

PROJECT FINANCE FOR ECONOMIC DEVELOPMENT

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Breadth. Depth. **Results.**

BONDS

- BONDS ARE HOW “FINANCIAL ENGINEERING” IS APPLIED TO PROJECTS
- ONLY COMPANY (“CONDUIT BORROWER”) IS LIABLE TO REPAY REVENUE BONDS
- BUT OTHER STRUCTURES CAN BE USED
 - ▶ GENERAL OBLIGATION BONDS
 - ▶ HYBRID STRUCTURES
 - “PUBLIC/PRIVATE PARTNERSHIPS”

FOR BOND FEATURES, GO TO "THE MATRIX"

<u>THIS</u>	IS THE <u>OPPOSITE OF</u>	<u>THIS</u>
REVENUE BOND		GENERAL OBLIGATION BOND
TAX-EXEMPT BOND		"TAXABLE BOND"
PRIVATELY PLACED		PUBLICLY SOLD
CREDIT ENHANCED		UNENHANCED
INVESTMENT GRADE		"JUNK"/HIGH YIELD/ UNRATED
PRIVATE ACTIVITY		GOVERNMENTAL PURPOSE
FLOATING RATE		FIXED RATE
NON-AMT		AMT
"BANK QUALIFIED"		NOT "BANK QUALIFIED"
PUBLIC BODY-ISSUED		COMPANY-ISSUED

NEW – “STIMULUS BONDS”

- “MANUFACTURING” BONDS- NOW INCLUDES PRODUCTION OF INTANGIBLE PROPERTY
 - ▶ BIOTECH AND PHARMACEUTICALS
 - ▶ COMPUTER SOFTWARE
- NONPROFITS- ISSUE UP TO \$30 MILLION OF “BANK QUALIFIED” (BQ) BONDS FOR EACH 501(C)(3) ORGANIZATION (AND- PUBLIC BODY UP TO \$30 MILLION BQ GOVERNMENTAL PURPOSE BONDS FOR ITS OWN PROJECTS)
 - ▶ ARTS AND CULTURE PROJECTS, ETC.
 - ▶ RESTRICTIONS (INCLUDING TIME PERIOD OF AVAILABILITY) APPLY
- NEW TAX-EXEMPT INDUSTRIAL DEVELOPMENT REVENUE BONDS (IDBS) ARE CHEAPER BECAUSE NOT SUBJECT TO ALTERNATIVE MINIMUM TAX (AMT)
 - ▶ “SMALL ISSUE” IDBS FOR MANUFACTURING PROJECTS
 - ▶ “EXEMPT FACILITY” IDBS FOR DEVELOPERS AND OTHERS
 - WATER AND WASTEWATER TREATMENT, ETC.
 - ▶ RESTRICTIONS (INCLUDING TIME PERIOD OF AVAILABILITY) APPLY
- DE MINIMIS RULE
 - ▶ MOST TAX-EXEMPT PRIVATE ACTIVITY BONDS TREATED AS BQ

IDBS

- CITIES, COUNTIES AND DEVELOPMENT AUTHORITIES ISSUE INDUSTRIAL DEVELOPMENT REVENUE BONDS (“IDBs”) TO FINANCE PROJECTS
- WHAT CAN BE FINANCED IS DEFINED BY STATUTE AND CASE LAW
- EXAMPLES?

RZB- FACILITY BONDS

- ▶ RECOVERY ZONE FACILITY BONDS (“FACILITY BONDS”)
- ▶ FINANCE PRIVATE ASSETS
 - LARGE MANUFACTURING PLANTS, DISTRIBUTION CENTERS, RECREATION AND HOSPITALITY PROJECTS, RESEARCH PARKS, RENEWABLE ENERGY FACILITIES, RETAIL BUSINESSES, SHOPPING CENTERS, OFFICE TOWERS, ETC.
 - ALL PROJECTS UNLESS NOT A “QUALIFIED BUSINESS”
 - INTEREST TAX-EXEMPT
 - NEED
 - VOLUME CAP
 - RECOVERY ZONE DESIGNATION
 - FINANCE CONSTRUCTION AND NEW PERSONAL PROPERTY
 - FINANCE PROPERTY ACQUISITION IF SUBSTANTIAL RENOVATION
 - CAN’T FINANCE LAND
 - SUNSET APPLIES
 - EXAMPLES?

ANOTHER RZB (WITH SUBSIDY)-ED BONDS

- RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS (“ED BONDS”)
- FINANCE PUBLIC ASSETS
 - CASH PAYMENT TO THE ISSUER EQUAL TO 45% OF THE INTEREST PAID (THERE IS NO TAX CREDIT OPTION FOR THE BOND INVESTOR)
 - INTEREST TAXABLE
 - NEED
 - VOLUME CAP
 - RECOVERY ZONE DESIGNATION
 - ECONOMIC DEVELOPMENT PURPOSE
 - SUNSET APPLIES
 - EXAMPLES?

