



PROJECT FINANCE

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THE ROLE OF PROJECT FINANCE

- COPING WITH CHANGES IN THE CAPITAL MARKETS
 - LETTERS OF CREDIT HARD TO GET
 - LENDERS “PRESERVING” CAPITAL
 - LACK OF LIQUIDITY



THE BASIS FOR PROJECT FINANCE

- GOAL- TO THE EXTENT POSSIBLE, FINANCE PROJECT AS A STAND-ALONE
- CREATE NETWORK OF AGREEMENTS AMONG LENDERS, PROJECT SPONSORS AND OTHER PARTICIPANTS
- USE LITTLE OR NO BANK DEBT OR LETTER OF CREDIT



LENDERS LOOK TO CASH FLOW

- “BUILD A BOND”
 - ISSUE CALCULATED AMOUNT OF DEBT AS PART OF LAYERED “CAPITAL STACK”
- PROJECT FINANCE BASED MORE ON CREDIBLE REVENUES FROM THE PROJECT THAN THE SPONSOR’S BALANCE SHEET
- EQUITY STILL IMPORTANT
- SOME PROJECT FINANCE BONDS ARE INVESTMENT GRADE RATED



WHAT'S IMPORTANT TO RATING AGENCIES (AND INVESTMENT BANKS)

- STRONG CONTRACTS WITH STRONG PARTIES
 - QUALIFIED, CREDITWORTHY CONTRACT PARTIES WITH GOOD TRACK RECORDS
- COMMERCIAL CONTRACTS-
 - ENERGY SECTOR- “EPC” [ENGINEERING, PROCUREMENT AND CONSTRUCTION] AGREEMENT WITH CONTRACTOR, PPA [POWER PURCHASE AGREEMENT] WITH UTILITY, SUPPLIER CONTRACTS, ETC.
 - SENIOR LIVING SECTOR- MANAGEMENT CONTRACT WITH OPERATOR OF FACILITIES, CONSTRUCTION CONTRACT WITH PAYMENT AND PERFORMANCE BONDS, ETC.



WHAT'S IMPORTANT TO RATING AGENCIES (AND INVESTMENT BANKS) (cont.)

- COLLATERAL CONTRACTS
 - COLLATERAL CONTRACTS- PLEDGE PROJECT IN ITS ENTIRETY TO SECURE DEBT
 - PROJECT PAYMENT AND PERFORMANCE GUARANTIES;
GUARANTY OF PROJECT COMPLETION



WHAT'S IMPORTANT TO RATING AGENCIES (AND INVESTMENT BANKS) (cont.)

- **DEPENDABLE PROJECT TECHNOLOGY, CONSTRUCTION AND OPERATIONS**
 - TECHNICAL PROJECT MUST PASS “TECHNICAL REVIEW” BY IE [INDEPENDENT ENGINEER]
- **PROJECT MUST BE GOOD COMPETITOR IN ITS MARKET**
 - SPONSOR NEEDS FEASIBILITY STUDY FROM NATIONALLY RECOGNIZED SOURCE THAT IS ACCEPTED IN THE BOND MARKET
 - FOCUS ON RISKS TO ACHIEVING FINANCIAL PROJECTIONS



WHAT'S IMPORTANT TO RATING AGENCIES (AND INVESTMENT BANKS) (cont.)

- LEGAL AND FINANCIAL STRUCTURE THAT SUPPORTS PROJECT
 - BANKRUPTCY-RE MOTENESS OF PROJECT ENTITY
 - FINANCIAL STRENGTH OF CRITICAL PARTICIPANTS (CUSTOMERS, SUPPLIERS, VENDORS, CREDIT ENHANCERS, ETC.)
 - RATING OF PROJECT DEBT USUALLY CAN'T EXCEED RATING OF LOWEST RATED CRITICAL PARTICIPANT
- SOUND "CAPITAL STACK"



WHAT'S IMPORTANT TO RATING AGENCIES (AND INVESTMENT BANKS) (cont.)

