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January 25, 2010

VIA EMAIL

Wisconsin Assembly
State Capitol
Madison, WI 53707

Re: Assembly Bill 643

Ladies and Gentlemen of the Assembly:

My firm is serving as bond counsel for Energy Composites Corporation (the "Company") and I am writing to explain the urgency for adoption of Assembly Bill 643 on behalf of our client. We realize that the bond area is complex and the speed with which the legislature has been asked to respond to this request has made the process difficult. My goal in this letter is to spell out factually and succinctly why this legislation is vitally important to Energy Composites, the City of Wisconsin Rapids, Wood County, several counties surrounding Wood County, and the State.

Energy Composites Corporation will embark on a major expansion involving an investment of over $80 million on March 1, 2010. The question is whether the expansion will occur in Wisconsin or in one of several other states or Canada. This expansion will initially create over 600 permanent green manufacturing jobs; manufacturing component parts for wind energy. The five-year business plan contemplates creation of over 1,000 jobs in the aggregate in the next five years. As you can appreciate, these jobs will be filled by residents and taxpayers of Wisconsin Rapids, Wood County and a number of surrounding counties--an area hard hit by plant closings over the past few years. The President of Energy Composites, Jamie Mancl, grew up in Wood County, built his first business, Advance Fiberglass Technologies in Wisconsin Rapids, and wants to stay in Wisconsin. To meet contractual requirements with customers, construction must begin by March 1, 2010. For that reason, the Board of Directors has directed that Jamie investigate, on a parallel track, site locations in several other States and Canada. These other states have offered very attractive incentives.

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As we explored ways to create comparable and competitive incentives in Wisconsin, the City of Wisconsin Rapids stepped up with TIF financing. The Company applied for several grants, including energy grants. But these resources are very limited and the project is large. Another clear way to create incentive, at absolutely no cost to the State, the county or the city, is to utilize tax-exempt financing. Jamie's first business expansion was financed with tax-exempt small issue manufacturing bonds. The debt service on tax-exempt bonds is paid entirely by the private business and involves no Federal, State or local subsidy or guaranty. The ability to utilize this financing tool drives down interest rate costs for the borrower. The Company has identified an investor and has committed to construct its new facility and employ Wisconsin residents for the benefit of the city, the county, surrounding counties and the State, if they can utilize tax-exempt bond financing.

As we explored how the Company could utilize tax-exempt bonds to drive down interest costs, there were three possibilities. The first, the classic small issue manufacturing IRB cannot be used because, although the Company is a manufacturer, the scope of the project alone makes them ineligible. Small issue manufacturing IRBs can only be utilized by manufacturers whose total capital expenditures in the 3 years prior to the bond and the 3 years after bond issuance do not exceed $20 million and the maximum bond amount is $10 million.

Likewise, the Company could not qualify to use the second alternative - Midwestern Disaster Area Bonds (MDABs) - a program with $3.8 Billion of capacity for allocation and no limitations with respect capital expenditures and no maximum bond amount - because Wood County is not an Affected County for purposes of the MDAB program. The project site is roughly ten (10) miles too far north to qualify.

The final option available to the Company is Recovery Zone Facility Bonds (RZFBs). The American Recovery and Reinvestment Act (ARRA) authorized local governments to issue tax-exempt bonds to finance any property that is used in any trade or business. The authorization ends on December 31, 2010. The total amount of RZFBs which can be issued in each state is limited, and in each state the authority to use RZFBs was initially allocated among each county and large municipality with populations over 100,000.

The Juneau County project identified on the attached Exhibits has similar issues. Although they can use MDABs for $15-18 million of their project, they will need RZFB allocation of approximately $10-12 million; however, Juneau County only received $129,000 of RZFB allocation. Absent this legislation, the Juneau County project cannot proceed on the timetable they identified.

Wisconsin's total allocation, for bonds issued in 2009 and 2010, is approximately $238 million. However, because that amount was divided among Wisconsin's counties and the cities of Milwaukee, Madison and Green Bay, most counties (51) do not have a large enough allocation to make tax-exempt financing for economic development cost-effective. Wood County's allocation was only $461,000.