STIMULUS BOND (WITH SUBSIDY)- BABS

“BUILD AMERICA BONDS” (“BABS”)

► FOR PUBLIC ASSETS

- ISSUER ELECTS EITHER (I) TO PASS THROUGH TO THE BOND INVESTOR A FEDERAL INCOME TAX CREDIT EQUAL TO 35% OF THE INTEREST RECEIVED, OR (II) TO HAVE THE FEDERAL GOVERNMENT MAKE CASH PAYMENTS TO THE ISSUER EQUAL TO 35% OF THE INTEREST IT PAYS ON SUCH BONDS
 - INTEREST TAXABLE
 - CAN FINANCE LAND
 - STIMULUS BOND BUT NOT AN RZB
 - SUNSET APPLIES
 - DON'T NEED-
 - RZ DESIGNATION
 - ED PURPOSE
 - VOLUME CAP
- EXAMPLES?

THE ROLE OF FINANCIAL ENGINEERING

- **COPING WITH CHANGES IN THE CAPITAL MARKETS**
 - ▶ **LETTERS OF CREDIT HARD TO GET**
 - ▶ **BANKS “PRESERVING” CAPITAL**
- **COPING WITH PROSPECT DEMANDS**
 - ▶ **“THE COMPANY SEEKS A LOCATION THAT WILL PROVIDE A HOLIDAY FROM PAYING RENT OR DEBT SERVICE.”** EXTRACT FROM AN ACTUAL RFI (REQUEST FOR INFORMATION)
 - ▶ **“THE COMPANY WOULD LIKE FOR THE DEVELOPMENT AUTHORITY TO OWN THE PROJECT AND LEASE IT TO THE COMPANY. THE COMPANY DOES NOT WANT ITS CREDIT USED IN THE FINANCING.”** EXTRACT FROM AN ACTUAL RFI (REQUEST FOR INFORMATION)

TOOLS FOR FINANCIAL ENGINEERING

1. PROJECT FINANCE
2. CREDIT ENHANCEMENT
3. “MONETIZING” TAXES OR TAX CREDITS
4. ENHANCED STRUCTURES

PROJECT FINANCE

- BASED MORE ON CREDIBLE REVENUES THAN THE SPONSOR'S BALANCE SHEET
- EQUITY STILL IMPORTANT
- SOME PROJECT FINANCE BONDS ARE INVESTMENT GRADE RATED
- EXAMPLE:

“1. The projected revenues shall be sufficient to obtain an investment grade rating, currently anticipated to be approximately 1.5x debt service.

2. There shall be a minimum equity contribution of \$x million consisting of \$x million from the DOE ITC program plus \$x

million [from the prospect].” PARTIAL EXTRACT OF CONDITIONS FROM AN ACTUAL TERM SHEET

RATING AGENCY WANTS TO SEE

- SOUND CONTRACTUAL FOUNDATION
 - ▶ COMMERCIAL AGREEMENTS
 - ▶ COLLATERAL ARRANGEMENTS
- RELIABLE TECHNOLOGY, CONSTRUCTION AND OPERATIONS
- PROTECTED COMPETITIVE MARKET EXPOSURE
- INSULATED LEGAL STRUCTURE
- MANAGED EXPOSURE TO COUNTERPARTIES
 - ▶ SUPPLIERS
 - ▶ CUSTOMERS
- FINANCIAL STRENGTH
 - ▶ GOOD CAPITAL STRUCTURE
 - ▶ NO BULLET MATURITY DEBT
 - ▶ ACCEPTABLE DEBT SERVICE COVERAGE RATIO (DSCR)

CREDIT ENHANCEMENT

PROJECT MUST “CASH FLOW”

- **EXAMPLE-** “The revenues generated from operations and the [customer contracts] shall be sufficient to cover projected debt service.” PARTIAL EXTRACT OF CONDITIONS FROM AN ACTUAL TERM SHEET
- **WHEN REVENUES ARE PROJECTED INSTEAD OF HISTORICAL, THEN CREDIT ENHANCEMENT IS IMPORTANT**
- **EXAMPLES-**
 - ▶ **FEDERAL GOVERNMENT GUARANTEES**
 - **USDA, DOE**
 - ▶ **CORPORATE LOAN GUARANTEES**
 - ▶ **EQUITY-FUNDED CREDIT ENHANCEMENT TECHNIQUES**
 - ▶ **SPONSOR CREDIT ENHANCEMENT**

“MONETIZATION”

