

CITY OF MANISTEE HOUSING COMMISSION

Work Session Meeting Minutes

October 13, 2009

A Work Session/Special Meeting of the City of Manistee Housing Commission was held on October 13, 2009 at 4:00 p.m. in the Conference Room at Harborview.

Members Present: President Dale Priester, Vice-President Doug Parkes, Treasurer Elbert Purdom, Commissioner Donna Korzeniewski and Commissioner Harvey Good.

Also Present: Fred Rovet, Account Specialist; Joseph Barger, Business Development Manager and Eric Herman, Account Manager (by conference call) from Siemens Building Technologies, Inc.; George Saylor, Attorney CMHC; Clinton McKinven-Copus, Executive Director; Brandon Jensen, Project Manager and Lorna Perski, Housing Coordinator.

Clint made introductions of those present at the meeting and by conference call. We have been working about three years on the Energy Performance Contract and have received approval from HUD. The last piece of the puzzle is the financing for this contract. Clint thanked Doug for the amount of time he has put into reviewing financing and El also assisted in the review. George and Bruce have spent in a lot of time reviewing the contract from All American Investment Group, LLC to be sure things are in line with our best interest. We are in a bit of a time crunch, the numbers on the energy plan will change significantly if we don't begin soon. Clint had a potential local financier but they were unable to fund the contract for us. Clint turned the meeting over to Siemens Building Technologies for the presentation on financing.

Fred Rovet of Siemens thanked everyone for their patience in working this through. We are in trying financial times where there is a lack of abundant lenders looking to do this work. In the past this has not been an issue for Siemens with Energy Performance Contracts. Fred said that we have a great project here, it is the same project that we presented in the April meeting. There is a copy of the power point presentation behind the 4th tab in the binder for review. The second part of the project, is the funding. Eric Herman is the specialist that works with the financing for the Energy Performance Contracts. It has been very difficult to find the long term financing that these projects require. All American Investment Group is one of the financiers that still work with the Energy Performance Contracts for Housing Authorities. They sent an amended proposal to him and he forwarded it to Clint this afternoon. It is included in the binders. Essentially what All American is proposing is to finance the \$1,228,855.00 for twenty (20) years, plus construction. It is intended that you make monthly payments. The collateral behind the dollar out capital lease would be the equipment that could be deemed as personal property. He discussed with Bruce Gockerman that some of the improvements that will be installed as a result of the EPC could not be deemed as real property. All American has carved out the real property components, and to secure this transaction only use the personal property improvements. At the end of the lease the Manistee Housing Commission would own all of the improvement both real and personal for the grand sum of \$1.00. It is an installment purchase. You are buying the improvements, not leasing them. The numbers you see in the lease will be the amount you actually pay. It is a clear and specific amount. On the back of the proposal is the draft or proposed payment schedule. What you see on the page would probably be the final payment schedule. As a back-up to the All American Proposal is a Cash Flow Analysis that shows the project year, the savings that will come from the project and the

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debt payment column. This is the guaranteed savings and the debt payment that is associated with the guaranteed savings. All of the debt payment numbers are directly linked into the payment schedule. The sum of what you see in that debt payment schedule is the sum of the payments in that particular period. Both in the Amortization Schedule that is attached to the analysis and the same Amortization Schedule is what All American used in their financing proposal.

Fred Rovet noted the energy savings is calculated based on engineered models and experience in this business. We base the cash flow on about 90% of the savings giving you a 10% cushion. In the third tab is the Approval of the HUD Field Office in Detroit. HUD approved the cash flow based on 100% savings. Payments are based on a reduced and more conservative figure so there is the opportunity to put a little more cash flow into the operation. The interest rate from All American is a little more favorable than originally anticipated a 6.39% rate.

What Eric does for Siemens and for their customers is help them to access the financing. What All American is offering is between them and the Manistee Housing Commission. Siemens does not receive anything for securing financing for us.

Clint said there were changes in the Amortization Contract, that were required by our attorneys, which he has yet to see. George noted that he has not seen anything, unless Bruce has received the change. All we have at this point is a promise, but not nothing in writing.

Eric said that any commitment to follow through with a financing contract would be subject to the complete negotiating of satisfactory financing agreements. If we were to reach an impasse on some particular term in the proposal then we would be free to walk away.

Al said on the last page of tab 2 there is a cost summary spreadsheet, exhibit F. Under useful life, some of the life expectancy is less than the life of the contract. Depending on the type of use, some things will not last the life of the contract. A reserve account would be created for these items (such as light bulbs).

Doug had a question on the Amortization Schedule in 2009 payment #6 we pay \$4,000.00 (expected earnings on the escrow account) and end up with a negative principle charge, and then payment 7 is made on the same date of \$7,300.00 and back in year 2024 in August there are also two payments due. There are also additional typographical errors in this schedule. At the end there is a summary of savings and debt payments which do not add up. Eric noted that this is because it is a project year as opposed to a calendar year.

Fred noted that the way this process works, is that the bank will fund to an escrow account and then based upon the expected HUD billings Siemens will bill CMHC on a regular basis for draws against the escrow account. We approve the draw and the bank automatically releases the funds.

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Doug noted that there were some typographical errors in the Construction Draw Calculations as well. He asked if Siemens works off a sworn statement from a draw standpoint? There is a construction bond and they follow the HUD 5370 and the 5369. Doug also asked if there is a pre-payment penalty if we pay off early. Eric looked back into the original contract. Early payment of the financing can be made, on or after any payment date, after November 1, 2013. That is quite generous according to what is currently in the market place. George said the contract indicates that the amount you are going to pay is the then applicable purchase price as set forth in the schedule of payments. Does that mean interest and principle? Eric said that it is the running balance that is owed on the purchase price.

Fred noted that we worked through the original contract, the HUD 5370 and the billing and bonding are covered as part of Siemens contract.

Harvey asked about the percentage of increase in utilities. Fred said that over the past several years, there has been a 4.4% increase in utilities in the area. Siemens felt that that percentage seemed aggressive and did their calculations on 3.5%.

Doug asked if 180 days would be enough time to complete the construction. Fred said they could complete about ten units of water and lighting per day. It would take approximately 4-6 weeks on the water and lighting, and 10-12 weeks on the exterior of the building.

The assumed funding date of the financing contract is November 30, 2009. Since we don't have everything nailed down right now that seems like a good date. It probably won't take all the way to the 30th. Clint said that we just want to see the hard copy of the contract before final approval. He asked if the contract is not signed until the 30th when Siemens would start the construction. They could probably be ready to start at the beginning of December, but could wait until after the first of the year if we are more comfortable with that.

Doug made a motion to move to the Special Meeting for approval to proceed with the financing contract. Donna seconded the motion. All members present voted in favor. Motion carried. The work session closed at 4:39 p.m.



Dale Priester
President



Clinton McKinven-Copus
Executive Director
Commission Secretary