Nine counties have no allocation, another 28 have an allocation of less than $1 million, and 14 more have less than $2 million. This piece-meal allocation diminishes the availability of RZFBs for projects that could make a significant difference to the state or local economy. Not only does the large number of small allocations detract from the effectiveness of RZFBs as an economic development tool, but under the initial allocation system most of the allocation is directed to the areas that least need it because they are able to utilize the massive $3.8 billion allocation available under the MDAB program. Approximately $160 million of the $238 million total of RZFB allocations was initially made to counties and cities within the area covered by the MDAB authorization. Most projects located in that area that could be financed with RZFBs could alternatively be financed with MDABs. It seems very unlikely that there will be demand for the use of the entire $3.8 billion of MDABs through 2012. Thus, the use of RZFBs by the counties and cities in southern Wisconsin would in most cases simply result in more of the MDAB authority going unused and foreclose use by projects in counties which have little or no allocation.

Twenty other States have take a similar approach to that proposed in SB 440 to consolidate the available RZFB allocation. Recognizing that to date, there have been no RZFBs issued in Wisconsin, and recognizing that the ability to utilize this tool will expire as of December 31, 2010, SB 440 would require that counties waive their allocation to a State pool so that "shovel ready" projects, regardless of the county in which they are located, can immediately receive allocation. In an effort to show proper deference to local control and in recognition that it is possible that some counties may be very close to allocating and closing a RZFB, the legislation also provides an exemption from the waiver requirement if a county demonstrates the reasonable likelihood of a bond closing prior to June 1, 2010.

There is an urgent and immediate need for this legislation--for the Energy Composites project and the 600-1200 jobs it will create, for every shovel ready project which may be located in a county where there is insufficient allocation and for projects in counties where seemingly large amounts of allocation may already be available. A State pool will ensure that shovel ready projects will have allocation and Wisconsin will not waste allocation. A state pool will ensure that even a project requiring an allocation larger than that available in a county blessed with a substantial initial allocation can access additional allocation from the State pool. For counties that already can access the MDAB program, which has allocation for the 30 southern Affected Counties which is 15 times greater than the RZFB allocation for the entire State, there is no lost opportunity. Projects in those counties will still have the ability to utilize tax-exempt bond financing - and their opportunity will extend until the sunset of December 31, 2012. The opportunity for utilizing RZFBs will expire December 31, 2010. There is no more time to waste.

I have enclosed several pieces of information which will provide more background on the respective RZFB and MDAB programs and would be happy to answer questions at any time. Thank you for taking time to consider this urgent request.

Respectfully,

Lynda R. Templen

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LRT/maj
Enc.
cc: Jamie Mancl
Mayor Mary Jo Carson

RECOVERY ZONE FACILITY BOND LEGISLATION

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KEY ASPECTS OF RECOVERY ZONE FACILITY BOND LEGISLATION AND NEED FOR WAIVER TO STATE POOL

Federal Law

- Recovery Zone Facility Bonds (RZFBs) were authorized the American Recovery and Reinvestment Act of 2009.
- RZFBs are a new category of tax-exempt private activity bonds that can be used to finance economic development in designated recovery zones.
- Can be used to finance new capital improvements owned and used by almost any industrial, commercial, retail, office or other business activity.
- Cannot be used for rental housing, airplanes, health clubs, liquor stores, race tracks, luxury boxes, gambling parlors or massage parlors.
- Issued for private projects; debt service on RZFBs is paid entirely by the private business that owns and uses the property.
- Interest on the RZFBs is exempt from federal income tax – this results in lower interest rate (there is no Federal, State or local municipality subsidy).
- National limit of $15 billion is allocated among States in proportion to their relative actual lost jobs in 2008.
- Sub-allocations to counties and large municipalities within a State were also made on basis of relative job losses.
- Any RZFBs must be issued by 12/31/10.

Applicability in Wisconsin

- Wisconsin's total allocation is $238,317,000 – allocated to Counties and to 3 major cities with population of over 100,000 (Madison, Milwaukee and Green Bay).
- $160 million of the available $238 million has initially been allocated to Counties (and the Cities of Madison and Milwaukee) that can also utilize MDA bonds (Wisconsin's total allocation of MDABs is $3.8 billion of capacity, and MDABs can be issued until 12/31/12).
- 9 Wisconsin Counties received no allocation.
- 28 Wisconsin Counties received same allocation but less than $1 million of allocation (but greater than -0-).
- 14 Wisconsin Counties received more than $1 million but less than $2 million of allocation.
- In aggregate, 51 Wisconsin counties can't use this economic development tool because they received no allocation or an amount that is too small to effectively use.