- CREDITS OR SAVINGS MUST BE
 - ▶ TRANSFERABLE, OR
 - ▶ “PASSABLE”
 - BENEFITS PASSED THROUGH TO EQUITY INVESTOR, OR
 - ▶ “WASHABLE”
 - PROSPECT PAYS DEBT SERVICE = CREDITS/SAVINGS; i.e., A “WASH”
 - EXCEPTION- NEW TAXES OR ASSESSMENTS INVESTED IN PROJECT OR SPECIAL DISTRICT
- PROVIDES THE MISSING EQUITY FOR THE PROJECT
- EXAMPLES-
 - ▶ PILOT BONDS (FLORIDA LAW INCOMPATIBLE) *Payments In Lieu of Taxes*
 - ▶ NEW MARKETS TAX CREDIT (NMTC) INVESTMENTS
 - ▶ HISTORIC REHABILITATION TAX CREDIT (HRTC) INVESTMENTS
 - ▶ LOW INCOME HOUSING TAX CREDIT (LIHTC) INVESTMENTS

PUBLIC/PRIVATE PARTNERSHIPS

- FLORIDA- NO “BACK DOOR” GENERAL OBLIGATION BOND STRUCTURE FOR PRIVATELY OWNED PROJECT
- OTHER STRUCTURES POSSIBLE

TIFS

- TIF = TAX INCREMENT FINANCING
 - MONETIZES INCREASE IN PROPERTY TAXES RESULTING FROM INCREASE IN TAX DIGEST OVER FROZEN BASE YEAR
- FLORIDA- LOCAL GOVERNMENT
 - ADOPTS “FINDING OF NECESSITY”
 - CREATES REDEVELOPMENT AREA
 - APPROVES REDEVELOPMENT PLAN
 - CREATES (NO REFERENDUM) COMMUNITY REDEVELOPMENT AREA (“CRA”)
- CRA
 - ESTABLISHES TRUST FUND (RECEIVES TAX INCREMENT REVENUES)
 - CONTRACTS WITH PRIVATE DEVELOPERS
 - PAYS REDEVELOPMENT COSTS (PUBLIC INFRASTRUCTURE)
 - “PAY/GO”
 - “FORWARD FUND” (ISSUES BONDS)
 - NO REFERENDUM (2008 FLORIDA SUPREME COURT DECISION)

OTHER STRUCTURES

- **DEPENDENT SPECIAL DISTRICT**
 - ▶ ELECTION REQUIRED
- **CDD**
 - ▶ APPROVAL OF LANDOWNERS REQUIRED
- **BONDS PAYABLE FROM “LEGALLY AVAILABLE NON-AD VALOREM TAX REVENUES”**
 - ▶ NEED “COVENANT TO BUDGET AND APPROPRIATE”
 - NO REFERENDUM
- **“SYNTHETIC TIF”**
 - ▶ PLEDGE OF SALES TAX REVENUES
 - NO REFERENDUM
 - ▶ INCREASE IN PROPERTY TAXES FROM PROJECT ANTICIPATED TO OFF-SET USE OF SALES TAX FOR DEBT SERVICE
 - ▶ PRIVATE OWNER OF PROJECT AGREES TO MAKE UP ANY SHORTFALL

ENHANCED STRUCTURES

BOND FINANCING IN THE RIGHT STRUCTURE CAN DO SOME OR ALL OF THESE THINGS FOR A PROJECT.

- REPLACE OR SUPPLEMENT BANK DEBT
- LONGER MATURITY
- LOWER RATE
- FLEXIBLE AMORTIZATION
- DEFERRED PRINCIPAL PAYMENTS (INTEREST ONLY PERIOD)
- CAPITALIZED INTEREST (NO PAYMENTS PERIOD)
- LOWER DEBT SERVICE PAYMENTS
- HIGHER DEBT SERVICE COVERAGE FROM REVENUES
- HIGHER RETURN ON EQUITY FOR PROSPECT

THE PAST

A LONG TIME AGO, A PUBLIC BODY VIEWED ITS ONLY ECONOMIC DEVELOPMENT FUNCTION AS MEETING ONLY WHEN NECESSARY TO ISSUE BONDS

THE PRESENT

TODAY, IT'S A DIFFERENT WORLD-

- ▶ “FINANCIAL ENGINEERING” HAS MADE THE BOND PROCESS MORE COMPLICATED
- ▶ PUBLIC BODIES, AND THEIR BONDS, MAKE THE DIFFERENCE BETWEEN THE PROJECT'S SUCCESS AND ITS FAILURE

THE FUTURE

NEW OPPORTUNITIES FOR ECONOMIC DEVELOPMENT COME FROM-

- NEW BONDS
- NEW STRUCTURES
- NEW WAYS OF THINKING!

IF YOU HAVE QUESTIONS

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MORE INFORMATION

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