

NEXSEN | PRUET

FINANCING PUBLIC INFRASTRUCTURE ASSOCIATED WITH COMMERCIAL DEVELOPMENT

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by

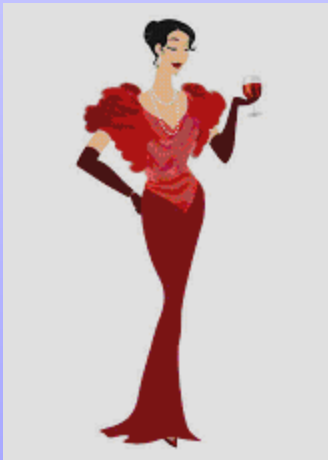
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INFRASTRUCTURE FINANCING

Practical Tips



Glamorous Side

- Revitalization of Community
- Public-Private Partnership
- Sophisticated Financial Structure

Infrastructure Financing

Practical Tips



Practical Side

- Political Issues
- Structuring Issues
 - Credit
 - Scheduling
 - Ownership and Control

POLITICAL

Government Driven Deals

- **Support of Other Taxing Entities Critical**
 - **Legal: Opt Out Provisions**
 - **Political: Bully Pulpit**
 - **Round Robin Negotiation**

POLITICAL

Government Driven Deals

- **Public Support**
 - **Taxpayers**
 - **Press**



POLITICAL

Government Driven Deals

- Business Community Support
 - Business Disruption During Construction ☹️
 - Increases in Assessed Value ☹️
 - More Amenities 😊
 - More Business 😊

POLITICAL

Developer Driven Deals

- Same issues as Government Driven Deals ...
PLUS
- Must convince Governmental Issuer that Public Support of Private Project is in Public Interest
- Will development happen anyway?
 - Expect to face BUT FOR test

POLITICAL

Developer Driven Deals

- Will development require public expenditures beyond infrastructure funding?
 - New schools?
 - New police stations?
 - New Fire Stations?
 - Other?

POLITICAL

Developer Driven Deals

- Issuer often requests economic impact study as well as feasibility study

Trés Cher \$ \$ \$ \$

- Taxing entities may overload wish list



POLITICAL

Developer Driven Deals

Timing Issues

Procedures: 90-120 Days . . . BUT . . .

Procedures typically not initiated until after political and credit issues settled

Period for securing political support and structuring credit can add many months to schedule

12+ months not uncommon





FUNDING SOURCES

General Obligation Bonds

- Full faith and credit and taxing power backs bonds
- Lower interest rate
- Constitutional debt limits

Revenue Bonds

- Revenue stream pledged to repay bonds
- No pledge of taxing power
 - *Eg.*, water and sewer revenues, parking revenues, other "special sources" which do not include a local accommodation and hospitality fees; tax or license fee

Grants



TAX INCREMENT BONDS

- Incremental *ad valorem* property taxes from development used to repay tax exempt municipal bonds
- Typically used in blighted or vacant locations to pay for public infrastructure

SPECIAL ASSESSMENT BONDS



Special Assessments on properties in improvement district can be used to secure bonds or to pay directly for public improvements

Assessment obligation is a lien against the real property

SPECIAL TAX DISTRICT FINANCING



Special tax district can be set up to pay for public facilities through taxes levied within district

SPECIAL SOURCE REVENUE BONDS OR CREDITS



- Tax revenues from development (the “special source”) used to repay bonds issued to fund infrastructure improvements
- If developer funds infrastructure, credits against *ad valorem* taxes may be offered in lieu of issuing bonds



FEDERAL GRANTS

- **Section 108 financing: HUD guaranty for debt incurred for community development projects and loans to businesses; CDBG funds of the State or city pledged to secure repayment of loan**
- **Community Development Block Grants**
- **Appropriations for roads and interchanges**



STATE GRANTS

- **State highway interchange/highway set-aside funds**
- **Rural Infrastructure Funds**
- **Admissions taxes rebated to community to promote tourism projects**
- **Local Government Infrastructure Grants**
- **Utility grants**

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TIFs: Tax Increment Financing

