



# **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**

**January 19, 2012**

Lawrence Tonomura, Managing Director  
Bank of America Merrill Lynch  
415-627-3086 (p)  
[lawrence.n.tonomura@baml.com](mailto:lawrence.n.tonomura@baml.com)

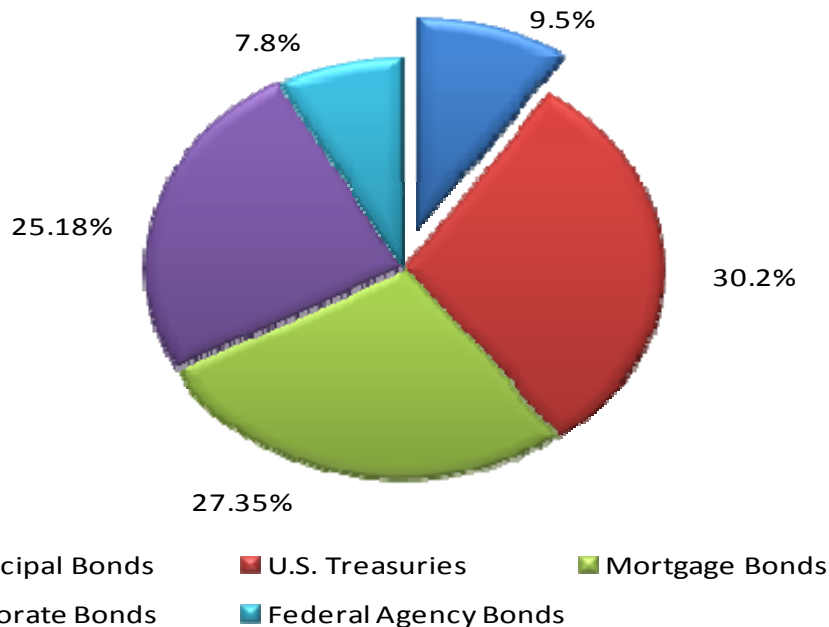
# **Structuring Tax-Exempt Bonds for the Capital Market: “The Balancing Act”**