- LAYERS OF DEBT AND EQUITY FROM MOST AT RISK (COMMON EQUITY) TO LEAST AT RISK (BONDS)
 - SHOULD NOT HAVE TOO MUCH DEBT
 - HURDLES APPLY BEFORE ADDITIONAL DEBT CAN BE ISSUED
 - SHOULD NOT HAVE “BULLET MATURITY” DEBT
 - GOOD DSCR [DEBT SERVICE COVERAGE RATIO] REQUIRED
 - SPONSOR NEEDS FISCAL STUDY FROM NATIONALLY RECOGNIZED SOURCE THAT IS ACCEPTED IN THE BOND MARKET



EXAMPLE WASTE-TO-ENERGY PROJECT

- \$110 MILLION TAX-EXEMPT BONDS
 - ISSUED BY A LOCAL AUTHORITY
 - SOLD WASTE DISPOSAL BONDS
 - BUT MIGHT “MIX AND MATCH” BOND TYPES
 - RATED BONDS PUBLICLY SOLD THROUGH AN INVESTMENT BANK
 - NO LOC,OR
 - ONLY PARTIAL LOC
 - STAND-BY LOC INSTEAD OF DIRECT PAY LOC



EXAMPLE

WASTE-TO-ENERGY PROJECT

(cont.)

UNDERWRITING REQUIREMENTS

1. Need a minimum equity contribution.
 - a) 5% equity? 20% equity? How much does the market require?
 - b) Can “grant in lieu” be counted? (Grants under Recovery Act Sec. 1603 from the US Treasury Dept. in lieu of the investment tax credit under IRC Sec. 48 or the production tax credit under IRC Sec. 45.)
2. Need a guaranteed maximum price or stipulated sum contract for costs of the project.
3. Need long-term contracts with several companies that will deliver the waste as well as the PPA [Power Purchase Agreement] with [the regulated utility].



PROJECTIONS

PROJECT MUST “CASH FLOW”

- EXAMPLE FROM TERM SHEET- “The projected revenues shall be sufficient to obtain an investment grade rating, currently anticipated to be approximately 1.5x debt service.”
- WHEN REVENUES ARE PROJECTED INSTEAD OF HISTORICAL, THEN CREDIT ENHANCEMENT IS IMPORTANT



NON-LOC CREDIT ENHANCEMENT SOURCES

- FEDERAL GOVERNMENT GUARANTEES
 - USDA, DOE, OTHER
- CORPORATE LOAN GUARANTEES
- EQUITY-FUNDED CREDIT ENHANCEMENT TECHNIQUES
- SPONSOR CREDIT ENHANCEMENT



EXAMPLE- RENEWABLE ENERGY PLANT

- UNRATED TAXABLE CORPORATE BONDS SOLD IN TWO SERIES
 - FIRST SERIES SECURED BY FEDERAL GUARANTY
 - EXEMPT SECURITIES SOLD THROUGH INVESTMENT BANK
 - SECOND SERIES SECURED BY SPONSOR
 - SOLD IN REG D EXEMPT TRANSACTION AND RULE 144A RESALE
- VIRTUAL EQUITY FROM STATE GRANT
- BALANCE OF EQUITY FROM SPONSOR



SENIOR LIVING/HEALTHCARE EXAMPLE

- TOTAL PROJECT COSTS \$19 MILLION
- CAPITAL STACK COMPRISED OF:
 - \$14.1 MILLION TAX-EXEMPT RECOVERY ZONE FACILITY BONDS ISSUED BY STATEWIDE ISSUER
 - \$1.7 MILLION LAND CONTRIBUTION
 - \$3.0 MILLION ADDITIONAL CASH EQUITY CONTRIBUTION (FROM DEVELOPER OR MONETIZATION OF LOW INCOME HOUSING TAX CREDITS)
 - MINIMUM DSCR OF 1.30
 - REGIONAL OR NATIONAL SENIOR LIVING OPERATOR WITH STRONG BALANCE SHEET
 - OPERATING RESERVE EQUAL TO 2 YEARS DEBT SERVICE (APPROXIMATELY \$2.2M) FUNDED FROM NET OPERATING INCOME (NOI)



SENIOR LIVING/HEALTHCARE EXAMPLE (cont.)

