Financial Engineering’s the Key: How a Long-Term Energy Sale Agreement and Bond Offering Transformed the McCommas Bluff LFG Project. Three Perspectives on One Project:

The “Investment Banking” Perspective

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Structuring Tax-Exempt Bonds for the Capital Market

What is the Depth of the Tax-Exempt Capital Market?

U.S. Government, Corporate, Agency, Mortgage-Related and Municipal Debt Outstanding

- Total U.S. Treasuries outstanding: $9.19 Trillion ($USD)
- Total Corporate Bonds outstanding: $7.67 Trillion
- Total Federal Agency Bonds outstanding: $2.38 Trillion
- Total Mortgage-Related Bonds outstanding: $8.33 Trillion
- Total Municipal Bonds outstanding: $2.89 Trillion

Source: Securities Industry and Financial Markets Association as of 6/30/2011
Structuring Tax-Exempt Bonds for the Capital Market

Who are the Purchasers of Tax-Exempt Bonds?

Maturities of 1-year or less:
- Tax-Exempt Money
- Market Funds
- Corporations
- Short Duration Bond Funds
- Trust Departments
- Individuals

1 to 5-year Maturities:
- Trust Departments
- Investment Advisors
- Insurance Companies
- Short Duration Bond Funds
- Individuals

5 to 20-year Maturities:
- Intermediate Bond Funds
- Individuals
- Insurance Companies
- Investment Advisors

20 to 30-year Maturities:
- Long Term Bond Funds
- Insurance Companies
- Individuals

Yield %
- 0.5%
- 1.0%
- 1.5%
- 2.0%
- 2.5%
- 3.0%
- 3.5%
- 4.0%
- 4.5%
- 5.0%
- 5.5%
- 6.0%

0 1-Yr 5-Yr 10-Yr 15-Yr 20-Yr 25-Yr 30-Yr +

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Structuring Tax-Exempt Bonds for Investor Demand
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Where do Purchasers of Tax-Exempt Bonds Invest?

- **Bond Funds, Corporations, Retail**
- **Insurance Casualty Companies**
- **Trust Depts., Investment Advisors**

### General Obligation Bonds
- **Bank Trust Depts.** 10%
- **Corporations** 5%
- **Insurance Cos.** 15%
- **Investment Advisors** 10%
- **Retail** 25%
- **Bond Funds** 35%

### Revenue Bonds
- **Bank Trust Depts.** 10%
- **Corporations** 5%
- **Insurance Cos.** 10%
- **Retail** 10%
- **Investment Advisors** 10%
- **Bond Funds** 40%
What are Bond Investors seeking?

- Yield
- Credit Quality
- Liquidity (Secondary Market)
- Length of Term of Investment (Duration)
- Certainty in the face of inherent risk
  - Tax Risk
  - Legislative Change
  - Credit Risk
  - Market Risk

Structuring Tax-Exempt Bonds for Investor Demand
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Criteria for an Investment Grade Rating

A Project’s Credit Rating is based on the projected financial performance over the life of the debt and its ability to make scheduled debt service payments. Determining factors include:

- **Stable revenue profile**
- **Operation risk**
  - Experience
  - Fixed expenses
  - Technology risks (proven technology)
  - Long-term product sale agreement with a high credit quality counterparty
- **Project completion risk**
  - Construction risk (delays)
- **Resource risk**
  - Active landfill site with long remaining life (tenor of the bonds relative to the expected life of the landfill)
  - Accuracy of the resource supply estimates and project’s ability to withstand substantial reductions in landfill gas resources
Structuring Tax-Exempt Bonds for Needs of Borrowers
What do Borrowers want in a Tax-Exempt Financing?

- Low Yield / Costs
- Structuring Flexibility
- “Livable” Covenants
- Minimal Equity and/or Minimal Security/Pledge
- Length of Term
- Certainty in the face of inherent risk
  - Tax Law Change
  - Interest Rate Risk
  - Ease of Financing Process
Structuring Tax-Exempt Bonds to Reach a Balance
### Structuring Tax-Exempt Bonds to Reach a Balance

#### Credit Features: Depending on the Credit Profile of the Borrower or the Project....

<table>
<thead>
<tr>
<th></th>
<th>Investment Grade Borrower (“BBB-“ or better)</th>
<th>Non Investment Grade Borrower (“BB+” or lower)</th>
<th>Unrated Borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Enhancement Needed?</td>
<td>No</td>
<td>Maybe</td>
<td>Yes (Direct-Pay Letter-of-Credit)</td>
</tr>
<tr>
<td>Equity Contribution to the Project?</td>
<td>No</td>
<td>Maybe</td>
<td>Yes; 25% - 50%, depending on Project</td>
</tr>
<tr>
<td>Amortizing Principal?</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
<tr>
<td>Reserve Fund?</td>
<td>Maybe</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
<tr>
<td>Financial Covenants?</td>
<td>Limited (Debt Service Coverage, Limitation on Additional Debt)</td>
<td>Light</td>
<td>Full Covenants</td>
</tr>
<tr>
<td>Guaranty?</td>
<td>Maybe</td>
<td>Maybe</td>
<td>Corporate / Personal</td>
</tr>
<tr>
<td>Mortgage / Deed of Trust?</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Represents the basic criteria for Underwriting a Letter of Credit. Related requirements will also include positive financial statements for 3 to 5 years.*
### Structuring Tax-Exempt Bonds to Reach a Balance