Effect of Proposed Legislation

- For a County or City that has shovel-ready project(s) and will issue RZFBs – legislation waives only the residual allocation.

- For other Counties or Cities – legislation waives allocation into State pool.

- State pool is available for projects located in ANY County; however, in making allocations, consideration will be given to the availability of MDAB financing in that County.

- As a result, no County is disadvantaged by the legislation. An allocation may be requested for a project in ANY County. In particular, a project in one of the 51 Counties that have little or no allocation will be able to use this economic development tool.

- Absent the legislation, much of the available State allocation will likely go to waste.

Specific Significant Shovel Ready Projects Which Will Benefit

- Energy Composites Corporation – Wood County (County RZFB allocation $461,000 – City of Wisconsin Rapids – Approximately $80-$100 million project – 600+ jobs in wind energy field. Project is (a) too large to qualify for traditional small issue manufacturing bonds (b) 10 miles too far north to qualify for MDABs and (c) larger than Wood County's allocation. Absent the ability to use RZFB financing, this project will not proceed in Wisconsin.

- Borrower B – Waupaca County (County RZFB allocation $2,852,000). Expansion at existing Company – Approximately $20 million project – 100+ jobs. Project is (a) too large to qualify for traditional small issue manufacturing bonds, (b) too far north to qualify for MDABs and (c) larger than Waupaca County's allocation.

- Borrower C – Juneau County (County RZFB allocation $129,000). Approximately $30 million project – 80+ direct jobs and 100's of "spin off" service industry jobs (hotels, motels and restaurants). Project would utilize MDABs for the land and building costs ($12-18 million); however, MDABs cannot be used for equipment. Borrower seeks to use RZFBs for the equipment portion of the project, which totals $12-18 million (this is an example of a project in a County with MDAB allocation that nevertheless requires use of some RZFB).

Recovery Zone Bond Reallocation Survey

State	Reallocation (Y/N)?	If Y, Bill/Order Information	Date Passed	Notes	Link
Alabama	N	Executive Order 47	4/8/2009	States that the state will comply with ARRA	http://governorpress.alabama.gov/pr/ex-47-2009-04-08.asp
Alaska					
Arizona					
Arkansas	Y	Executive Order 09-13	10/13/2009	States that a system for waiver and reallocation will be established.	http://governor.arkansas.gov/newsroom/index.php?do:newsDetail=1&news_id=2001
California	Y	By CDLAC Procedures	8/26/2009	California Debt Limit Allocation Committee adopted reallocation procedures	http://http://www.treasurer.ca.gov/cdlac/procedures.asp
Colorado	Y	House Bill No. 1346	6/2/2009	Provides for a waiver and application process.	http://www.leg.state.co.us/clics/clics2009a/csl.nsf/fsbillcont3/E18BB82D956F0EC4872575890076EB29?open&file=1346_enr.pdf
Connecticut					
Delaware					
Florida					
Georgia	Y	By DCA and SFIC Procedures	8/20/2009	Georgia's Department of Community Affairs adopted reallocation procedures (click on the "Recovery Zone Bonds Overview" PDF at the bottom of the link)	http://www.dca.ga.gov/economic/financing/programs/rzb.asp
Hawaii					
Idaho	Y	Executive Order 2009-15	7/30/2009	Provides for a waiver and application process.	http://gov.idaho.gov/mediacenter/execorders/eo09/eo_2009_15.html
Illinois					
Indiana					
Iowa					
Kansas					
Kentucky	Y	200 KAR 15:010 (Emergency Regulation)	9/14/2009	Provides for a waiver and application process.	http://www.lrc.ky.gov/kar/200/015/010reg.htm
Louisiana					
Maine	Pending	Senate Bill 590	pub. hrg 1/10	Provides for a waiver and application process.	http://www.mainelegislature.org/legis/bills/bills_124th/billpdfs/SP059001.pdf
Maryland					
Massachusetts	Y	Executive Order 514	10/14/2009	Provides for a waiver and application process.	http://www.mass.gov/?pageID=gov3terminal&L=3&L0=Home&L1=Legislation+%26+Executive+Orders&L2=Executive+Orders&sid=Agov3&b=terminalcontent&f=Executive+Orders_executive_order_514&csid=Agov3
Michigan					
Minnesota					
Mississippi					
Missouri	Y	House Bill No. 191	6/4/2009	Provides for a waiver and application process.	http://www.house.mo.gov/billtracking/bills091/biltxt/truly/HB0191T.HTM
Montana	Y	House Bill No. 645	5/15/2009	Provides for a waiver and application process.	http://data.opi.mt.gov/bills/2009/billpdf/HB0645GovLineVeto.pdf
Nebraska					
Nevada					
New Hampshire					
New Jersey	Y	Senate Bill No. 2020	6/29/2009	Providers procedure for Gov's reallocation of bond amounts.	http://www.njleg.state.nj.us/2008/Bills/S2500/2020_I1.PDF
New Mexico					
New York					
North Carolina	Y	Senate Bill No. 754	6/19/2009	States that a system for waiver and reallocation will be established.	http://www.ncga.state.nc.us/Sessions/2009/Bills/Senate/PDF/S754v5.pdf
North Dakota	Y	Senate Bill No. 2014	5/19/2009	Sec. 22 states that only Gov. can reallocate funds unless otherwise delegated.	http://www.legis.nd.gov/assembly/61-2009/bill-text/JQND0600.pdf
Ohio	Y	House Bill 1	7/17/2009	Sec. 122.011(A)(14) states that there will be reallocation by the state.	http://www.legislature.state.oh.us/BillText128/128_HB_1_EN_N.pdf
Oklahoma					
Oregon	Y	House Bill No. 3199	8/4/2009	Provides for a waiver and application process.	http://www.leg.state.or.us/09reg/measpdf/hb3100.dir/hb3199.en.pdf
Pennsylvania					

