Bond Financing & PACE

Presented By
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What is Development Finance?

- Development finance is the efforts of local communities to support, encourage and catalyze expansion through public/private investment in physical development/redevelopment and/or business/industry.

- It is the act of contributing to a project/deal that causes that project/deal to materialize in a manner that benefits the long term health of the community.
Why is DF Important?

- Businesses need working capital and the ability to invest in themselves
- Developers need assistance to achieve an acceptable ROI
- Communities need infrastructure and amenities
- Citizens need opportunities for advancement – jobs, small business, education, etc.
- Regions need economic prosperity
Who is Development Finance?

- Development finance agencies (generally speaking)
- Community development corporations
- Industrial development authorities
- Authorities (general) – ports, joint powers, airport, transit, stadium, housing, health
- Educational entities – colleges, universities, etc.
- Economic development corporation
- Community development financial institutions
- Dozens of other examples – air, power, water, energy, etc.
What is the Bond Finance Market?

- 55,000 bond issuers in the US with over 100 years of formal bond financing expertise

Types of issuers?
- Municipal
- County
- Township
- Multi-jurisdictional
- Statewide
- Single Purpose
- Schools, Universities
- Myriad units of government

- 50% of finance agencies issue bonds
- 41% act as conduit bond issuers
Landscape of Tools – 100s of Them

Tax-Exempt Bonds

Linked Deposit Programs

504 Loans

Exempt Facilities Bonds

Impact Investing

CRA Requirements

EB-5

Seed & Venture Capital

Historic Tax Credits

PACE

Industrial Development Bonds

Special Assessment

Tax Abatements

Microlending

Credit Enhancement

New Markets Tax Credits

Grants

Tax Increment Finance

Collateral Support

Revolving Loan Funds

501(c)3 Bonds

Mezzanine Funds

Aggie Bonds
The Toolbox & Financing Spectrum

5 Practice Areas

Practice Area 1: Bedrock Tools
   Bonds and the Basics of Public Finance

Practice Area 2: Targeted Tools
   Tax Increment Finance, Special Assessment Districts, Government Districts, Project Specific District Financing & Tax Abatements

Practice Area 3: Investment Tools
   Tax Credits, EB-5

Practice Area 4: Access to Capital Lending Tools
   Revolving Loan Funds, Mezzanine Funds, Loan Guarantees and Microenterprise Finance, Seed & Venture Capital

Practice Area 5: Support Tools
   Federal Funding
Development Finance SPECTRUM

Types of Financings

- Government Projects
- Established Industry
- Development & Redevelopment
- Small Business & Micro-Enterprises
- Entrepreneurs

Practice Areas

- BEDROCK TOOLS
- TARGETED TOOLS
- INVESTMENT TOOLS
- ACCESS TO CAPITAL LENDING TOOLS
- SUPPORT TOOLS

From the Practitioner’s Guide to Economic Development Finance

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Bonds

- Bond use dates back over 100 years with the tax reform act of 1986 shaping today’s use
- A bond is a loan. A loan is a promise to pay
- Units of government (called issuers) borrow routinely in the tax-exempt bond market by pledging revenues to pay back the bonds (loans)
- Investors (bond buyers) buy these loans and are afforded exemption from income tax on interest income on these investment
- Government (GO) Bonds are tax-exempt, used for public projects
- Private Activity Bonds (PABs) are tax-exempt, utilized for economic development
What do Bonds Finance?

- Roads, bridges, sewers, water treatment plants, dams, city halls, prisons, schools, hospitals, libraries, YMCAs, museums, parks, swimming pools, community centers, universities, stadiums, theaters, music halls, clinics, recycling plants, energy generation facilities, solar fields, small manufacturing facilities, non-profits and thousands of other examples.

- And….PACE projects
Types of PABs

- **Exempt Facility Bonds** – Can be used for airports, docks, wharves, mass-community facilities, etc.

- **Qualified Redevelopment Bonds** – Infrastructure projects that do not meet the requirements of GOs may qualify for tax-exemption if they meet several tests of "qualified redevelopment bonds;" e.g., proceeds used for redevelopment purposes in designated blighted areas, etc.

- **Qualified 501(c)(3) Bonds** – Bonds used to finance projects owned and used by 501(c)(3) organizations. Two types - hospital bonds and nonhospital bonds

- **Qualified Exempt Small Issues** – IDBs for qualified manufacturing projects including purchase, construction, extension and improvement of warehouses, distribution facilities, industrial plants, buildings, fixtures and machinery.

- **Aggie Bonds** - Support beginning farmers and ranchers with eligible purchases of farmland, equipment, buildings and livestock.

