



Financing Wind Power Projects: Bond Financing Alternatives

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George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

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Presentation Overview

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George K. Baum & Company

- George K. Baum & Company
- Taxable Bond Financing
- Clean Renewable Energy Bonds
- Tax-Exempt Bond Financing
- Renewable Energy Finance Coalition





George K. Baum & Company

- **Founded in 1928, George K. Baum & Company is one of the nation's oldest privately held investment banking firms.**
 - Underwriting of fixed rate and variable rate tax-exempt bond financings
 - Refundings
 - Rating Agency presentations
 - Assistance in obtaining credit enhancement
 - Variable rate remarketings
 - Derivative products
- **Since 1990, Baum has been involved with more than 5,470 municipal bond issues, totaling more than \$179 billion**
- **In 2005, our firm served as underwriter or financial advisor for 33 utility issues – including both water and sewer and public power transactions – totaling \$892 million**
- **George K. Baum & Company maintains public finance offices in 16 U.S. cities**





1

section one

Bond Financing Options for Wind Power



Windustry Conference



Taxable Bond Financing

- Taxable Bond Financing for 15-20 years
- Private wind projects will not qualify for tax-exempt bond financing, so taxable bond financing is a low-cost financing alternative for projects of sufficient scale, e.g. above 5 MW
- Secured by a PPA with a credit-worthy utility
- Small projects may be “pooled”
 - combined project cost over \$5 million
 - otherwise bond issue is not cost effective due to cost of issuance
- Access lower cost of capital bond market as contrasted to a bank loan
 - use of Bank letter of credit to secure bonds
 - attractive LTV ratios thus reducing equity somewhat
 - PTC equity is ok
 - coverage ratios approximately 1.40
 - longer amortization term





Clean Renewable Energy Bonds (“CREBs”)

- Created in the 2005 Energy Policy Act
- New financial incentive for Municipal Utilities and Electric Coops to promote renewable energy development
- Wind facilities are eligible for CREB financing
- Tax credit bond” which provides a form of zero-interest financing for its issuer
- Interest on the bond is paid by the U.S. Treasury in the form of a tax credit
- Tax credit is reported as taxable income by the bondholder





Who Can Issue CREBs?

- State and local governments
- District of Columbia
- CoBank, ACB
- Mutual or cooperative electric companies described in the Internal Revenue Code
- U.S. territories and possessions
- Indian tribal governments
- National Rural Utilities Cooperative Finance Corporation
- A not-for-profit electric utility which has received a loan or loan guarantee under the Rural Electrification Act





Clean Renewable Energy Bond Requirements

- Applications are due by April 26, 2006
- \$800 million available (maximum of \$500 million available to governmental borrowers)
- Borrower has five years to spend 95% of the proceeds
- There is no limitation on the investor base for CREBs
- Bonds may be sold in the secondary market
- The amount of the tax credit is reported as taxable income by the bondholder
- Arbitrage rebate rules apply





Clean Renewable Energy Bond Structure

- Tax credit rate is posted daily by the U.S. Treasury
- There is a separate rate for each principal maturity
- Principal must be paid in level annual payments beginning in year 1
- The bond term is based on a discount rate determined by the Treasury monthly
- The discount rate is designed to provide for the maximum term equal to produce 50% of the face amount of the bond (approximately 11 years)





Clean Renewable Energy Bond Costs

- While CREBs are intended to provide the issuer with a 0% cost of funds there may be additional costs
- The bonds may sell at a discount depending on the market's perception of the quality of the issuer's credit.
- Costs of securing the bonds (bond insurance/letter of credit provider), if necessary
- Costs of issuance for the bonds (legal fees, underwriting fees, etc.)





Tax-Exempt Bond Financing

- Tax-exempt bond financing for 15-20 years
- Secured by PPA with a credit-worthy utility
- Qualified borrowers include governmental entities and 501(c)3 organizations
- Borrower benefits from low tax-exempt interest rates but can not use PTC





Renewable Energy Finance Coalition

- Goal is for Congress to change the tax code to allow privately owned wind projects to be financed with tax-exempt bonds: A compliment to PTC & CREBs and not a replacement for these structures
- Formed in 2005 by members of the renewable energy industry
 - State congressional and gubernatorial support
 - Grassroots support
- Tax-exempt bond financing is among the least expensive forms of long-term capital
 - Incentive would decrease cost of capital of deliverable renewable energy
 - Incentive has a reduced net negative federal budget consequence
- Would result in more community owned renewable energy projects and less dependence upon PTC
- www.REFCoalition.com





Lee White

Executive Vice President & Manager

LEE WHITE is an executive vice president and manager for George K. Baum & Company at its Denver Public Finance Headquarters. He has been in the investment banking business for more than 20 years and is responsible for underwriting over \$6 billion of municipal bonds. Mr. White has assisted numerous state and local governments and private corporations in financing their infrastructure needs. Mr. White has served as the lead or co-lead banker on a number of major utility financings, the most recent being a \$79.5 million Pollution Control Revenue Refunding issue for Public Service of Colorado. Other electric utility issues in which he has been involved in recent years include: \$16 million Cheyenne Light Fuel and Power, \$20 million Wyoming Municipal Power Agency, \$60 million City of Colorado Springs and \$324 million City of Colorado Springs.

Mr. White received a Masters of Business Administration from Harvard Business School, a Masters of City Planning from the Massachusetts Institute of Technology, and a Bachelor of Science in Mechanical Engineering from Rensselaer Polytechnic Institute.

