



JOHN ENGLER, Governor

**DEPARTMENT OF ENVIRONMENTAL QUALITY**

HOLLISTER BUILDING, PO BOX 30473, LANSING MI 48909-7973

RUSSELL J. HARDING, Director

FACSIMILE TRANSMISSION COVER SHEET

DATE: 10-1-97

Number of pages including cover sheet: 10

Name of Sender: Jim Innes

Division: Environmental Response  
10650 S. Bennett Drive,  
Morrice, Michigan 48857-9792

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Name of Recipient: Bob Metcalf

Company: GM

Fax Number: 810 236-7391

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Subject:

Corporate Guarantee Model  
documents

MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY  
ENVIRONMENTAL RESPONSE DIVISION

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NUMBER:

DATE: 3-29-96 PAGE: 1 of 1

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**SUBJECT:** THE BACKGROUND/PURPOSE OF THE FINANCIAL TEST/CORPORATE  
GUARANTEE

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**PURPOSE:** To provide background/purpose about the Financial  
Test/Corporate Guarantee.

**INFORMATION:** The financial test/corporate guarantee (FTCG) allows the strength of the designated party's (DP) financial statement to be adequate assurance of the DP's ability to pay for monitoring, and possible cleanup action. The FTCG looks at a DP's tangible net worth, net worth, current assets, current liabilities, net working capital, net income plus depreciation, depletion and amortization, value of the land, value of land with the contamination, and total assets in Michigan including the value of land and debt structure. Appropriate financial ratios are established and financial tests are run. Assurance may also be provided by the corporate parent that passes the ratio test. Other documentation required to obtain the FTCG is a signed letter from chief financial officer, copies of the past five years of certified public accountant's report on examination of year-end financial statements, a special report from independent certified public accountant confirming the data in the chief financial officer's letter and the copy of corporate guarantee.

The FTCG must be prepared annually and submitted with the letter from the chief financial officer, year end financial statement and letter from certified public accountant confirming data. If the DP fails the test, the DP must obtain alternative financial assurance mechanism as outlined in the settlement agreement.

**Comments:** Financial testing is a relatively cost free method of providing financial assurance for the designated party (DP). Passing the FTCG one year does not guarantee the DP will exist in a few years. If the DP fails the financial test obtaining alternative financial mechanism may be a problem.

MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY  
ENVIRONMENTAL RESPONSE DIVISION

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NUMBER:

DATE: 3-29-96 PAGE: 1 of 2

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**SUBJECT:**           **REQUIREMENTS THAT MUST BE SATISFIED IN PASSING THE  
FINANCIAL TEST AND CORPORATE GUARANTEE.**

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**PURPOSE:**           To state the requirements that the potential responsible party must satisfy in passing the financial test and corporate guarantee.

**TEST:**               To pass this test the designated party (DP) must meet the criteria of either paragraph (I) or (II) and obtain the items in (III).

After the initial submission of items specified the DP must send updated information within 90 days after the close of each succeeding fiscal year. This information must consist of all three items specified in (III).

- (I) a.       The designated party must have two of the three ratios: a ratio of total liabilities to net worth less than 2.0; a ratio of the sum of the net income plus depreciation, depletion and amortization to total liabilities greater than 0.1; and a ratio of current assets to current liabilities greater than 1.5; and
- b.       Net working capital and tangible net worth at least six times the sum of the current remediation cost estimate.
- c.       Tangible net worth of at least \$10 million; and
- d.       Assets located in the United States amounting to at least 90 percent of total assets or at least six times the sum of the remediation.
- e.       Assets located in Michigan of at least \$50 million; and at least six times the sum of the remediation.

- (II.) a.     A current rating for the most recent bond issuance of AAA, AA, A, or BBB as issued by Standard and Poor's or Aaa, Aa, A or Baa as issued by Moody's; and
- b.       Tangible net worth at least six times the sum of the cost estimate of the remediation.
- c.       Tangible net worth of at least \$10 million; and
- d.       Assets located in the United States amounting to at least 90 percent of total assets or at least six times the sum of the estimated remediation.
- e.       Assets located in Michigan of at least \$50 million; and at least six times the sum of the remediation.

