

# Michigan Green Funding **Handbook**





## Michigan GREEN Funding Handbook

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## **Introduction**

This document will answer many questions about the Michigan GREEN Fund and various financing options that are available through the fund.

Prior to making a financing presentation or submitting a bid to a Government Agency, please contact Martina Stone, the Michigan GREEN financial officer, at (248) 465-1659 for a current rate quote and a discussion of financing options.

## **Who is Michigan GREEN?**

Michigan GREEN began as an alliance of Michigan based companies that collaborated on various energy efficiency and environmental projects. In 2007 Michigan GREEN applied for and was granted Non Profit Corporation status.

The organization has grown since its inception. Michigan GREEN's membership includes energy companies and energy consultants, together with government agencies and schools, colleges, and universities, joining forces to champion the cause of renewable energy and energy efficiency in Michigan and the entire nation.

Membership is open to like-minded businesses, organizations and individuals that support Michigan GREEN's mission.

## ***The Michigan GREEN Mission Statement***

Michigan GREEN (Group for a Renewable Energy Efficient Nation) is a non-profit corporation committed to: 1) advancing the installation and implementation of energy efficiency and renewable energy technologies; 2) educational programming and resource sharing that increases the awareness and understanding of energy efficiency and renewable energy technologies and promotes the use of energy conservation measures in residential, commercial, and industrial settings; and 3) providing access to financial institutions and services that facilitate funding opportunities for energy related projects.

### **What is the Michigan GREEN Fund?**

Michigan Green has positioned itself with various funding sources that are familiar with “green” projects and have an understanding of the makeup on energy related projects, and have demonstrated the desire to work within our structure to assist in the financing of Michigan Green Partners.

It is with this focus that we have created the Michigan Green fund.

This Fund is available for all members to use, and projects of all sizes can be accommodated. Our goal for this fund is to help ease the burden on each proposal by bringing the funding source to the table so the client does not have to seek out his option on there own. *Note: At this time, residential projects are not eligible.*

### ***Financial Services and Structures***

Michigan GREEN will provide underwriting with a complimentary array of consulting services to customers nationwide. Such as:

- Procurement consulting
- RFP consulting
- RFP development
- Preparation of underwriting analyses
- Rating transactions for private placement
- Managing acquisition funds
- Related milestone draw payments
- Delivery/Acceptance settlements to Michigan Green
- Investor payments through fiduciary accounts

### **Financing Structures**

#### ***Payment structures available:***

- Annual
- Semi-Annual
- Quarterly
- Monthly

#### ***Terms available:***

- Two to ten years on small projects
- Up to 20 years on larger projects

#### ***Down Payments:***

If a down payment is included in the payment structure, it is due upon acceptance and delivery of product.

## **Frequently Asked Questions**

1. Q: What is Installment Purchase Financing (Lease Purchase Financing) using the Michigan GREEN Fund?

A: A financing method, which allows municipal entities to purchase equipment and projects on an installment basis at tax-exempt interest rates. It provides for the use of the equipment while simultaneously achieving ownership.

2. Q: What are the benefits of Utilizing the Fund?

A:

- Low, fixed rates
- Immediate, 100% financing (WAC)
- "Locked in" interest rates
- Flexible payment modes to meet individual needs
- Equity established with each payment
- No residual values or balloon payments
- Title vests with Lessee
- Viewed as current expenses, not long term debt
- No surprises approach

3. Q. What if I can't encumber funds for future years?

A. Our financing agreement has non-appropriation language for municipal leases.

4. Q. What if I am waiting on a state revolving fund?

A. Our agreements can be paid off early at any point – unlike bond issues.

5. Q. How do you collateralize the financing?

A. We collateralize with a General or Enterprise Fund.

6. Q. How does this compare to bonds?

A. Faster process, no voter approval, significant administrative savings, therefore saving time and money.

7. Q. How does the cost compare to bonds?

A. Overall Installment Purchase is cheaper. There are no fees and no significant legal fees with comparable rates.

8. Q. Can the entire project be financed?

A. Yes. All aspects of the project can be financed including soft costs such as installation and training.

9. Q. What are the advantages of using Installment Purchase Financing over cash?

A. It can enable you to complete your project now at today's prices and low rates as well as conserve your current budget. Cost justification is a simple process.

