



EXECUTIVE SUMMARY

Overview.....	<p>The National LUST Program Fund (known as “NatLUST”) is modeled on and officially succeeded Virginia’s <u>VRA Accelerated Claim Payment Program</u> on February 1, 2005. NatLUST’s mission: To help state sponsored tank funds keep their clean up programs going by providing immediate liquidity to Responsible Parties (“RP’s”) and consultants. NatLUST does this by purchasing claims that have been reviewed and approved by the tank fund program, essentially stepping into the RP’s shoes to wait in line for reimbursement. As described below, NatLUST is also developing other financial products to support LUST funds & stakeholders.</p> <p>NatLUST is organized as a nonstock, nonprofit corporation. On August 22, 2006, NatLUST received 501(c)(3) certification from the IRS. NatLUST has access to essentially unlimited amounts of low cost capital through a Virginia governmental bond issuer and the governmental lending divisions of two large banks. As a nonprofit, NatLUST passes its low cost financing costs through to participating claimants and their consultants.</p>
Where is NatLUST Financing Available? What Other States Are You Considering.....	<p>Currently Virginia (2/1/05) & Connecticut (May 2006).</p> <p>NatLUST has identified the following other states as needing one or more financial products to benefit their stakeholders: CA, CO, FL, GA, KY, IL, IN, MA, NC, OH, SC, and TX.</p> <p>NatLUST will attempt to make financing available to RP’s in all states where a funding need is identified by the stakeholders and/or state fund administrators.</p>
Corporate Governance	<p>A board of independent directors governs NatLUST. Directors include Michaela Brockmann (Rhode Island UST); Carol Eighmey (Missouri PSTIF); Dan Gilligan (PMAA); Darrell Hill (BB& T Bank; Former Virginia Resources Authority Executive Director); Michael Lemon (Groundwater & Environmental Services); and James Rocco (Ohio Petro Board). Some of the other entities that have helped with NatLUST are listed at http://natlust.org/links.html</p>
Why Is NatLUST Needed?.....	<p>For public health reasons, it is generally desirable that contaminated sites be cleaned up ASAP. Failure to remove “free product”, as is required by Federal regulations (40 CFR 280.64), may result in petroleum plumes spreading. This can contaminate groundwater, increase public health risks, and result in higher eventual clean up</p>

costs.

Unfortunately, many state tank funds do not have sufficient tax revenues to reimburse all claims in a timely manner. Claimants and their environmental consultants often wait months to receive reimbursement. The financial hardship imposed on small tank owners can result in myriad public policy problems, including a slow down in clean ups, spreading plumes, higher eventual clean up costs, etc.

How Does NatLUST Financing Work? Rather than "lending" money to the RP or the consultant, NatLUST provides liquidity by simply purchasing claims from RP's, using a two-step payment process:

Step One: When a particular phase of a project is completed and the claim reimbursement application prepared, the RP will assign (sell) their claim to NatLUST concurrently with the claim being submitted to the state environmental agency for processing & approval. Immediately upon the claim being approved by the state agency, NatLUST will issue an "Initial" payment, typically a large percentage of the amount approved (ex. 90% of the amount approved would be typical for fund's with a one year payment delay).

Step Two: When the claim is eventually reimbursed, NatLUST will receive the reimbursement from the tank fund, at which point NatLUST will remit the 10% balance owed, less the accrued carrying costs on the particular claim, in the form of a second & final payment.

Why the Two-Step Payment? ... First, because one cannot precisely predict when a fund will reimburse a particular claim (or how short term interest rates may fluctuate during the funding period), the two-step payment allows NatLUST to retain a small percentage of the approved claim as excess collateral. NatLUST will later deduct the accrued carrying costs from the holdback. This allows NatLUST's credit providers to focus on the credit risk of the fund. Importantly, it eliminates the need to consider the creditworthiness of the RP (or their consultant) as a source of repayment. This makes the program much less expensive to manage and allows us to finance small stakeholders. Finally, the two-step payment is more desirable for a non-profit program than a single payment. With a single payment, NatLUST would have to guess at future carrying costs, which would either result in us making a windfall profit (or losing money) -- neither of which would be a desirable outcome.

Do You Offer Direct Pay? Yes. In states where it is not barred by regulation or law, NatLUST will provide a "Direct Pay" option, where the RP can direct NatLUST to send the Initial and Residual payments to their environmental firm.

Is The Financing Debt to My Company or The Tank Fund?... No. Because NatLUST is buying a "paper asset" and not technically lending money, one advantage is that NATLUST financing is not debt to the RP, the environmental consultant, the state tank or the state itself.

Is the Financing Non-Recourse? Assuming we are financing claims that have been reviewed and approved by the tank fund, NatLUST financing is non-recourse to the RP & their consultant. In the unlikely event that the tank fund ceases to reimburse claims, NatLUST and its credit providers will

suffer the loss.