**Bond Features:** Depending on the Credit Profile of the Borrower or the Project....

<table>
<thead>
<tr>
<th></th>
<th>Investment Grade Borrower (&quot;BBB-&quot; or better)</th>
<th>Non Investment Grade Borrower (&quot;BB+&quot; or lower)</th>
<th>Unrated Borrower (Letter-of-Credit Enhanced)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Sale</td>
<td>Public</td>
<td>Public, Limited Offering</td>
<td>Public, Direct Placement, Private Placement</td>
</tr>
<tr>
<td>Interest Rate Mode</td>
<td>Long-Term Fixed Rate, Put Bonds, Variable Rate</td>
<td>Long-Term Fixed Rate, Put Bonds</td>
<td>Variable Rate, &quot;Synthetic&quot; Fixed Rate w/ Interest Rate Swap</td>
</tr>
<tr>
<td>Call / Redemption Features</td>
<td>Standard 10-Yr Call Option w/ Potential for shorter Call Features</td>
<td>Standard 10-Yr Call Option</td>
<td>No Prepayment Penalty w/ Letter-of-Credit</td>
</tr>
<tr>
<td>Potential for Direct Investor Negotiations</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Minimum Par Amount</td>
<td>$10.0 Million</td>
<td>$15.0 Million</td>
<td>$5.0 Million</td>
</tr>
<tr>
<td>Ideal Par Amount</td>
<td>$25.0 Million+</td>
<td>$25.0 Million+</td>
<td>$10.0 Million+</td>
</tr>
</tbody>
</table>
# Structuring Tax-Exempt Bonds to Reach a Balance

## Public Offering Vs. Limited Offering Vs. Private Placement

<table>
<thead>
<tr>
<th></th>
<th>Tax-Exempt Public Offering</th>
<th>Tax-Exempt Limited Offering</th>
<th>Traditional Private Placement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buyers</strong></td>
<td>No restrictions; Retail, Money Market Funds, Mutual Funds, Insurance Companies, Banks</td>
<td>Institutional Investors only</td>
<td>“Accredited Investors” as defined in relevant regulations</td>
</tr>
<tr>
<td><strong>Market Depth</strong></td>
<td>Slight liquidity premium for smaller issues (&lt;$15 MM)</td>
<td>Liquidity premium for issues less than $25 MM</td>
<td>No “liquidity premium” for smaller issues</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td>Up to 35 yrs, depending on the Useful Life of the assets</td>
<td>Up to 35 yrs, depending on the Useful Life of the assets</td>
<td>Up to 30 yrs</td>
</tr>
<tr>
<td><strong>Structure/Security</strong></td>
<td>Bullet or amortizing Secured or unsecured available</td>
<td>Bullet or amortizing Secured or unsecured available</td>
<td>Typically bullet Secured or unsecured available</td>
</tr>
<tr>
<td><strong>Call Features</strong></td>
<td>Callable at any time upon 30 days notice (variable rate) / Current market is 10 year call at par (fixed rate)</td>
<td>Callable at any time upon 30 days notice (variable rate) / Current market is 10 year call at par (fixed rate)</td>
<td>Make-whole call at Treasury rate + a fixed spread</td>
</tr>
<tr>
<td><strong>Covenants</strong></td>
<td>Rate covenants and possibly others</td>
<td>Rate covenants and possibly others</td>
<td>Similar to bank loan</td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td>1 – 2 weeks for Investment Grade / 2 – 3 weeks for Non-IG &amp; NetRoadshow</td>
<td>1 – 2 weeks for Investment Grade / 2 – 3 weeks for Non-IG &amp; NetRoadshow</td>
<td>1 – 2 weeks &amp; Roadshow not required</td>
</tr>
<tr>
<td><strong>Ratings</strong></td>
<td>Moody’s, Fitch or S&amp;P</td>
<td>Moody’s, Fitch or S&amp;P</td>
<td>No ratings required</td>
</tr>
</tbody>
</table>
Marketing and Sale of Securities:
Marketing and Sale of Securities

Several Groups within the Investment Bank Work Simultaneously on the Marketing and Sale of the Bonds

**Underwriter**
- Develops marketing strategy
- Coordinates input from borrower, counsel and sales professionals
- Helps finalize bond sales/structure
- Establishes price/yield levels on the bonds

**Sales Professionals: Institutional and Retail**
- Help coordinate marketing strategy
- Obtain feedback from investors regarding bond structure
- Solicit orders for the bonds

**Traders**
- Maintain secondary market trading liquidity for investors
- Buy and sell securities for a firm’s account
## Marketing and Sale of Securities
### Factors That Will Affect Pricing

<table>
<thead>
<tr>
<th>Market Psychology</th>
<th>Economic Factors</th>
<th>Market Technicals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trends in the Market</td>
<td>Federal Reserve Board Policy</td>
<td>Comparable Offerings</td>
</tr>
<tr>
<td>- Interest rates</td>
<td>Money Supply Targets</td>
<td>- Primary market</td>
</tr>
<tr>
<td>- Supply and Demand</td>
<td>Calendar of Data Releases</td>
<td>- Secondary market</td>
</tr>
<tr>
<td>Buyer Base and Philosophy</td>
<td>- Producer Price Index</td>
<td>New Issue Syndicate Balances</td>
</tr>
<tr>
<td>- Long-term investors</td>
<td>- Consumer Price Index</td>
<td>- Visible supply</td>
</tr>
<tr>
<td>- Active traders (arbitrage accounts)</td>
<td>- Others</td>
<td>- Blue list</td>
</tr>
<tr>
<td>- Retail buyers</td>
<td></td>
<td>- Institutional bid wanted lists</td>
</tr>
<tr>
<td>- Specialty/derivative buyers</td>
<td></td>
<td>Government and Corporate Bond Market Movement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Federal and State Income Taxes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Coupon Reinvestment Dates</td>
</tr>
</tbody>
</table>
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