# Structuring Tax-Exempt Bonds for the Capital Market

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

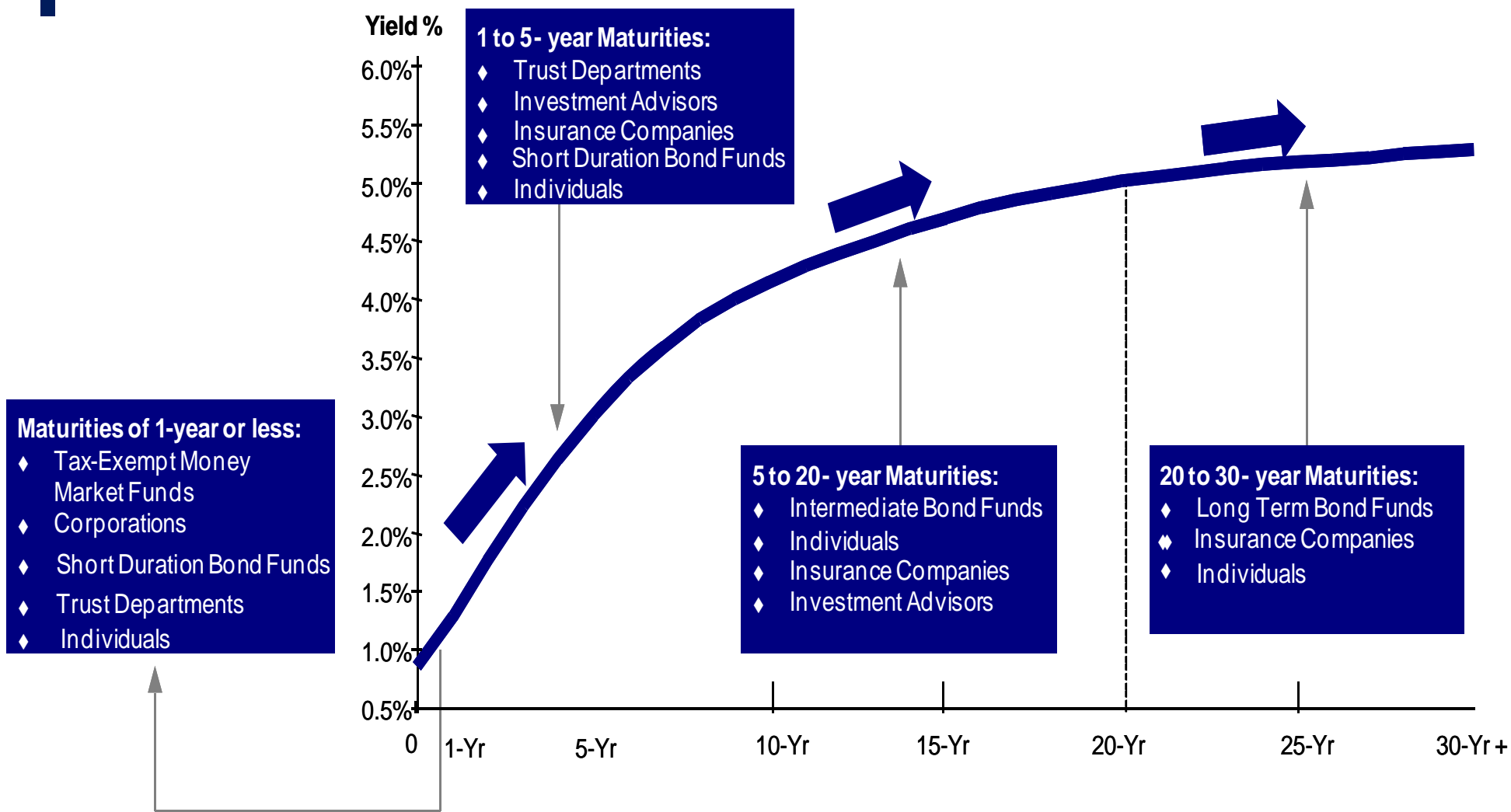
### U.S. Government, Corporate, Agency, Mortgage-Related and Municipal Debt Outstanding

- 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



# Structuring Tax-Exempt Bonds for the Capital Market

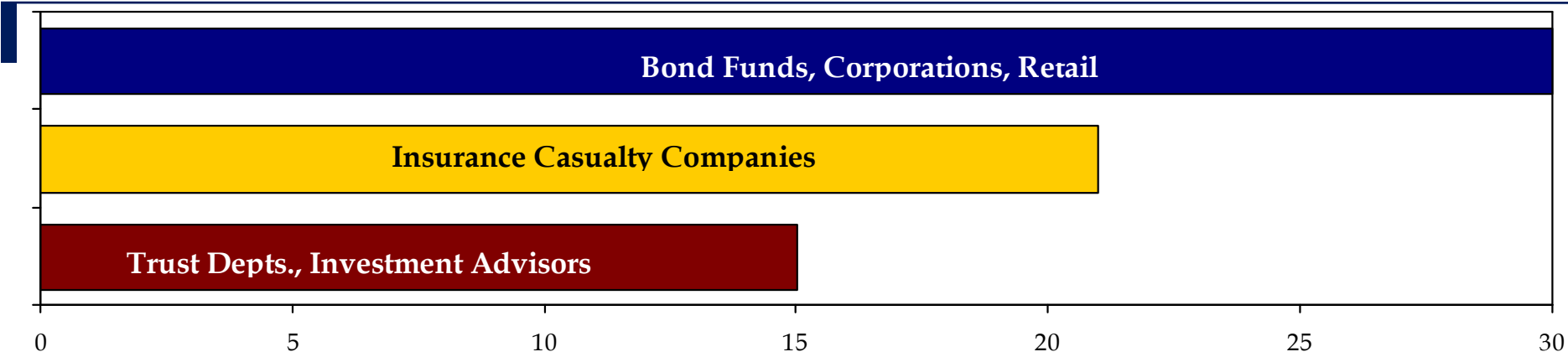
## Who are the Purchasers of Tax-Exempt Bonds?