- **Definition of blight**
- **Consent of taxing authorities**
- **Redevelopment Project**
 - **“Redevelopment project” means any buildings, improvements, including street, road, and highway improvements, water, sewer and storm drainage facilities, parking facilities, tourism and recreation-related facilities, energy production or transmission infrastructure, communications technology, and public transportation infrastructure including, but not limited to, rail and airport facilities.**

TIFs: Tax Increment Financing

- **Eligible Expenditures**
- **Practical tips on bond financing**

MIDs: Municipal Improvement District

- **City and County statutes**
- **Definition of improvements**
 - **“Improvements” include open or covered malls, parkways, parks and playgrounds, recreation facilities, athletic facilities, pedestrian facilities, parking facilities, parking garages, and underground parking facilities, and facade redevelopment, the widening and dredging of existing channels, canals, and waterways used specifically for recreational or other purposes, the relocation, construction, widening, and paving of streets, roads and bridges, including demolition of them, underground utilities, all activities authorized by Chapter 1 of Title 31 (State Housing Law), any building or other facilities for public use, any public works eligible for financing under the provisions of Section 6-21-50, services or functions which a municipality in accordance with state law may by law provide, and all things incidental to the improvements, including planning, engineering, administration, managing, promotion, marketing, and acquisition of necessary easements and land, and may include facilities for lease or use by a private person, firm, or corporation.**

MIDs: Municipal Improvement District

- **Eligible Expenditures**
- **Consent of property owners**

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TAX INCENTIVES

- Fee in lieu of property tax
- Multi-County industrial or business park
- Income/payroll tax credits
- Textile revitalization credits
- Brownfield clean-up credits
- Rehabilitated historic property
- Tax incentives fro specific business, *eg.*, manufacturing, R&D, film industry, technology intensive

CREDIT STRUCTURING

Feasibility Study



- Independent Source Acceptable to Market
- Establishment of Base Revenue
- Projections of Debt Capacity
- Costly and Time Consuming \$ \$ \$ \$

(Compare Economic Impact Analysis which measures public benefit such as job creation - also costly and time consuming)

CREDIT STRUCTURING

Evaluation of Strength of Primary Revenue Source

- Inherently weak
 - Blighted area expected to generate new revenues
 - Build it and they will come – Doesn't cut it in Capital Markets
 - Would you buy these bonds?



CREDIT STRUCTURING

- Developer Guarantee may be required
 - Creates tax issue under federal code . . .
Do we have a private activity bond?
 - Private Activity Bond requires
 - 1-Private use ... AND ...
 - 2-Private payment or security
 - Tax of general applicability \neq private payment

CREDIT STRUCTURING

- Development Agreement can be useful to both Developer and Issuer
 - For Issuer: Further assurance that project will be done within time parameters
 - For Developer: Clarifies respective roles (SC: locks in current building codes and regulatory requirements)

CREDIT STRUCTURING

- Backup Revenue Pledge
 - General Obligation Pledge
 - Enterprise funds such as water & sewer revenues, parking revenues
 - May be statutory or document limitations on these sources of financing
 - Backup pledge may burn off once tax revenues from development reach required coverage levels
- Reserve Fund
 - Typically equals maximum annual debt service
 - If funded from TIF Bonds, may reduce funds available for project costs

CREDIT STRUCTURING

Capitalized Interest

- Long lag between need for funds and receipt of property tax revenues on completed improvements
 - Issue TIF bonds and start construction in January 2005
 - Improvement completed in 2006
 - Picked up for tax rolls on January 1, 2007
 - Tax bill in Fall of 2007
 - Payment due January 2008

CREDIT STRUCTURING

SIZING EXAMPLE:

- Bonds for a \$10 million improvement would generate approximately \$1,650,000 in interest at 5.5% before ANY tax revenues accrue
- \$10 million in project costs would require approximately \$13 million in TIF Bonds for capitalized interest, cost of issuance and reserve fund

DEAL



REVENUES

DEBT SERVICE

~~NO DEAL~~



REVENUES

DEBT SERVICE