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Rhode Island					
South Carolina					
South Dakota					
Tennessee	Y	House Bill No. 1749	7/9/2009	Provides for a waiver and application process.	http://state.tn.us/sos/acts/106/pub/pc0608.pdf
Texas	Y	Executive Orders RP 70, RP 72	6/18, 7/25	States that Texas will develop strategies to maximize ARRA funds.	http://governor.state.tx.us/news/executive-order/13543/, http://governor.state.tx.us/news/executive-order/13293/
Utah					
Vermont	Y	Executive Order 07-09	10/9/2009	Provides for a waiver and application process.	http://governor.vermont.gov/tools/index.php?topic=ExecutiveOrders&id=3701&v=Article
Virginia	Y	Executive Order 94	9/30/2009	Provides for a waiver and application process.	http://www.governor.virginia.gov/Initiatives/ExecutiveOrders/pdf/EO_94.pdf
Washington	Y	Executive Order 09-06	9/8/2009	Provides for a waiver and application process.	http://www.recovery.wa.gov/documents/state/eo_09-06.pdf
West Virginia	Y	Senate Bill No. 4002	11/19/2009	Provides for a waiver and application process.	http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=sb4002_enr.htm&yr=2009&sesstype=4X&i=4002
Wisconsin	Pending	Senate Bill No. 440	int'd 12/23/2009	Provides for a waiver and application process.	http://www.legis.state.wi.us/2009/data/SB-440.pdf
Wyoming					

Summary:
Based upon this limited survey of readily available data, there are 20 States that have adopted/ordered reallocation and 2 States (including Wisconsin) that have action under consideration.

Coordinated Use of Federal Tax-Exempt Bond Allocations for Private Sector Development will Make Bigger Impact in Wisconsin

Two new federal statutes allow local governments in Wisconsin to issue tax-exempt bonds to assist private economic development. Tax-exempt financing can provide significant debt service savings that can be used to attract a development project and enhance its prospects.

One statute, the American Recovery and Reinvestment Act, applies to State and local governments nationwide. A separate, more targeted federal economic development statute applies to only a small number of States, and most dramatically to Wisconsin. However, to take full advantage of the tax-exempt bond financing authorized under the American Recovery and Reinvestment Act, action is needed to replace the statute's presumptive allocation system.

