Legal Update

GVSBO

GRAND VALLEY SCHOOL BUSINESS OFFICIALS

MILLER CANFIELD

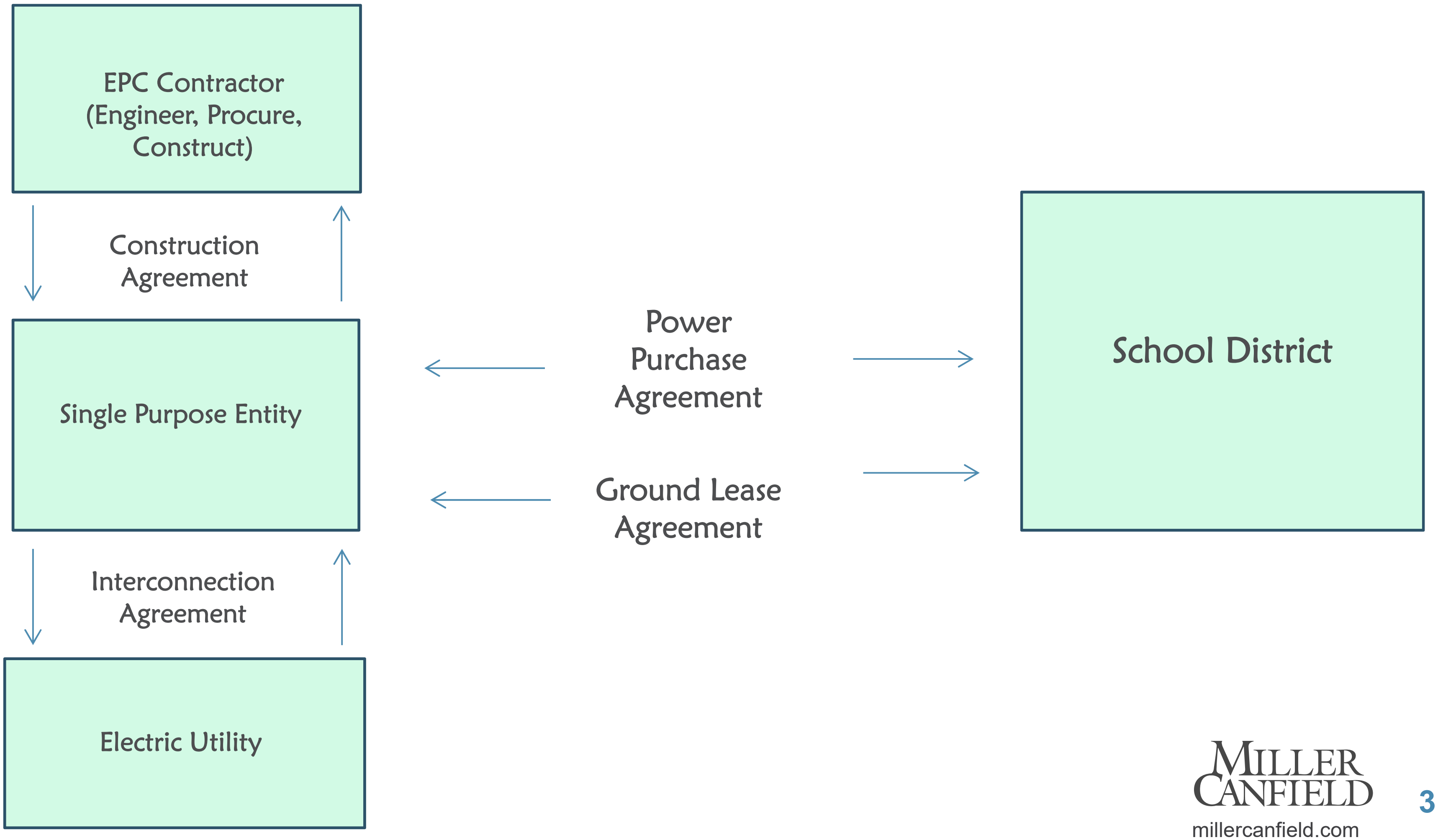
Solar At Your School: Go Green! Save Green!

- What is a "Third Party" Solar Project
  - Allows a School District to purchase power at a stated rate for a specified term
  - No up front investment from the District
  - Savings due to lower cost for electricity
  - District uses green or renewable power

- Why Third Party Financing
  - Solar Investment Tax Credit
  - Michigan Renewable Energy Credits

- Who are the parties to a Third Party Solar Project
  - The Offtaker of the power (School District)
  - The Solar Developer/Investor
  - Engineer, Procure, Construct ("EPC") Contractor
  - Electric Utility

Third Party Solar Project Financing Structure



Solar Program: Documentation

- Power Purchase Agreement
  - Rate for power and term
  - Risk of production
  - Operation and maintenance
  - Responsibility for regulatory and interconnection issues
  - RECs and other credits
  - Indemnification
  - Buyout of the system
  - Removal of the system

- Site Lease Agreement
- Construction Agreement
- Interconnection Agreement

Solar Program: Additional Issues

- Interconnectivity with Electric Utility
- Private Activity/Use of Bond Financed Facilities
- Zoning
- Property Taxes

