National Hydropower Association

Hydro Finance Summit

June 3, 2013
New York City

Lester H. Krone
Managing Director
Stern Brothers & Co.
St. Louis, MO

Stern Brothers & Co.

- **Established in 1917, registered broker-dealer with 14 offices, WBE**
  - 60+ employees
  - 13 offices outside St. Louis (headquarters)
- **Client Services**
  - Underwritings & Private Placements
    - Taxable and tax-exempt bonds, investment grade and high yield
  - Financial Advisory
  - Remarketing of variable rate bonds
  - Fixed income sales & trading
    - Institutional distribution
- **Investment Banking Products / Industries**
  - Project Finance / Municipal Finance
  - Alternative Energy
  - Real Estate
  - Healthcare
  - Higher Education & Non-Profit

Selected Transactions

$25,000,000

Myriant Lake Providence Inc.

Revenue Bonds

$15.0 Mil. USDA Guaranteed Bonds

$10.0 Mil. Unguaranteed Bonds

Series 2012

Sole Placement Agent

$23,330,000

California Municipal Finance Authority

Revenue Bonds

(UTS Renewable Energy Wastewater Facilities Financing Program)

Series 2011

Senior Placement Agent

$23,815,000

City of Lawrence, Kansas

Recovery Zone Facility Bonds, Qualified Energy Conservation Bonds, Industrial Revenue Bonds

The Bowersock Mills & Power Company

Series 2010 and Series 2011

Sole Placement Agent

$65,000,000

Pennsylvania Economic Development Financing Authority

Senior Exempt Facilities Revenue Bonds

Bionol Clearfield LLC Ethanol Project

Series 2008

Sole Placement Agent

$30,000,000

Illinois Finance Authority

Subordinate Solid Waste Disposal Facility Revenue Bonds

Illinois River Energy LLC Ethanol Project

Series 2007

Sole Placement Agent

$29,600,000

Biofuels Company of America

Biodiesel Manufacturing Facility

Senior Secured Credit Facilities

$15,000,000

Illinois Finance Authority

Agribusiness Loan Guarantee

Sole Arranger 2006

$7,500,000

Illinois Finance Authority

Variable Rate Demand Revenue Bonds

Sexton Energy LLC

Series 2003

Sole Placement Agent

The Bowersock Mills & Power Company (March 2011)

Project:	4.70 MW expansion, placed in service 1Q 2013	
Off-take:	25-year PPA, Kansas City Board of Public Utilities (rated A-), purchase 100% of the capacity and energy generated	
Funding:	Recovery Zone Facility Bonds (tax-exempt)	$ 14.1 Million
	Qualified Energy Conservation Bonds (taxable)	$ 8.7 Million
	Industrial Revenue Bonds (taxable)	$ 1.0 Million
	Total Debt Funding	$ 23.8 Million
Highlights:	Long-term cost of capital (after federal subsidies) is 6.70% (avg. life 13.5 years), 1603 grant of approximately $4.9 million	
Construction:	Kissick Construction of Kansas City	
Water Study:	Kleinschmidt	
Independent Engineer:	Burns & McDonnell	

Risk Mitigation

- **Power Purchase Agreement**
  - Certainty of cash flows
  - 25-year agreement with 'A-' rated KC BPU
  - Capacity payment → covers 90+% of annual debt service
  - Energy payment
  - Termination provisions
- **Technology**
- **Feedstock**
- **Construction and Operations**
- **Financing Terms**

Risk Mitigation

- **Power Purchase Agreement**
- **Technology**
  - 100+ year old technology
  - Independent engineer's report from Burns & McDonnell
- **Feedstock**
- **Construction and Operations**
- **Financing Terms**

Risk Mitigation

- **Power Purchase Agreement**
- **Technology**
- **Feedstock**
  - Dam constructed in 1870s
  - Recent major maintenance by City of Lawrence
  - All permits obtained before financing started
  - Water study by Kleinschmidt
  - Projected flows used in financial model
- **Construction and Operations**
- **Financing Terms**

Risk Mitigation

- **Power Purchase Agreement**
- **Technology**
- **Feedstock**
- **Construction and Operations**
  - Experienced EPC contractor
  - Kissick constructed another project downstream
  - Payment and performance bond with liquidated damages

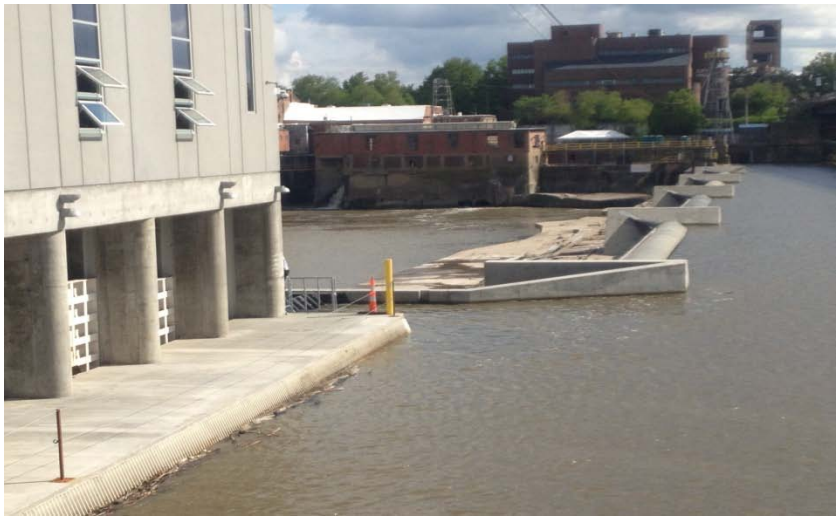
  - Experienced owner/operator → First-time developer
    - On top of every aspect of the project
  - Bowersock has been operating a hydro facility since 1905
  - Bowersock has 'skin in the game'
- **Financing Terms**

Risk Mitigation

- **Power Purchase Agreement**
- **Technology**
- **Feedstock**
- **Construction and Operations**
- **Financing Terms → Bonds NOT Bank Debt**
  - Bonds not rated
  - Provides construction AND permanent financing
  - Fully amortizing
  - Short-term bridge note repaid upon receipt of 1603 grant
    - Substantially de-levers the project
  - QECBs (taxable) the most cost-effective piece of the debt stack
    - Interest rate subsidy from U.S. Treasury
  - RZBs (tax-exempt) have maturity = Term of PPA
    - Debt service payments 'sculpted' to projected cash flows
  - Weighted average coupon = 6.70% ; weighted average life = 13.5 yr
  - Sold to institutional investors

Bowersock North Powerhouse

Upstream face of the new powerhouse before cofferdam removed
November 2012



North powerhouse (left) with original powerhouse (center)
May 2013