Recovery Zone Facility Bond Allocations are Scarce – $238 million

The American Recovery and Reinvestment Act authorizes local governments to issue tax-exempt bonds to finance any tangible depreciable property that is used in any trade or business (other than residential rental property). The total amount of these bonds – known as "Recovery Zone Facility Bonds" – is limited, and in each State the authority is initially allocated among each county and large municipality (those with populations over 100,000).[1] Wisconsin's total allocation, for bonds issued this year or next, is approximately $238 million. However, because that amount is divided up among Wisconsin's counties and the Cities of Milwaukee, Madison and Green Bay, most counties do not have a large enough allocation to make a tax-exempt financing cost-effective.[2] Nine counties have no allocation, another 28 have an allocation of less than $1 million, and 14 more have less than $2 million. This piece-meal allocation diminishes the availability of Recovery Zone Facility Bonds for projects that could make a significant difference to the state or local economy. An approach that provides for the allocations to be pooled and used for larger financings (where the availability of tax-exempt financing may be a deciding factor in whether or not the project gets done) would allow the State to make strategic use of this opportunity in a way that could have a much larger impact. Absent legislation it is unlikely that most of the $238 million of available allocation will ever be used because any bonds would need to be issued by December 31, 2010. To date, there have been no Recovery Zone Facility Bonds issued in Wisconsin despite the fact that there are a number of large "shovel-ready" projects whose geographic location forecloses them from using this valuable economic tool. Consequently, hundreds or perhaps thousands of high quality jobs will not be created in the State of Wisconsin.

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[1] The American Recovery and Reinvestment Act also authorizes counties and local governments to issue bonds known as "Recovery Zone Economic Development Bonds" for governmental purposes (that is, to finance their own projects, as opposed to assisting private development), and similarly allocates that authority among the same governmental units. This proposal does not include the allocations for those bonds.

[2] The additional up-front costs of tax-exempt industrial development bond financing as opposed to conventional financing make such bonds less effective for smaller projects than for larger projects where the costs can be spread over larger financings. Although there is no bright line, bond financings in amounts less than $2 million generally are not cost-effective, and the savings become more apparent for financings of $5 million or more.

Midwestern Disaster Area Bond Allocations are Abundant – $3.8 billion

The Heartland Disaster Tax Relief Act of 2008, adopted to encourage economic recovery from the severe storms and floods of June 2008, authorizes seven states and their local governmental units to issue tax-exempt bonds, known as "Midwestern Disaster Area Bonds," to finance nearly any real property development in certain federally-declared disaster areas. Wisconsin has the largest allocation – $3.8 billion through 2012 for projects in thirty counties in southern Wisconsin.[3] This amount is not allocated to the particular counties, but is an undivided pool available for projects designated by the Governor.

Use Abundant Resource to Conserve Scarce Resource

Not only does the large number of small allocations detract from the effectiveness of Recovery Zone Facility Bonds as an economic development tool, but under the initial allocation system most of the allocation is directed to the areas that least need it. The large majority (approximately $160 million of the $238 million total) of Recovery Zone Facility Bond allocations are made to counties and cities within the area covered by the Midwestern Disaster Area Bond authorization. Most projects located in that area that could be financed with Recovery Zone Facility Bonds could alternatively be financed with Midwestern Disaster Area Bonds.[4] It seems <u>very</u> unlikely that there will be demand for the use of the entire $3.8 billion of Midwestern Disaster Area Bonds through 2012. Thus, the use of Recovery Zone Facility Bonds by the counties and cities in southern Wisconsin would in most cases simply result in more of the Midwestern Disaster Area Bond authority going unused.

Aggregate Recovery Zone Facility Bond Allocations to Avoid Waste

The American Recovery and Reinvestment Act authorizes counties and municipalities to waive their Recovery Zone Facility Bond allocations, and the State to re-allocate those amounts as it sees fit. The best approach would be for all of the counties and cities to waive their allocations, thereby creating a single pool. The State could then administer these two federal allocations in a coordinated, thoughtful manner that could result in a larger number of significant projects getting low-cost financing. The Recovery Zone Facility Bond allocations, which are generally too small to make much of an impact as currently sprinkled throughout the State, could be pooled and used for those projects for which Midwestern Disaster Area Bond financing is unavailable. Used in this manner, the $238 million could have a real impact.

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[3] These counties include nearly all of the southern portion of the State (generally, all counties intersected by or south of a line from LaCrosse through Oshkosh), except Lafayette County.

[4] There are exceptions. Midwestern Disaster Area Bonds cannot be used to finance equipment, while Recovery Zone Facility Bonds can be used for that purpose. Also, the rules relating to use of bond proceeds to finance the acquisition of existing buildings differ – both types of bonds generally require rehabilitation expenditures to be made, although in most instances the requirements applicable to Midwestern Disaster Area Bonds are less burdensome.