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**SUBJECT:            REQUIREMENTS THAT MUST BE SATISFIED IN PASSING THE  
                     FINANCIAL TEST AND CORPORATE GUARANTEE.**

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- (III.)            To demonstrate that this test is met the designated party must submit the following items:
- a. A letter signed by the chief financial officer and worded as specified in \_\_\_\_\_.
  - b. A copy of the independent certified public accountant's report on examination of the DP's financial statements for the latest completed fiscal year; and
  - c. A special report from the independent certified public accountant to the DP stating that:
    1. He has compared the data which the letter from the chief financial officer specifies as having been derived from the independently audited, year-end financial statements for the latest fiscal year with the amounts in such financial statements; and
    2. In connection with that procedure, no matter came to his attention which caused him to believe that the specific data should be adjusted.

MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY  
ENVIRONMENTAL RESPONSE DIVISION

NUMBER:  
DATE: 3-29-96 PAGE: 1 of 2

SUBJECT: LETTER FROM THE PRESIDENT OR CHIEF FINANCIAL OFFICER  
FOR FINANCIAL TEST/CORPORATE GUARANTEE.

PURPOSE: Standard draft of letter from the president or chief  
financial officer required as part of the financial test/  
corporate guarantee financial assurance mechanism.

LETTER FROM CHIEF FINANCIAL OFFICER

DATED

Mr. Russell J. Harding  
Director, Department of Environmental Quality  
State of Michigan  
Hollister Building, 6th Floor  
Lansing, MI 48909-7973

Dear Mr. Harding:

I am the chief financial officer of \_\_\_\_\_,

This letter is in support of this firm's use of the financial  
test to demonstrate financial assurance, per the terms of the  
Administrative Order \_\_\_\_\_.

This firm is the owner or operator of the following facility  
for which financial assurance for this respondent's share of  
the estimated costs of work to be performed under the Order is  
demonstrated through the financial test specified in  
\_\_\_\_\_.

\_\_\_\_\_ share of the  
current estimated costs of work to be performed is shown:

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SUBJECT: LETTER FROM THE PRESIDENT OR CHIEF FINANCIAL OFFICER  
FOR FINANCIAL TEST/CORPORATE GUARANTEE.  
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\*\*\*\*\* PREPARE FOR EACH FACILITY WHERE LIABILITY EXISTS \*\*\*\*\*

FACILITY

\_\_\_\_\_

SITE IDENTIFICATION

SHARE OF ESTIMATED COST

\_\_\_\_\_

\_\_\_\_\_

DESCRIPTION OF COMMITMENT

\_\_\_\_\_

This firm is required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

The fiscal year of this firm ends on \_\_\_\_\_.  
The figures for the following items marked with an asterisk are derived from this firm's independently audited, year-end financial statements for the latest completed fiscal year, ended \_\_\_\_\_.

INSERT AT THIS TIME FROM THE STANDARD FINANCIAL TEST AND CORPORATE GUARANTEE THE FOLLOWING:

- 1. ALTERNATIVE I or
- 2. ALTERNATIVE II

I hereby certify that the wording of this letter is (with the exception of changes) made per the terms of the Administrative Order and the obligation of respondents.

\_\_\_\_\_  
Date: \_\_\_\_\_

Signed, sealed and delivered  
in the presence of:

\_\_\_\_\_  
NOTARY PUBLIC

Notary public \_\_\_\_\_ county  
my commission expires \_\_\_\_\_

MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY  
ENVIRONMENTAL RESPONSE DIVISION

**FINANCIAL TEST/CORPORATE GUARANTEE REPORT OF THE  
CERTIFIED PUBLIC ACCOUNTANT**

**REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANT**

To \_\_\_\_\_ Corporation:

We have audited, in accordance with generally accepted auditing standards, the financial statements of \_\_\_\_\_ for the year ended \_\_\_\_\_, 199\_ and have issued our report thereon dated \_\_\_\_\_ 199\_ (except for the matter described in \_\_\_\_\_ as to which the date is \_\_\_\_\_, 199\_.) We have not performed any auditing procedures since that date.

At your request, we have read the letter dated \_\_\_\_\_, 199\_ from your chief financial officer to the Michigan Department of Environmental Quality and compared the data therein which are specified as having been derived from the audited financial statements for the year ended \_\_\_\_\_, 199\_, referred to above with this procedure, no matters came to our attention that caused us to believe that the specified data should be adjusted.

This report is furnished solely for the use of \_\_\_\_\_ and the Michigan Department of Environmental Quality and is not to be used for any other purpose.