10. Q. What are the terms of the financing and typical interest rates?

A. Terms from 2 to 10 years are available with rates as low as 4%

11. Q. What types of projects and equipment do you finance?

A. We can finance energy upgrades, school buses, rolling stock waste water treatment plants, computers, modular buildings, real property, real estate, equipment, and more. We can finance any equipment, new or used for any commercial or municipal entity.

12. Q. How long does it take to get financing?

A. We can provide financing in as little as 2 days.

**Top Five reasons for your customer to consider Installment Purchase Financing:**

1. Get started on needed projects now
2. No additional fees
3. 100% financing
4. Finance all project costs, hard and soft
5. Can be paid off when grants are awarded

***Quoting***

All preliminary quoting will be finalized upon credit approval.  
Personal Request/Credit Application/Rate Request  
Specific Rate requests will be used in transactions where the following is applicable.

- Competitive Bid Situations (Copy of RFP required)
- Larger Transactions (Financings above \$250k)
- Transactions that require higher level of financial expertise
- Transactions that are likely to close (sign PO) within next 90 days
- Custom Payment Schedules or Custom Issues

## **An Overview of Municipal Installment Purchase Financing**

Municipal Installment Purchase Financing, also known as a Municipal Lease, is a contract that has many of the characteristics of a standard commercial lease, with three differences:

- In a Municipal Lease, the intent of the lessee is to purchase and take title to the equipment. The financing is a full payout contract with no significant residual or balloon payments at the end of the lease term.
- The lease payments include the return of principal and interest, with the interest being exempt from Federal income taxation to the recipient. Typically, a tax-exempt interest transaction will be financed at interest rates lower than equivalent commercial financing.
- The Municipal Lease provides for termination for non-appropriation of funds by the Government Agency.

Termination for non-appropriation distinguishes a Municipal Lease from all other types of leases. The clause normally is required so that the lease does not constitute a long-term debt instrument. The obligation to pay is subject to appropriations being made annually over the term set forth in the lease.

To justify non-appropriation, the municipality must certify that it does not have funds to continue payments and has made its best efforts to procure funds by requesting the funds in its budget.

A Municipal Lease offers several advantages over alternative methods of financing. First and foremost is simplicity. Under most state statutes, municipal contracts with terms of over one year require significant investments in time and money in order to comply with municipal debt restrictions. Since a Municipal Lease is, in effect, a year-to-year obligation, many of these requirements do not apply. The ease of executing a Municipal Lease minimizes the time and the expenses associated with issuing a bond.

Also a Municipal Lease is most often the least expensive method of financing equipment that costs from \$5,000 to \$20,000,000 plus. The very slight advantage in the interest rate offered by a bond is offset by the legal and administrative costs incurred in generating the bond issue. The Municipal Lease requires neither the bond election nor the long-term administration of the bond. The Municipal Lease exerts no impact on the organization's credit availability and provides greater flexibility in allocating available resources. Additionally, a Municipal Lease does not require the separate legal or underwriting fees that the municipality would incur with a bond issue. Leasing provides a rapid solution to the municipality. Municipal Leases are

not true leases, but are firm purchase agreements and are similar to installment purchases subject to termination in the event of non-appropriation.

Municipal Lease transactions are governed by the Internal Revenue Code. Under these requirements, a qualified state or local Government Agency or governmental subdivision can finance property acquisitions under contracts in which the interest income the leasing company derives will be exempt from Federal income tax. A tax-exempt interest transaction typically is financed at an interest rate below equivalent commercial financing. The IRS requires these transactions be a) a lease to ownership plan (installment purchase); b) for equipment that is essential to the government function; and c) have no significant residual or balloon payment at the end of the contract term.

### ***Who qualifies for a municipal lease?***

Municipal Lease transactions can be provided for states and their political subdivisions such as counties and cities. Departments or agencies such as state universities, fire and police departments, school districts, sanitation, hospitals, or special districts may also be eligible.