Need for Emergency Action

There is an urgent and immediate need for emergency legislation to be considered and adopted because every day that passes increases the strong likelihood that Wisconsin will lose jobs or fail to create the new jobs which the Recovery Zone legislation was intended to stimulate. This is true because companies must issue these bonds by December 31, 2010. Failure to remedy or delay in remedying the allocation process will necessarily mean that the State will not realize the majority of the benefits afforded by this stimulus program.

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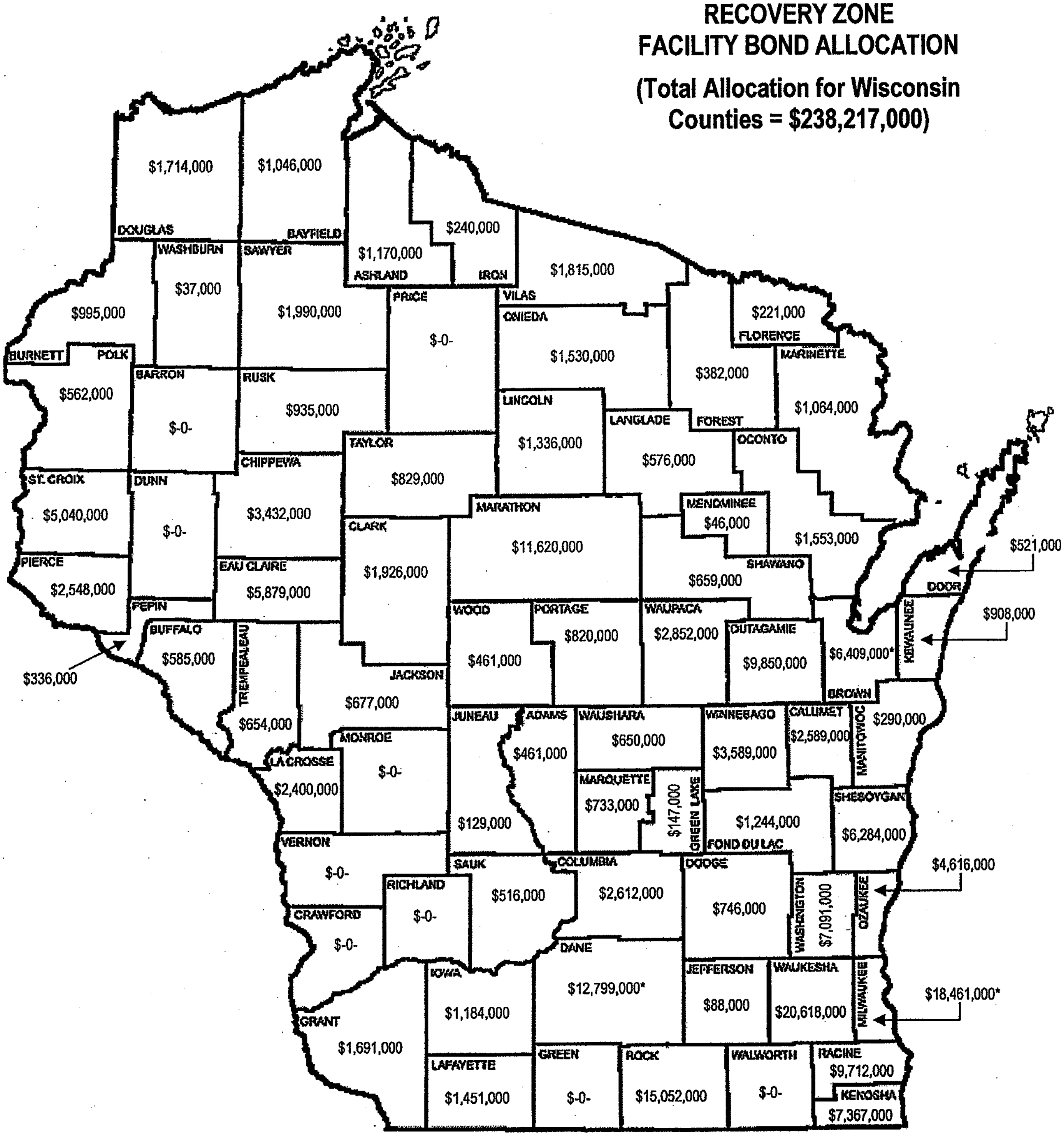
RECOVERY ZONE FACILITY BOND ALLOCATION

(Total Allocation for Wisconsin Counties = $238,217,000)



