NEW MARKETS TAX CREDITS PROGRAM SUMMARY

December 21, 2009

(This document is excerpted and adapted from a summary prepared by CEI Capital Management, LLC).

OVERVIEW

The New Markets Tax Credit (NMTC) program was established by the US Congress to help attract capital to historically underserved projects and communities. It provides an incentive to debt and equity investors in the form of a **39% federal income tax credit** for investing capital into qualified projects in eligible low-income areas.

The NMTC program is very flexible and allows the tax credits to be structured into a deal in a variety of ways to best meet the needs of investors (banks and private equity), borrowers (project), and the NMTC sponsor (an entity to which the US Treasury's CDFI Fund grants a NMTC allocation). The tax credits, for instance, can be used to **enhance an investor's IRR**, **provide a borrower with access to debt at a reduced interest rate (typically 1.00-3.00% below market**) **or on more favorable financing terms**, **and/or repay equity investors with tax credits as opposed to actual cash**. The financial success of a project depends on balancing all of the participants' interests.

NMTCS AS A POWERFUL TOOL

The NMTC program is a powerful tool that can help underserved communities attract capital to good projects on favorable terms, allow investors to book new business with enhanced returns, and create greater opportunities for worthwhile projects and organizations working in low-income communities.

PROGRAM BASICS

▪ The NMTC program began just a few years ago with initial deals nationwide closing in the last quarter of 2003. The demand for NMTCs has grown exponentially since that time as capital markets have recognized the value of the program and sponsors have learned how to apply the benefits to low-income communities.

▪ For the Moran project the City of Burlington is currently in discussions with three potential NMTC project sponsors: CEI Capital Management, LLC (CEI), Massachusetts Housing Investment Corporation (MHIC) and Vermont Rural Ventures. The City may elect to approach additional potential project sponsors.

▪ Prospective NMTC projects **are only eligible if they are in designated low-income areas** (pre-qualified census tracts or specially-approved target areas). NMTC eligible census tracts primarily tend to be in **downtown urban areas and lower income rural areas**. The Moran plant is located within an eligible area.

▪ **The types of business investments eligible under the NMTC program are very broad** allowing most real estate projects and operating businesses. (There are, however, a few exceptions to this eligibility with specific prohibitions, such as gambling, golf courses, liquor stores, financial institutions, businesses dealing primarily with intangible assets, and others.) Projects can be undertaken by either for-profit or nonprofit entities.

The Components of a "Model" NMTC Project

Within certain limits NMTC sponsors can develop criteria for priority projects. CEI's priority criteria are (others' may vary):

☑ Capital requirement of **$2 million to $30 million**. However, CEI has recently been awarded significant additional NMTC capacity and plans to create a **Small and Medium Enterprise Revolving Loan Fund** that will accommodate financing needs in the $100,000 - $2 million range.

☑ **Strong economic development and/or community impact** (direct or indirect), such as helping to create or retain jobs; acting as the catalyst for larger or additional development or redevelopment, infusing sources of new investment capital into an under-served, low-income area; and creating new access to community services such as education, healthcare, child & elder care, and retail services.

☑ **Environmental sustainability and beneficial impacts**, such as supporting land conservation efforts, sustainable forestry practices, use of recycled materials, an increase in energy efficiency, the reuse of existing or historic structures, and the implementation of "green" building materials and concepts.

☑ Deal will allow for **"substantially all" (85%) of the capital to stay invested in the project for the entire 7-year tax credit period** (with acceptable refinance risk at the end of this seven years).

Structural Elements of a NMTC Transaction

• The NMTC program is very flexible within the boundaries of the eligible geographic areas. Capital can flow to companies as debt, equity or an optimized mix of both. The NMTCs can be used in a "leveraged" capital structure, for instance, so the credits can be used by tax credit investors (who may need no other or limited return of capital from the project itself). For Moran the "leveraged" capital structure will be used.

• In an NMTC deal, the capital must flow into a special-purpose financing LLC known as a Certified Development Entity or "CDE" as equity (not debt) to generate the tax credit. The investor(s) owns 99.99% of the CDE. (A sponsor, like CEI, organizes and manages the CDE and retains a 0.01% membership interest.) The CDE is the conduit that allows the business to access capital on favorable terms and provides the investor(s) with attractive returns that include the use of the tax credits and the mitigation of underlying business risk.

• The 39% tax credit on the amount invested is realized over seven years. The 39% tax credit is allocated so that 5% is available for each of the first three years with 6% available for each of the last four years: 5% + 5% + 5% + 6% + 6% + 6% + 6% = 39%

• During this period "substantially all" (85%) of the original capital must be available to the borrower and must remain invested. This means that the investor(s) can receive cash flow (return *on* capital), but no return *of* capital. For instance, any principal repayments must be held in reserve at the CDE level so as not to violate the "substantially all" test.

• A bank, private equity investor, or other NMTC capital source can invest directly in the CDE or through an upper tier "capital pooling" conduit LLC as a means of leveraging the equity capital. *A generic diagram of the type of "leveraged" model intended to be used for Moran is attached as an example.*

• In a leveraged transaction, investors can provide the debt, equity, or both. The equity provider usually chooses to receive its return, using the available tax credits calculated on the basis of the *combined* total investment amount (debt & equity). Using this investment structure, the equity investor significantly reduces its project-related risk as its investment and return is realized almost entirely from the tax credits generated. We expect to use this approach for Moran.

• An equity investor will typically pay up-front about 67% to 70% of the face value of the tax credits as an equity investment in exchange for the tax credits if the tax credits are to be the principle source of the return on the investment. The exact percentage paid is not fixed and varies from project to project. It may be higher or lower than the range given above.

• Debt providers (i.e. banks and others) structure effective security interests in the underlying assets pledged to the CDE and perform typical bank lending functions. Some loan amortization (i.e. principal repayment made at the borrower level) can be still be achieved without violating the NMTC "substantially all" rule by establishing reserve accounts at the CDE or borrower (reserves which would then be available at the end of the seven years to help mitigate refinance risk). **Debt providers still have all of the typical rights and remedies usually associated with making commercial loans** as these are established upfront as the NMTC financing structural entities are formed.

• Since "substantially all" (85%) of the capital must stay invested in the project for the 7-year tax credit period, any unexpected capital repayment is held at the CDE level and will be redeployed to other NMTC eligible projects within an allowable grace period (usually within about 12-months) so that the entire NMTC tax structure is not jeopardized (which otherwise could result in a potential recapture of all tax credits with interest and penalties).

• The NMTC sponsor is responsible for obtaining the tax credit investment allocations from the U.S. Government, allocating these credits to the investors, and servicing the investments for the seven-year life of the tax credit transaction. NMTC sponsors collect customary fees using a combination of up-front, management, and back-end fees. Up-front (origination) fees and back-end fees combined typically total 5% of total project costs. Other out-of-pocket transaction costs, such as legal and accounting fees, can be substantial (The budget of such costs for Moran is $550,000). These costs and the sponsor fees are typically paid out of project the proceeds of the NMTC equity investment. Annual management fees are typically one-half percent of total project costs for the seven year holding period). An additional cost during the seven year holding period is for annual accounting and tax reporting fees (Budgeted for Moran at $40,000 per year). These annual fees are typically paid by the borrower out of its annual income.

NMTCs: Leverage Investment Model

Hypothetical $10,000,000 Project