MUNICIPAL BOND MARKET UPDATE
FEDERAL TAX REFORM OF 2017

MILLER CANFIELD

TAX REFORM BILL HAS MAJOR IMPLICATIONS FOR MUNIS

Tax Bill Reform	House Version	Senate Version	Combined Version (Final)
Private Activity Bonds (Includes 501c3's)	Total repeal	No changes	No changes
Tax-Exempt Advance Refundings	Total repeal	Total repeal	Total repeal

Implications for the Muni Market

- On December 20, Congress passed the Tax Reform Bill (the "Bill"). It is uncertain whether President Trump will sign the Bill in 2017 or wait until January in order to postpone certain spending cuts. Current discussions suggest there will be a waiver of PAYGO budget requirements which means tax reform could be signed at the end of this year.
- The final version of the Bill makes no changes regarding the sale of tax-exempt Private Activity Bonds (PABs), though they could be under threat in the near future as a repeal could be included as part of the infrastructure package in 2018.
- The Bill eliminates advance refundings which would remove a proven tool that borrowers have used to take advantage of market conditions to lower debt service costs.
- The authority to issue tax credit bonds, including Qualified Zone Academy Bonds, Clean Renewable Energy Bonds, and others, will be repealed under the Bill. Stadium financings with tax-exempt debt are still allowed.
- The markets are expecting decreased demand for tax-exempt debt resulting from lower tax rates for corporations, individuals and banks.

HIGHER INTEREST COSTS FOR TAX-EXEMPT DEBT?:

The bill significantly reduces individual and corporate tax rates. These lower rates will reduce the value of the tax exemption for corporations and individuals that invest in tax-exempt debt and could cause a reduction in the demand for such debt. For instance, because the corporate tax rate is reduced from 35% to 21%, many of the traditional corporate investors in tax-exempt debt such as insurance companies, banks and credit unions will receive a reduced benefit from holding tax-exempt debt which presumably will make this debt less attractive to these investors. Any reduced demand would likely result in higher interest rates for tax-exempt debt in order to make this type of debt more attractive to investors. Currently, outstanding fixed-rate debt of municipalities and school districts would not be affected by lower tax rates, but long and short-term interest costs for future borrowings would most likely increase under the tax reform bill.

ELIMINATION OF ADVANCE REFUNDING BONDS:

The bill eliminates advance refunding bonds. Most tax-exempt bonds are issued with a 10-year optional redemption call date, and current law allows an issuer to refund/refinance these existing bonds without restriction within 90 days of the optional redemption call date. Bonds issued for this type of refunding/refinancing are called current refunding bonds and are typically issued to lower debt-service payments, thereby reducing future borrowing costs. Under current law, an issuer may also issue advance refunding bonds, which are bonds issued to refund/refinance existing bonds before the 90-day window prior to the designated optional redemption call date. This allows issuers to lower debt-service payments and reduce borrowing costs earlier than with current refunding bonds, but advance refunding bonds can only be issued one time. The elimination of advance-refunding bonds would thus prevent a municipality or school district from establishing a new lower borrowing rate more than 90 days prior to the call date of the existing bonds. Municipalities and school districts would still have the ability to issue current refunding bonds within the 90-day period prior to the designated optional redemption call date (e.g., 10 years from the date of issue). Any negative effect from the elimination of advance refunding bonds may potentially be mitigated by issuing future bonds with shorter optional redemption call dates (e.g., less than 10 years). In addition, it may also be possible for municipalities and school districts to enter into contracts for the future delivery of current refunding bonds which could accomplish savings similar to an advance refunding.

ELIMINATION OF TAX CREDIT BONDS:

The bill also eliminates tax credit bonds. These bonds provide either a tax credit to bondholders in lieu of an interest payment or a direct interest rebate payment to issuers. The purpose of tax credit bonds is to provide a low or zero interest rate financing mechanism for various qualified projects. Tax credit bonds have often been issued to finance energy conservation and renewable energy projects. These bonds currently include Qualified Zone Academy Bonds ("QZAB"), Qualified Energy Conservation Bonds ("QECB") and Clean and Renewable Energy Bonds ("CREB"). For a period after the recession, federal law also allowed the issuance of Qualified School Construction Bonds ("QSCB"), Recovery Zone Bonds ("RZ Bonds") and Build America Bonds ("BAB"). Many municipalities and school districts in Michigan have issued tax credit bonds to take advantage of the lower borrowing costs. These bonds provide a lower cost alternative to tax-exempt bonds and have been a valuable financing tool. Separate from federal sequestration, which has reduced the credit amount on tax credit bonds since 2013, and which may continue into 2018 and later years, the tax reform bill does not affect outstanding tax credit bonds.

REDUCTION OF STATE AND LOCAL TAX DEDUCTION ("SALT"):

The tax reform bill caps the deduction for state and local taxes at $10,000 ($5,000 for married couples filing separately). This cap would limit the itemized deduction for state and local property, income and sales taxes. These deductible taxes include the general operating, voted debt and other taxes levied by municipalities and school districts. The capping of the federal tax deduction for these types of taxes will make such taxes more costly to certain taxpayers, which may cause these taxpayers to be less likely to support future municipal and school millage requests.