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MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY  
ENVIRONMENTAL RESPONSE DIVISION

**SUBJECT:           STANDARD TEST FOR FINANCIAL TEST AND CORPORATE GUARANTEE**

**TEST:**

**ALTERNATIVE I**

1. Sum of the current cost estimate for remediation for Michigan facilities including the cost of operation and maintenance extending beyond remediation.	\$\$\$\$\$\$\$\$\$
2. Sum of the current cost estimate for remediation for non-Michigan facilities including the cost of operation and maintenance extending beyond remediation.	\$\$\$\$\$\$\$\$\$
3. Sum of lines 1 and 2.	\$\$\$\$\$\$\$\$\$
*4. Total liabilities [if any portion of the cost estimate of remediation is include in total liabilities you may deduct the amount from this line and add that amount to lines 5 and 6.]	\$\$\$\$\$\$\$\$\$
*5. Tangible net worth.	\$\$\$\$\$\$\$\$\$
*6. Net worth.	\$\$\$\$\$\$\$\$\$
*7. Current assets.	\$\$\$\$\$\$\$\$\$
*8. Current liabilities.	\$\$\$\$\$\$\$\$\$
9. Net working capital. [line 7 minus line 8]	\$\$\$\$\$\$\$\$\$
*10. The sum of net income plus depreciation, depletion and amortization.	\$\$\$\$\$\$\$\$\$
*11. Total assets in the United States.	\$\$\$\$\$\$\$\$\$
*12. Total assets in Michigan excluding the value of the land on which remediation is occurring.	\$\$\$\$\$\$\$\$\$
*13. Total assets in Michigan including the value of the land on which remediation is occurring.	\$\$\$\$\$\$\$\$\$

**STANDARD TEST FOR FINANCIAL TEST AND CORPORATE GUARANTEE**

	YES	NO
14. Is line 5 at least \$10 million?	___	___
15. Is line 5 at least 6 times line 3?	___	___
16. Is line 9 at least 6 times line 3?	___	___
*17. Are at least 90% of the firm's assets located in the United States?	___	___
18. Is line 11 at least six times line 3?	___	___
19. Is line 4 divided by line 6 less than 2.0?	___	___
20. Is line 10 divided by line 4 greater than 0.1?	___	___
21. Is line 7 divided by line 8 greater than 1.5?	___	___
*22. Is line 12 at least \$50 million?	___	___
23. Is line 13 at least 6 times line 1?	___	___

**TEST:**

**ALTERNATIVE II**

1. Sum of current remediation cost estimates in Michigan.	\$\$\$\$\$\$\$\$\$
2. Sum of current remediation cost estimates for non-Michigan facilities.	\$\$\$\$\$\$\$\$\$
3. Sum of lines 1 and 2.	\$\$\$\$\$\$\$\$\$
4. Current bond rating of most recent issuance of this firm and name of rating service.	XXXXXXX
5. Date of issuance of bond.	XXXXXXX
6. Date of maturity of bond.	XXXXXXX

**STANDARD TEST FOR FINANCIAL TEST AND CORPORATE GUARANTEE**

- \*7. Tangible net worth (if any portion of the cost estimates is included in "total liabilities" on your financial statements you may add that portion to this line.) \$\$\$\$\$\$\$\$
  - \*8. Total assets in the United States. \$\$\$\$\$\$\$\$
  - \*9. Total assets in Michigan excluding the value of the land on which remediation is occurring. \$\$\$\$\$\$\$\$
  - \*10. Total assets in Michigan including the value of the land on which remediation is occurring. \$\$\$\$\$\$\$\$
- |  | YES   | NO    |
|--|-------|-------|
| 11. Is line 7 at least \$10 million?<br>_____                        | _____ | _____ |
| 12. Is line 7 at least 6 times line 3?<br>_____                      | _____ | _____ |
| *13. Are at least 90% of firm's assets located in the U.S.?<br>_____ | _____ | _____ |
| 14. Is line 8 at least 6 times line 3?<br>_____                      | _____ | _____ |
| *15. Is line 9 at least \$50 million?<br>_____                       | _____ | _____ |
| 16. Is line 10 at least 6 times line 1?<br>_____                     | _____ | _____ |

I hereby certify that the wording of this letter is (with the exception of changes) made per the terms of the Administrative Order and the obligations of respondents.

\_\_\_\_\_  
Date: \_\_\_\_\_

Signed, sealed and delivered  
in the presence of:

\_\_\_\_\_  
NOTARY PUBLIC  
  
Notary public \_\_\_\_\_ county  
my commission expires \_\_\_\_\_

\* The figures for the following items marked with an (\*) are to be derived from the firm's independently audited, year-end financial statements for the latest fiscal year.