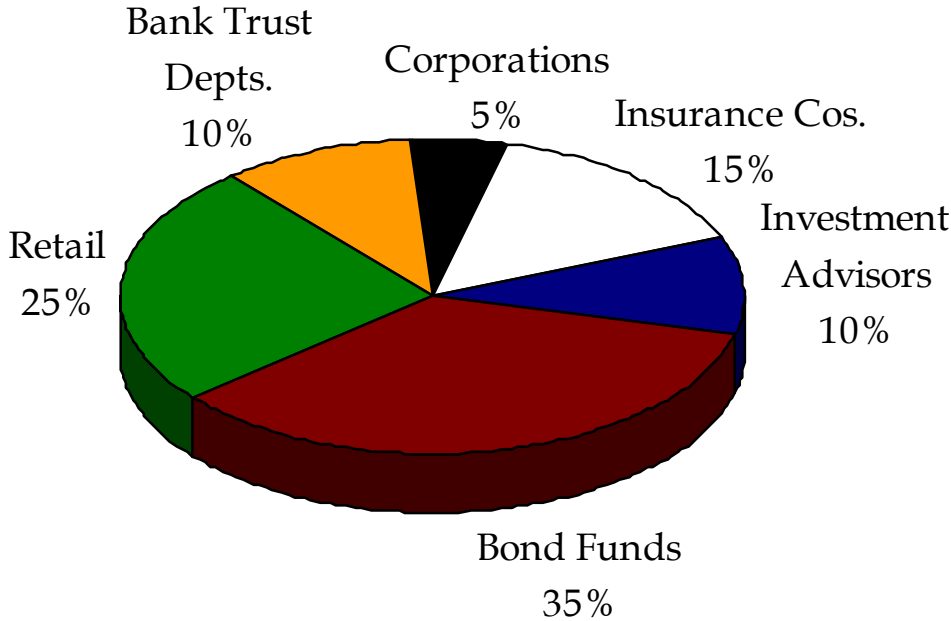
# **Structuring Tax-Exempt Bonds for Investor Demand**

# Structuring Tax-Exempt Bonds for Investor Demand

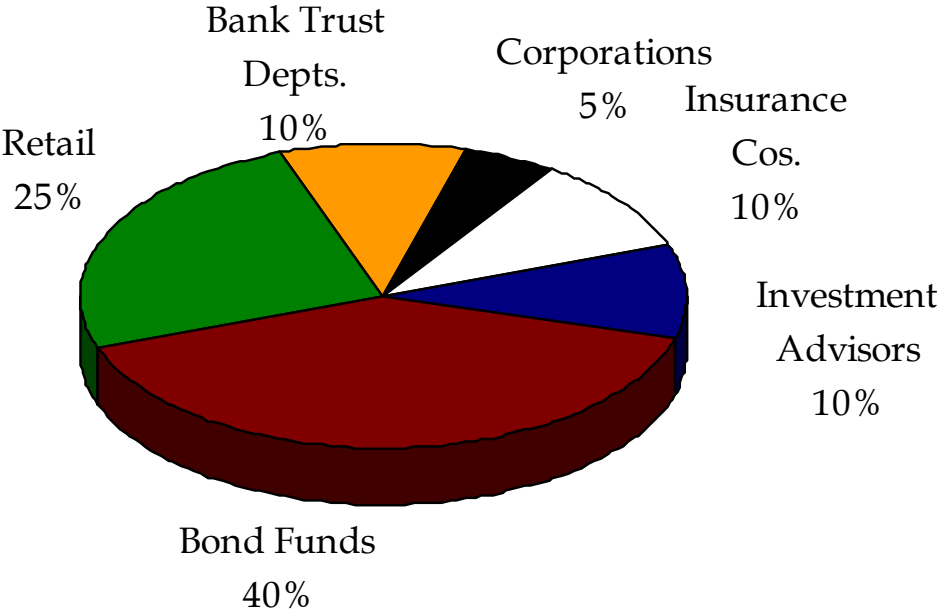
Where do Purchasers of Tax-Exempt Bonds Invest?