What About Cost Recovery?..... The state regulatory must agree to hold NatLUST harmless from any attempt at cost recovery; however, NatLUST will agree to cooperate with any state agency to protect taxpayer funds.

What Are Carrying Costs? NATLUST's "carrying costs" are (a) the cost of its borrowed funds plus (b) the cost of managing the program. As of September 2006, our cost of borrowed money was 6.08% on an annualized basis (whereas prime is 8.25%). Administrative costs are running just over 1% per year. NatLUST plans to switch to less expensive tax-exempt municipal bond financing in 2007. As of the date above, tax-exempt financing would cost about 4% per year.

We publish historical carrying costs on the web at http://www.natlust.org/va_residuals.html

Who Pays Carrying Costs? The party that receives the Initial and Residual Payments will pay NatLUST's carrying costs, which are deducted from the Final payment.

Is NatLUST a Cure for All of the Fund's Problems? No, but it will help. The backlog will remain, fluctuating up and down. But by providing liquidity, many of the problems caused by the backlog will disappear. Liquidity will allow Fund administrators and stakeholders to keep cleaning up contaminated sites while the funding imbalance either works itself out or a consensus is developed for adopting other solutions to rectify the funding imbalance and return the tank fund program to solvency.

Will NatLUST Financing Be Available to All RP's in All States..... NatLUST will attempt to make financing available to RP's in all states where a funding need is identified; however, an important factor that will influence whether NATLUST's credit providers will approve a state will be the state environmental agency's willingness to signal that they believe there is a public purpose benefit to allowing their stakeholders the option to participate.

What is Required from the State Fund?.....

1. Allow RP to assign (sell) their claim to NatLUST where NatLUST becomes payee of record on the state's books. No 'payment set-off risk is permitted, so NatLUST's EIN must be associated with the financed claims);
2. Agree not to renege on claim decisions; and
3. When a claim is eventually reimbursed, to agree to send the reimbursement to NatLUST (not to the RP).

Is Legislation Required? In most cases, little governmental action would be required in order for stakeholders to participate. In addition, the LUST fund is not "hiring" NatLUST to do anything so no RFP is required.

However, some states (ex. Connecticut) determined that its statutes did not allow its environmental agency the authority to recognize claim assignments and send reimbursements directly to NatLUST. CT amended its statutes to make clear that CT's DEP has the authority to send reimbursement payments directly to NatLUST.

Does NatLUST Restrict the State's Right to Make Changes To Its LUST Fund Program?..... No. NatLUST does not prejudice the state's environmental agency, the legislature or the Executive branch's prerogative to make changes to the state LUST program as they see fit. Our role is

simply to provide liquidity.

ACH Payment..... NatLUST has the ability to issue electronic ACH payments. Approximately 90% of payees elect to receive payment electronically. NatLUST's database sends email reports detailing the payments

What Else is NatLUST Planning?..... Electronic Form Creation – NatLUST is currently beta testing a new system where users will be able to log into our database system and create the individual state reimbursement application forms electronically, ready for printing. This will speed claims preparation.

Electronic Fax Capture & Indexing of Forms – NatLUST is beta testing a new system where users will have the ability to fax the various forms to a toll free fax number, where our database system will electronically capture and index the forms. Users will be able to view the forms online.

Working Capital Financing – RP's and consultants in many states are strapped by having substantial amounts of WIP tied up during the clean up. NatLUST is working on creating a WIP financing program for consultants & RP's where we can fund during the actual clean up phase (rather than waiting until the claim is approved).

Prevention – Some RP's faced with mandatory tank upgrades may not be able to receive traditional financing. NatLUST may have the ability to issue long-term bonds to provide such financing.

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EXAMPLE OF DIRECT PAY

1. January 1 - Assumes the RP's consultant has completed task phase of clean up & has prepared reimbursement application. RP will execute payment assignment form selling their claim to NATLUST concurrent with sending the claim reimbursement application to the state agency for processing & approval. Assumes application requests \$100,000
2. February 1 – Assumes on February 1 the state environmental agency approves \$100,000 claim and communicates approval of decision to NATLUST by email (for this particular state, the initial advance rate is assumed to be 92%, typical for states with a one year or < payment delay). Because RP and their consultant have mutually agreed to use Direct Pay, NATLUST sends the \$92,000 Initial payment check directly to the RP's consultant.
3. August 1 – Assumes exactly six months later the claim is reimbursed by LUST fund, which wires \$100,000 to NATLUST bank account. NATLUST processes the "Residual" payment check. Total accrued charges are 1.25%, or \$1,250. Accordingly, NATLUST issues consultant a Residual payment check for the difference, or \$6,750. (\$100,000 less \$92,000 initial payment, less \$1,250 accrued charges = \$6,750 Residual payment.

