NEXSEN | PRUET

CASE STUDY

Recovery Zone Bonds and Other Incentives Provided by City of Columbia to Mast General Store

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Recovery Zone Bonds

- American Recovery and Reinvestment Act of 2009
  - Stimulus Bill
- Two Year Authorization
  - Extension pending in Congress
- Allocation Required
  - Original allocation by federal government based on increase in unemployment during 2008
  - Budget & Control Board can re-allocate unused amounts

Recovery Zone Economic Development Bonds

- Government Obligor: may be General Obligation Bonds or Revenue Bonds
- To promote development or other economic activity
  - Public infrastructure
  - Public facilities
  - Job training
- Taxable Bonds
  - Federal Government reimburses issuer 45% of the interest paid

Recovery Zone Facility Bonds

- Conduit Bonds: issued by state or local government and loaned to private businesses; business assumes 100% of liability
- Permits Counties or Municipalities to provide tax-exempt financing to projects that would not normally qualify:
  - Large Manufacturing Plants
  - Distribution Facilities
  - Retail and Commercial Establishments

Mast General Store

Mast General Store
1601 Main Street, Columbia

- City needed an incentive to “close the deal”
- Mast – a “catalyst project” to jump start retail activity on Main Street
- Mast is a proven generator of retail activity and other investment
- Mast is a tourist attraction

The Deal

- Recovery Zone Facility Bonds
  - City had $973,000 allocated (needed $2M)
  - Richland County had $2.2M
  - Opportunity to work together
  - No financial risk to Government
    - Bonds placed by Mast with its bank
    - Mast liable for 100% of debt service
- JEDA issued bonds at tax exempt rates

The Deal

- Mast agreed to renovate former Lourie’s building on Main Street
  - Committed to open 7 days a week
  - Committed to create approximately 16 full-time and 22 part-time jobs
- City agreed to reimburse Mast for the interest (tax-exempt) for ten years
- City agreed to pay portion of closing costs
  - Reimbursement deferred for budget reasons

Murphy’s Law

- A seemingly simple and uncomplicated deal – was not
- Multiple parties
  - City, County JEDA, State Budget & Control Board
  - Mast, Wells Fargo
- Mast liability paired with city cost
  - Mast negotiated terms of credit
  - To confirm that interest rate was reasonable, City engaged investment bank as consultant
- To minimize interest cost to city, deal structured as draw-down note
  - IRS notice in November that all funds must be drawn by year end

Murphy’s Law

- City reserved right to terminate reimbursement obligation annually to avoid counting agreement as general obligation debt
- Fixed Rate
  - City required fixed rate for budget reasons
  - Bank would not quote fixed rate for life of deal
  - Settled on variable rate with 10-year SWAP agreement
- Mast assumed risk of rate increases due to changes in bank spread, determination of taxability, changes in law, early termination of SWAP etc.

Murphy's Law

- Bank reserved right to terminate bonds after 5 years
  - Necessitated need to reserve right to terminate SWAP before end of 10 years
  - Termination right added to interest cost
- From original handshake to closing on bonds: October through May
- Good News
  - Announcement of MAST opening immediately generated inquiries from other retailers

Other Incentives

- Dedicated liaison person at city
- Service agreements regarding loading zones, parking, waste and recycling, signage
- Landscaping and improvements to surrounding areas
- Proposed purchase of courtyard serving Mast and Nickelodeon Theatre
- Assistance with tax credits
  - Historical Tax Credits
  - Retail Revitalization Tax Credits
- Cooperation on Marketing
- Side loan using recycled Empowerment Zone funding