## General Obligation Bonds



## Revenue Bonds



## Structuring Tax-Exempt Bonds for Investor Demand

### 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

### 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

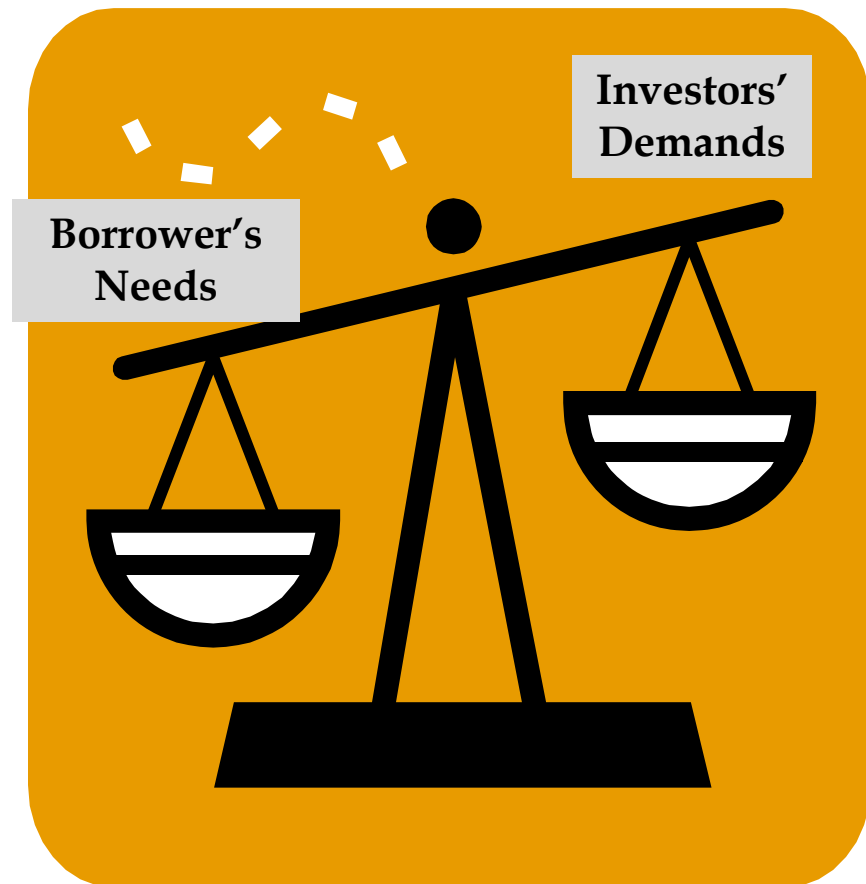


# **Structuring Tax-Exempt Bonds for Needs of Borrowers**

## Structuring Tax-Exempt Bonds for the 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....**

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

 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....**

	<b>Investment Grade Borrower ("BBB-" or better)</b>	<b>Non Investment Grade Borrower ("BB+" or lower)</b>	<b>Unrated Borrower (Letter-of-Credit Enhanced)</b>
<b>Type of Sale</b>	Public	Public, Limited Offering	Public, Direct Placement, Private Placement
<b>Interest Rate Mode</b>	Long-Term Fixed Rate, Put Bonds, Variable Rate	Long-Term Fixed Rate, Put Bonds	Variable Rate, "Synthetic" Fixed Rate w/ Interest Rate Swap
<b>Call/ Redemption Features</b>	Standard 10-Yr Call Option w/ Potential for shorter Call Features	Standard 10-Yr Call Option	No Prepayment Penalty w/ Letter-of-Credit
<b>Potential for Direct Investor Negotiations</b>	No	Yes	Yes
<b>Minimum Par Amount</b>	\$10.0 Million	\$15.0 Million	\$5.0 Million
<b>Ideal Par Amount</b>	\$25.0 Million+	\$25.0 Million+	\$10.0 Million+