*** City of Green Bay**	**$ 4,331,000**
*** City of Madison**	**$12,168,000**
*** City of Milwaukee**	**$25,930,000**

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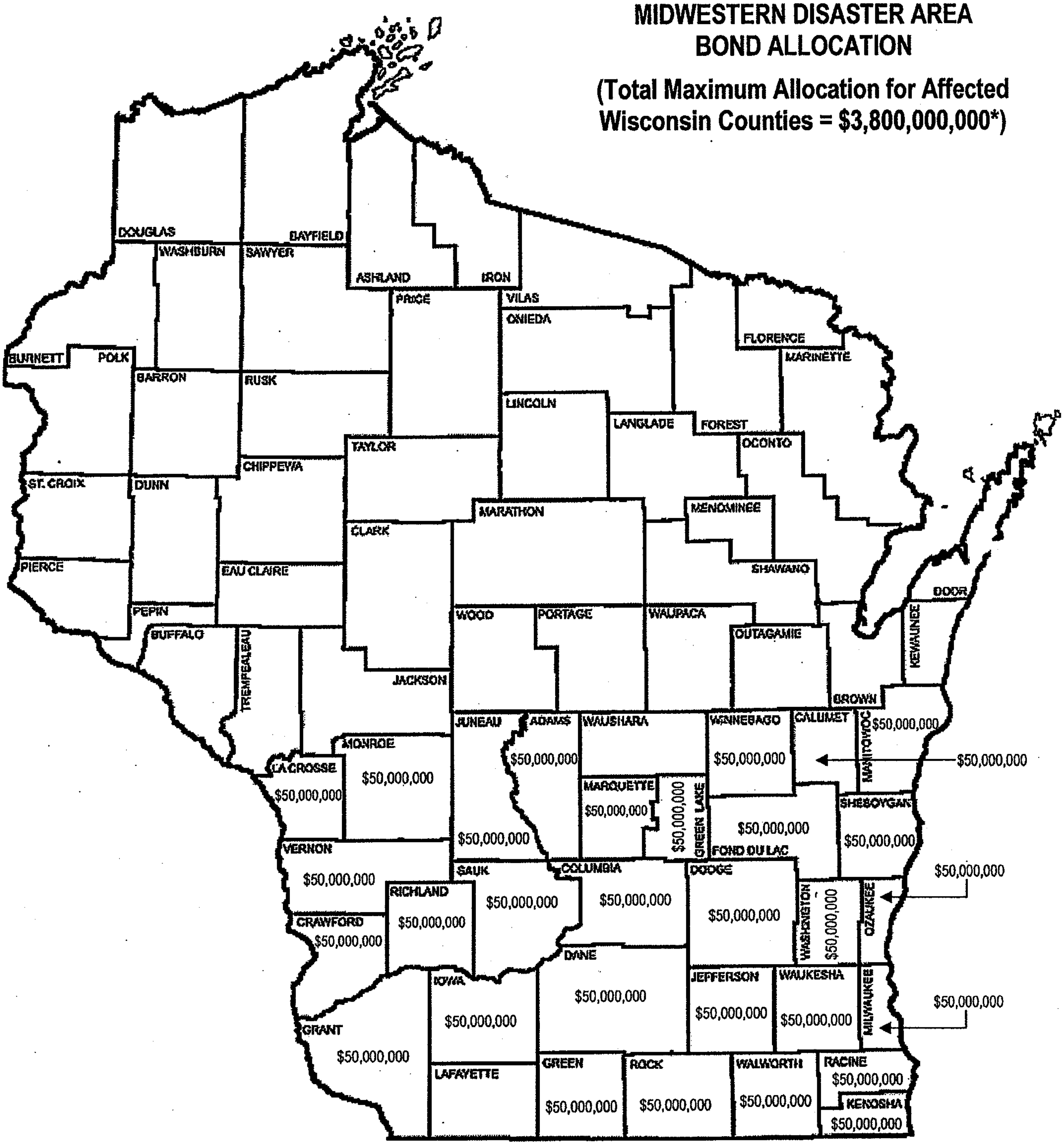
MIDWESTERN DISASTER AREA
BOND ALLOCATION
(Total Maximum Allocation for Affected Wisconsin Counties = $3,800,000,000*)



*NOTE: $50 Million initially apportioned to each Affected County ($1.5 Billion); unallocated balance = $2.3 Billion**

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