- CAPITAL STACK COMPRISED OF:
 - DEBT SERVICE RESERVE EQUAL TO 2 YEARS DEBT SERVICE (APPROXIMATELY \$2.2M) FUNDED BY LOC FROM THE DEVELOPER
 - TOTAL OF FOUR YEARS WORTH OF RESERVES
 - CAPITALIZED INTEREST FOR 18-24 MONTHS (DEPENDING ON CONSTRUCTION DRAW SCHEDULE)
 - LOCs FOR DEBT SERVICE FUND RELEASED AT DSCR OF 1.3 FOR 24 CONSECUTIVE MONTHS BUT ONLY AFTER OPERATING RESERVE FUND AND DEBT SERVICE RESERVE FUND ARE FUNDED FROM NOI to \$3.3M



PUBLIC/PRIVATE PARTNERSHIPS

- CREDIT ENHANCEMENT THROUGH PLEDGE OF PROPERTY/OTHER TAXES
 - REPAYMENT OF BONDS SUPPORTED BY PUBLIC SECTOR
 - CONTRACT REVENUE BONDS
 - LIKE GENERAL OBLIGATION BONDS
 - SPECIAL TAX/ASSESSMENT DISTRICTS



PUBLIC/PRIVATE PARTNERSHIPS (cont.)

- TAX INCREMENT (TIF) FINANCE
 - A/K/A TAX ALLOCATION DISTRICT (TAD) FINANCE
 - BONDS ISSUED BY LOCAL GOVERNMENT/LOCAL AUTHORITY TO PAY REDEVELOPMENT COSTS
 - CAN PAY FOR INFRASTRUCTURE SUPPORTING DEVELOPMENT
 - IN SOME CASES, CAN PAY CERTAIN COSTS ON DEVELOPER'S PRO FORMA



EXAMPLE: 1 MILLION SQ. "UNDER ROOF" BUSINESS PARK

- CLOSED APPAREL PLANT ACQUIRED AND CONVERTED INTO BUSINESS PARK FOR MULTIPLE USERS
 - \$15.975 MILLION IN BOND FINANCING
 - \$12.89 MILLION: TAX-EXEMPT RECOVERY ZONE BONDS
 - \$3.085 MILLION TAXABLE INDUSTRIAL DEVELOPMENT REVENUE BONDS
 - ISSUED BY LOCAL AUTHORITY



EXAMPLE: 1 MILLION SQ. "UNDER ROOF" BUSINESS PARK (cont.)

- SECURED BY INTERGOVERNMENTAL AGREEMENT BY COUNTY WITH AUTHORITY
- PUBLICLY SOLD THROUGH INVESTMENT BANK AS RATED BONDS WITH SERIAL MATURITIES OUT TO 30 YEARS
- FIXED INTEREST RATES
- NO LOC



WHAT BONDS CAN DO FOR YOU

BOND FINANCING IN THE RIGHT STRUCTURE CAN DO SOME OR ALL OF THESE THINGS FOR A PROJECT-

- REPLACE OR SUPPLEMENT BANK DEBT
- LONGER MATURITY
- LOWER RATE
- FLEXIBLE AMORTIZATION
- DEFERRED PRINCIPAL PAYMENTS (INTEREST ONLY PERIOD)
- CAPITALIZED INTEREST (NO PAYMENTS PERIOD)
- LOWER DEBT SERVICE PAYMENTS
- HIGHER DEBT SERVICE COVERAGE FROM REVENUES
- HIGHER RETURN ON EQUITY FOR OWNER



CONCLUSION

- THE WORLD CHANGES, AND DEAL STRUCTURES CHANGE WITH IT
- WITH THE RIGHT DEAL STRUCTURE, EVEN DIFFICULT DEVELOPMENTS GET DONE



IF YOU HAVE QUESTIONS

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MORE INFORMATION

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