## Structuring Tax-Exempt Bonds to Reach a Balance

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

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

# **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

Market Psychology	Economic Factors	Market Technicals
<p>Trends in the Market</p> <ul style="list-style-type: none"><li>■ Interest rates</li><li>■ Supply and Demand</li><li>■ Uncertainty / Headline Risk</li></ul> <p>Tax Law Changes Economic Policy Changes, and International Events</p> <p>Buyer Base and Philosophy</p> <ul style="list-style-type: none"><li>■ Long-term investors</li><li>■ Active traders (arbitrage accounts)</li><li>■ Retail buyers</li><li>■ Specialty/derivative buyers</li></ul>	<p>Federal Reserve Board Policy</p> <p>Money Supply Targets</p> <p>Calendar of Data Releases</p> <p>Monthly Economic Statistics</p> <ul style="list-style-type: none"><li>■ Employment Report</li><li>■ Producer Price Index</li><li>■ Consumer Price Index</li><li>■ Others</li></ul>	<p>Comparable Offerings</p> <ul style="list-style-type: none"><li>■ Primary market</li><li>■ Secondary market</li></ul> <p>Market Supply</p> <ul style="list-style-type: none"><li>■ Weekly new issue calendar</li></ul> <p>New Issue Syndicate Balances</p> <ul style="list-style-type: none"><li>■ Visible supply</li><li>■ Blue list</li><li>■ Institutional bid wanted lists</li></ul> <p>Government and Corporate Bond Market Movement</p> <p>Federal and State Income Taxes</p> <p>Coupon Reinvestment Dates</p>

# Notice to Recipient

## Confidential

“Bank of America Merrill Lynch” is the marketing name for the global banking and global markets businesses of Bank of America Corporation. Lending, derivatives, and other commercial banking activities are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., member FDIC. Securities, strategic advisory, and other investment banking activities are performed globally by investment banking affiliates of Bank of America Corporation (“Investment Banking Affiliates”), including, in the United States, Banc of America Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, which are both registered broker-dealers and members of FINRA and SIPC, and, in other jurisdictions, locally registered entities.

**Investment products offered by Investment Banking Affiliates: Are Not FDIC Insured \* May Lose Value \* Are Not Bank Guaranteed.**

These materials have been prepared by one or more subsidiaries of Bank of America Corporation for the client or potential client to whom such materials are directly addressed and delivered (the “Company”) in connection with an actual or potential mandate or engagement and may not be used or relied upon for any purpose other than as specifically contemplated by a written agreement with us. These materials are based on information provided by or on behalf of the Company and/or other potential transaction participants, from public sources or otherwise reviewed by us. We assume no responsibility for independent investigation or verification of such information (including, without limitation, data from third party suppliers) and have relied on such information being complete and accurate in all material respects. To the extent such information includes estimates and forecasts of future financial performance prepared by or reviewed with the managements of the Company and/or other potential transaction participants or obtained from public sources, we have assumed that such estimates and forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of such managements (or, with respect to estimates and forecasts obtained from public sources, represent reasonable estimates). No representation or warranty, express or implied, is made as to the accuracy or completeness of such information and nothing contained herein is, or shall be relied upon as, a representation, whether as to the past, the present or the future. These materials were designed for use by specific persons familiar with the business and affairs of the Company and are being furnished and should be considered only in connection with other information, oral or written, being provided by us in connection herewith. These materials are not intended to provide the sole basis for evaluating, and should not be considered a recommendation with respect to, any transaction or other matter. These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by Bank of America Corporation or any of its affiliates to provide or arrange any financing for any transaction or to purchase any security in connection therewith. These materials are for discussion purposes only and are subject to our review and assessment from a legal, compliance, accounting policy and risk perspective, as appropriate, following our discussion with the Company. We assume no obligation to update or otherwise revise these materials. These materials have not been prepared with a view toward public disclosure under applicable securities laws or otherwise, are intended for the benefit and use of the Company, and may not be reproduced, disseminated, quoted or referred to, in whole or in part, without our prior written consent. These materials may not reflect information known to other professionals in other business areas of Bank of America Corporation and its affiliates.

