
Cascade Engineering


ePrize

Your success begins in PURE MICHIGAN

New Model for a New Reality


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PURE MICHIGAN®

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

CAPITAL MARKETS

Mission: Increases the availablity of capital to businesses in Michigan

ACCESS TO CAPITAL

EQUITY PROGRAMS ($1 BILLION)

- Angel tax credit
- Accelerator funds
- Venture Capital Fund-to-Fund
- Private Equity and Mezzanine Funds
- COEE

LOAN ENHANCEMENT PROGRAMS

- Capital Access Program
- Collateral Support Program
- Loan Participation Program
- EERE Loan Program
- Michigan Green Fund (In-process)

MICHIGAN ENERGY OFFICE

Mission: Develop policies and programs that promote economic growth, increase energy efficiency in the public and private sectors, reduce the state's dependence on imported energy, and create/retain jobs in Michigan.

PROGRAMS

Clean Energy Advanced Manufacturing Program

EERE Technology Demonstration Program

Energy Efficiency and Conservation Block Grant Program

AgriEnergy Program

Economic Development Job Training and E3 Internship Programs

EERE Loan Program

Michigan Green Fund

Collateral Support Program

Michigan Loan Participation Program

OLD FUNDING MODEL	NEW FUNDING MODEL
• Sector specific • Investment decisions made by public sector • Terms designed by the public sector • Administration performed by public sector • Default risk – 100% public sector	• Sector agnostic • Investment decisions made by private sector • Terms designed by the private sector • Administration performed by private sector • Default risk shared by public and private sectors

EERE Loan Program Structure

- All principal and interest repayments deposited back to the loan program and used to finance future energy projects
- Six year loans with semi-annual loan repayments (two payments/year)
- First 18 months, repayment of interest only
- Remaining 54 months, equal repayments of both principal and interest

Interest Rates by Sector

- Clean Energy Advanced Manufacturing: 6% interest
- Green Chemistry Loans: 5% interest
- Passive Solar Loans: 4% interest
- Public Entities: 3% interest

http://www.michigan.gov/mdcd/0,4611,7-122-25676-217576--,00.html

Centers of Energy Excellent Program (COEE) - $73M

- Promotes development, acceleration, and sustainability of energy excellence sectors
- Established in 2008
- Provides grants to for-profit companies
- Requires participation of at least one institution of higher education or a national lab
- Funds are awarded to companies for the following purposes:
    - 1:1 match for federal funding up to 50% of total project cost
    - Supplementing in-kind contributions provided by an university or national laboratory
    - Accelerating the commercialization of an innovative energy technology or process that will be ready to market within 3 years

http://www.michiganadvantage.org/Centers-of-Energy-Excellence/

PROS OF 'OLD' MODEL

- Allows projects that might be considered financially unviable access to capital

CONS OF 'OLD' MODEL

- Investment decisions made by public sector are subject to political influence
- Terms designed by the public sector are subject to political influence
- Default risk – 100% public sector
- Allows projects that might be considered financially unviable access to capital

NEW MODEL

THREE PRINCIPLES

1. Identify inefficient market
2. Small amount of public dollars to correct market inefficiency
3. Public dollars can be directed by private sector expert decision makers whose interests are perfectly aligned with public sector

WHY ARE SPECIFIC ALTERNATIVE ENERGY AND ENERGY EFFICIENCY PROJECTS NOT BEING FUNDED?

Lack of collateral?

Lack of short term free cash flow?

Insufficient return projections compared to hurdle rate of capital?

Lack of investors focusing on the space?

MEDC NEW FUNDING MODELS

Sector agnostic, but designed to correct for the common impediments to financing alternative energy and energy efficiency ventures

MODELS

1. Equity

   Fund to fund venture investments

   Solving: Lack of investors focusing on the space

2. Private Equity and Mezzanine

   Bank of Banks

   Solving: Insufficient return projections compared to hurdle rate of capital

1. Loan Enhancement

   CAP – Collateral Support and Loan Participation

   Solving: Lack of collateral value and lack of short term free cash flow

EQUITY INVESTMENT

Fund to Funds - Creates investors focused on specific space

- Michigan has invested $600M in 13 private venture funds in the state, representing about $2 Billion in investable capital
- These funds invest in companies in the state
- Five out of the 13 funds are focused on alternative energy and energy efficiency, representing 1/3 of the total dollars available.

PRIVATE EQUITY

Bank of Banks/Green Bank - Allows for lower required returns broadening the projects that are investable

- Michigan is investing about $30 Million in free funds, creating about $300 Million in investable capital
- Low cost state capital (capped returns, patient capital, subordinated capital)
- Large amount of private sector capital
- Private sector management

LOAN ENHANCEMENT PROGRAMS

CAPITAL ACCESS PROGRAMS

Supports lack of collateral

- $10 Million in state capital, leveraging about $200 Million in bank lending
- Pooled reserve model
- Bank and borrower contribution matched by contribution from public dollars

COLLATERAL SUPPORT PROGRAMS

Supports lack of collateral

- $30 Million in state dollars, leveraging about $300 Million in bank lending
- Cash deposit in lending institution, Deposit Agreement tied to specific account & loan.
- Intended to support a lack of sufficient collateral value
- Can contribute up to 49.9% of the amount of the loan.
- Support value of existing assets and support expansion of debt to finance growth.
- Claim in the event of both a default and a deficiency.
- Fees 1-3% at closing and 1-3% annually

LOAN PARTICIPATION PROGRAMS

Lowers the required short term free cash flow coverage ratio

- $30 Million in state dollars, leveraging $300 Million in bank lending
- Intended to:
  - facilitate projects with a revenue gap
  - de-concentrate bank
  - reduce debt service demands for a short term period
- Program can purchase up to 49.9% of a commercial credit facility and forego the receipt of interest as well as potentially defer the receipt of principal.
- Pro-Rata and Pari Passu
- Fees are 1-3% at closing. After grace period, bank rate (pro rata) plus an annual fee of 1% of the programs outstanding balance.

PROS OF NEW FUNDING MODELS

- Sector agnostic
- Mechanisms are designed to correct for sector-specific problems
- Investment decisions made by private sector experts
- Terms designed by private sector, free of political pressure
- Administration performed by private sector
- Default risk shared by private and public sectors

CONS OF NEW FUNDING MODELS

- Desirable projects and programs may not get funded

EXAMPLES

- Manistee Paper (Efficiency and recycling)
- advanced battery (next-gen lithium ion battery manufacturing)
- PEP Stations LLC (alternative energy start-up)
- Symbiotic (alternative energy production start-up)
- Kirtland Products (alternative energy production start-up)
- Efficiency Investments (PACE)

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