
2006	130,900,990	- 0.40
2007	133,162,458	1.72
2008	155,416,599	16.70
2009	163,383,763	5.13
2010	188,642,065	15.46
2011	203,874,169	8.07
2012	326,477,444 ²	60.14

¹ 1985 through 1988 are based on estimated annual escalation factor of 3.9%

² 2012 is first year that includes Navy/DOD contribution for fully integrated facility

There is no guarantee that the United States Congress will continue to make an appropriation to enable the Department to make payments under the VA Energy Services Agreement. In the event the United States Congress does not make such an appropriation, the Issuer's ability to provide sufficient funds to pay the debt service on the Bonds could be adversely affected. There is no guarantee that the Owner Trust or the Developer would be able, on a commercially reasonable basis, to locate customers for the electricity and steam previously provided to and purchased by the Department under the VA Energy Services Agreement. See Appendix C, "SUMMARY OF CERTAIN PROVISIONS OF THE COMMERCIAL DOCUMENTS--The VA A portion of the electricity and steam to be purchased by the Department pursuant to the Energy Service Agreement."

Energy Purchased by VA:

The following table presents amount of electricity and steam purchased by the Department respect to the energy generated from the North Chicago Energy Center in fiscal year 2008 to 2011:

<u>Fiscal Year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Electricity	\$1,340,625	\$1,562,695	\$1,605,524	\$1,719,121	\$1,664,556
Steam	\$7,045,021	\$7,338,975	\$6,530,641	\$6,743,523	\$5,578,093
Total electricity and steam	\$8,385,646	\$8,951,770	\$8,136,165	\$8,462,644	\$7,242,649

Termination of the Inter-Agency Agreement

VA Energy Services Agreement are anticipated to be for the use of the Navy trainee barracks and are intended to be sold to the Navy by the Department pursuant to the Inter-Agency Agreement. If the Inter-Agency Agreement is not executed or is terminated or the Navy is unable to pay the Department for electricity and steam, the Department will be obligated to make full payments under the VA Energy Services Agreement. The inability of the Department to make full payment under the VA Energy Services Agreement may adversely affect the Owner Trust's ability to pay the Issuer under the Loan Agreement and the Issuer's ability to pay principal and interest on the Bonds.

Limited Liability of the Issuer

The Bonds are not general obligations of the Issuer, the State of Illinois or any political subdivision thereof but are limited and special obligations of the Issuer payable solely from and secured by amounts received under the Policy, from the Trust Estate and from amounts derived from enforcement of the Leasehold Mortgage. The Bonds and the interest thereon do not constitute or create an indebtedness, liability or obligation of the State of Illinois or any political subdivision thereof within the meaning of any State of Illinois constitutional provision or statutory limitation, or constitute a pledge of the faith and credit or the taxing power of the State of Illinois or any political subdivision thereof. The Issuer has no taxing power.

Nonrecourse Obligations

The liability of the Owner Trust for any payments due under the Loan Agreement, including the payment of principal and interest on the Bonds, is limited solely to the security provided in the Leasehold Mortgage and all leases, rents and profits from the Leasehold Mortgage and any other collateral securing the obligations under the Loan Agreement or the Bonds. See Appendix B, "SUMMARY OF CERTAIN PROVISIONS OF THE BOND DOCUMENTS."

Secondary Market Trading

The Department, at any time for any reason, may decide to discontinue using the North Chicago Medical Center as part of the Department's mission and terminate the VA Energy Services Agreement. The Developer's inability to find other public users for the electricity and steam previously supplied to North Chicago could have an adverse impact on the ability of Bondholders to trade their Bonds and may require individual Bondholders to comply with or find exemptions to state and federal securities laws in order to trade their Bonds.