To be qualified, a governmental entity must possess one of three characteristics of a government; they must possess:

- The power of eminent domain
- Police powers
- The power to levy taxes

The fact that an agency is supported by government funds or is not subject to sales tax does not always ensure qualification. Non-profit corporations do not qualify for Municipal Leasing.

Documentation Michigan GREEN will provide and negotiate all documentation for the transaction. See the documentation process beginning on page 11 for more details.

***Examples of Municipal Entities:***

- State and local Government Entities: Cities, Towns, Townships
- Municipal School Districts
- Regional Transit Agencies
- Special Tax Districts: Water authorities, public Utilities, Fire Districts

Note that because an entity doesn't pay taxes does not guarantee that the entity can borrow tax-exempt monies (i.e. churches, non-profit organizations cannot borrow tax-exempt debt unless special circumstances are present). Private schools are also an entity that cannot borrow tax-exempt monies unless they are funded directly by a municipality.

**Municipal Lease-Purchase** This lease-to-own mechanism is used for municipal entities that want to spread the cost over the useful life of the equipment. Flexible payment structures and straight amortization of financed amount make this a favorable option for many municipal entities.

Municipal entities must have the "intent to own" the equipment in order to apply for tax-exempt rates. If "intent to own" is not present, commercial rates apply. A \$1 buyout is not necessary due to the straight amortization but can be applied if the customer requests it. The lease purchase financing structure is a quick, easy and cost effective method to acquire essential equipment, while spreading the cost over the useful life. Compared to the typical route of issuing bonds, the savings can be significant. There are no fees, points or other costs associated with our financings.

We provide a straight and even amortization of the amount borrowed at tax-exempt interest rates, with principal and interest being retired with each and every payment. Prepayment can occur at anytime and the repayment structure can be customized to fit your needs exactly. Municipal managers have found this method of financing capital equipment and projects to be an invaluable cash flow management tool.

### ***Why a municipal lease?***

**Quick Delivery:** Lease financing allows a government entity to obtain needed equipment immediately. Bond issues can take months to complete and require voter approval.

**Non-Appropriation:** In most jurisdictions, the authority of an administrator to enter into debt or obligation of future funds is severely limited. For this reason, a Municipal Lease is characterized by a non-appropriation clause that specifies that the lease can be terminated in the event funds are not made available in subsequent fiscal years.

**Early Purchase Option:** If funds become available, the customer has the option to buyout the lease at any time by paying the applicable purchase price plus any accrued interest. A detailed amortization schedule is provided for each transaction.

**Flexible Terms:** The payment can be tailored to suit the needs of each customer. Annual, semi-annual, quarterly and monthly payment intervals are available. Deferrals, down payments and advance payments can also be arranged. Terms reflective of the useful life of the equipment have a lower interest expense as compared to long-term bond issues. Lessees can choose payment schedules most suited to their needs, including length of contract, payment interval and advance or arrears payments. Up to 100% of the equipment cost can be financed as well as training and maintenance.

**Nothing Down:** Generally no down payment or security deposit required. However, structuring the lease with advance payments may lower the net cost of financing to the Lessee and will help the credit score. Depending on the circumstances the customer may make the first payment up to one year after delivery.

**This accelerates the process:** Because the acquisition costs are spread over multiple fiscal years, a municipal Lease removes budgetary constraints, permits the purchase of needed equipment, allows an upgrade of the equipment and provides the ability to obtain additional units.

**Questions?** Prior to making a financing presentation or submitting a bid to a Government Agency, please contact Martina Stone or Curt MacRae at (248) 592-0109 for a current rate quote and a discussion of lease contract options. When the agency agrees to the lease, Michigan GREEN will prepare and forward documents usually within 24 hours of completion of the document check list.

## **Documentation Process**

### ***Proposal***

Michigan GREEN reps will provide a sales quote and a financing proposal with every equipment proposal. Please refer to Quoting section to decipher between which quoting mechanism is applicable.

A Michigan GREEN is available for questions, rate requests, and to negotiate the financing.

### ***Documentation***

When the customer agrees to move forward with the proposal for financing needs a Michigan GREEN representative will work with the customer to complete the Document Checklist in order for the process to begin.

We will negotiate and prepare documents, and will provide standard, comprehensive documents for each transaction, designed to protect the interests of all parties while complying with all federal, state, and local laws.