Bank of America Corporation and its affiliates (collectively, the “BAC Group”) comprise a full service securities firm and commercial bank engaged in securities, commodities and derivatives trading, foreign exchange and other brokerage activities, and principal investing as well as providing investment, corporate and private banking, asset and investment management, financing and strategic advisory services and other commercial services and products to a wide range of corporations, governments and individuals, domestically and offshore, from which conflicting interests or duties, or a perception thereof, may arise. In the ordinary course of these activities, parts of the BAC Group at any time may invest on a principal basis or manage funds that invest, make or hold long or short positions, finance positions or trade or otherwise effect transactions, for their own accounts or the accounts of customers, in debt, equity or other securities or financial instruments (including derivatives, bank loans or other obligations) of the Company, potential counterparties or any other company that may be involved in a transaction. Products and services that may be referenced in the accompanying materials may be provided through one or more affiliates of Bank of America Corporation. We have adopted policies and guidelines designed to preserve the independence of our research analysts. These policies prohibit employees from offering research coverage, a favorable research rating or a specific price target or offering to change a research rating or price target as consideration for or an inducement to obtain business or other compensation. We are required to obtain, verify and record certain information that identifies the Company, which information includes the name and address of the Company and other information that will allow us to identify the Company in accordance, as applicable, with the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) and such other laws, rules and regulations as applicable within and outside the United States.

We do not provide legal, compliance, tax or accounting advice. Accordingly, any statements contained herein as to tax matters were neither written nor intended by us to be used and cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on such taxpayer. If any person uses or refers to any such tax statement in promoting, marketing or recommending a partnership or other entity, investment plan or arrangement to any taxpayer, then the statement expressed herein is being delivered to support the promotion or marketing of the transaction or matter addressed and the recipient should seek advice based on its particular circumstances from an independent tax advisor. Notwithstanding anything that may appear herein or in other materials to the contrary, the Company shall be permitted to disclose the tax treatment and tax structure of a transaction (including any materials, opinions or analyses relating to such tax treatment or tax structure, but without disclosure of identifying information or, except to the extent relating to such tax structure or tax treatment, any nonpublic commercial or financial information) on and after the earliest to occur of the date of (i) public announcement of discussions relating to such transaction, (ii) public announcement of such transaction or (iii) execution of a definitive agreement (with or without conditions) to enter into such transaction; provided, however, that if such transaction is not consummated for any reason, the provisions of this sentence shall cease to apply. Copyright 2011 Bank of America Corporation.

## Notice to Recipient

### No Fiduciary or Advisory Role

- ▣ These materials are for discussion purposes only. You should consult with your own legal, accounting, tax and financial advisors to determine whether any transaction described herein is in your best interests and you should make an independent analysis and decision regarding any such transaction based on such advice. These materials are being provided in anticipation of a transaction in which Bank of America Merrill Lynch would be acting as a principal in an arm's-length transaction, and not as your advisor or fiduciary. By providing these materials to you and in respect of any discussions or procedures leading up to the consummation of such transaction, Bank of America Merrill Lynch is not acting as your fiduciary or advisor and will not assume any fiduciary or advisory responsibility or liability in your favor.