### ***Credit Analysis***

A Michigan GREEN rep will request all necessary financial information (if not received prior to this point) from customer.

### ***Necessary Financial information***

- 3 years of audited financial statements
- Current interim financial statements and/or budgets
- Feasibility studies if applicable

We will conduct a complete credit review of every prospective customer. Credit categories scrutinized in our analysis; assessments give valuable insight for determining whether prospective customers should incur additional financial obligation. We also rate a prospect's ability to repay the obligation.

### ***Portfolio Approval and Placement***

Following credit approval and receipt of the properly executed documents, funds will be transferred into an acquisition account.

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***Delivery and Acceptance***

Subject to the delivery and acceptance of the project/equipment by the customer, funds are released from the Acquisition Account and wired directly to Vendor(s). If the financing structure included a down payment, it must be received prior to disbursement of funds.

***Loan Administration***

Michigan GREEN underwriters will service transaction for the remainder of the term and be available to handle any questions or concerns that may arise after the completion of the financing term.

***Process and Timeline***

Acquire audited financial statements and current budget 1 - 2 days  
Board resolution passed 1 day  
Documents sent out 7 - 10 days  
Customer returns signed documentation 10 - 14 days  
Funding of transaction 21 - 30 days  
Delivery of equipment/project start  
Payment to vendor within 3 business days of prefunding is available. (Notify when submitting lease application)

## **Glossary of Terms**

**Acquisition Account:** This account is established at funding. Funds are deposited and held in this account until delivery and acceptance of project/equipment by customer, at which time payment is issued out of the account to pay for the project/equipment. This account is established so that the supplier will receive prompt payment upon completion/delivery and acceptance of project/equipment.

**Advance or down payment:** Some leases call for a specific number of lease payments in advance. The total number of payments during the lease is reduced by the advance payments. Municipal lease purchasing may call for an advance or down payment, depending upon request of customer or credit issues. Advance or down payments increase credit score.

**Cumulative Funding Time:** To ensure a prompt closing of the financing/payment upon delivery/start, Michigan GREEN shall be in contact to start documentation process with the customer at a minimum of 10 days prior to anticipated delivery/start. If the process is begun within 45 days of delivery/start, we will guarantee Vendor(s) will be wired funds 24-48 hours after receipt of Acceptance certificate.

**Delivery & Acceptance:** Acknowledgement in writing by the customer that the equipment has been received and is in satisfactory condition.

**Document Checklist:** This is a one page information sheet that we will complete with the customer prior beginning documentation process.

**Documentation Process:** The process in which credit approval, creation of documentation, portfolio approval and funding of transactions fall under.

**End of Lease Options:** The customer takes ownership of the project/equipment at the end of the lease.

**Lessee:** The customer (buyer) signing the lease is considered the lessee's.

**Lessor:** The investor (lender) is usually considered the Lessor.

**Master Lease Agreement:** One lease agreement for several pieces of equipment purchased at different times from one or more vendors. Once we have approved a customer's credit, we will only require brief addendums and equipment schedules for each new batch of equipment. This is applicable for multiple finance leases and financings over \$250,000.

**Milestone Payments:** In the event milestone payments are made in advance of the final acceptance and delivery of the product, this advance of funds may need to be secured either by (1) a UCC filing or other appropriate securitization, or (2) a Performance Bond issued by vendor(s).

**Municipal Entities:** Must have at least one of the following powers to be able to acquire tax-exempt monies.

- Power of Taxation
- Police Power
- Power to condemn (Eminent Domain)

**Origination:** A department of Michigan GREEN. Origination will handle all quotes, direct contact with customer and will work side-by-side with project engineers to complete transaction as efficiently and smoothly as possible.

**Portfolio:** A department within our investors that works with investors, processes documentation and credit analysis, and manages the acquisition accounts. This department is in charge of credit approval.

**Portfolio Approval:** This approval is contingent upon credit approval and receipt of completed documents. After the transaction is approved by portfolio, funds are placed into the acquisition account.

**UCC Filing:** This is a filing with the state that perfects the security interest of the investor. Depending upon if milestone payments are necessary, investors may want UCC filings to be recorded.