- **Other Revenue Bonds** – Allow revenue-generating entities to finance a project and then repay debt generated revenue. Toll roads and bridges, airports, seaports and other transportation hubs, power plants and electrical generation facilities, water and wastewater (sewer).
Why Communities Use Bonds?

- Opportunity to invest in projects and businesses and the ability to influence ROI in development projects
- Easy to promote and monitor with performance measures
- Low cost and secure source of support to industry
- Can issue on conduit basis without backing (IDBs)
Why Industry Uses PABs?

- Lower interest rates (conventional loans vs. tax-exempt)
- Tax-exempt status to buyers of bonds – attractive
- Lower cost to borrower
- Cheaper money (but not free)
Important Players

- **Issuers** – 55,000+ nationwide, must have authority to issue
- **Bond Counsel** – legal public finance experts
- **Underwriters** – sells and/or places the bonds in market
- **Trustee** – fiduciary agent for the bondholders
- **Investors** – those who actually purchase the bonds
- **Financial Advisor** – independent reviewer for issuer
- **Rating Agencies** – independent credit review entities
Notes on PABs

- Market forces at play – when traditional interest rates are low, bond use tails off, when traditional interest rates go up, bond issuance tends to go up

- Need good bond counsel on transactions – don’t risk an issuance going taxable if it is not a qualified PAB

- Many rules and regulations – learn the programs before making any determinations
Making the Case. TEBs Have Financed

- 4 million miles of roadway
- 500,000 bridges
- 1,000 mass transit systems
- 16,000 airports
- 25,000 miles of intercoastal waterways
- 70,000 dams
- 900,000 miles of pipe in water systems
- 15,000 waste water treatment plants
Threats to Tax Exempt Bonds

- Definitive argument supporting tax-exempt bonds
- 150 case studies of how bonds help create jobs and support industry
- Support CDFA as we fight this threat in Congress
Energy Investment Partnerships Guide

- Publication is free online at www.cdfa.net
- Keyword Search: EIP
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<td>PACE Loss Reserve; CA Hub for Energy Efficiency Financing</td>
<td>State agency</td>
<td>State allocation + CA Public Utility Commission allocation</td>
<td>Residential &amp; commercial; efficiency &amp; renewables</td>
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<td>CA</td>
<td>CA Infrastructure and Economic Development Bank</td>
<td>CA Lending for Energy and Environmental Needs Center</td>
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<td>State and local govt.; efficiency, renewable, water conservation, &amp; distribution</td>
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<td>CT</td>
<td>CT Green Bank</td>
<td>CT Solar Lease; Energize Connecticut Smart E-Loan; Commercial PACE; CT Solar Loan</td>
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<td>Systems Benefits Charge + Regional Greenhouse Gas Initiative funds + U.S. Dept. of Energy grant + private investments + fees</td>
<td>Residential &amp; commercial; efficiency &amp; renewables</td>
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<td>FL</td>
<td>Solar &amp; Energy Loan Fund</td>
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<td>HI</td>
<td>Hawaii Green Infrastructure Authority</td>
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<td>NJ</td>
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<td>OH</td>
<td>Toledo-Lucas County Port Authority</td>
<td>BetterBuildings Northwest OH</td>
<td>Local agency</td>
<td>Fees + U.S. Dept. of Energy grant + tax levy</td>
<td>Residential &amp; commercial; efficiency &amp; renewables</td>
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<td>OH</td>
<td>Greater Cincinnati Energy Alliance</td>
<td>Greater Cincinnati Home Energy Loan; Building Communities Loan</td>
<td>Nonprofit</td>
<td>U.S. Dept. of Energy grant + private impact investment + fees</td>
<td>Residential &amp; nonprofit; efficiency &amp; renewables</td>
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<td>OH</td>
<td>Port of Greater Cincinnati Development Authority</td>
<td>Greater Cincinnati PACE</td>
<td>Local agency</td>
<td>Fees + county &amp; city allocation</td>
<td>Commercial; efficiency &amp; renewables</td>
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<td>OR</td>
<td>Energy Trust of OR</td>
<td>General efficiency incentives</td>
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The Finance Authority announces over $3 million in financing to support an investment at the PNC Plaza for an energy efficiency project. The project will consist of lighting, roofing, water supply and automation improvements and is expected to provide 15 percent in energy cost savings each year. The project is being financed by proceeds from the Franklin County Energy Works fund as well as the Finance Authority’s development revenue bonds which received a BBB+ bond fund rating from Standard & Poor’s Rating Services (S&P).

The new bond fund rating will allow the Finance Authority to sell bonds into the capital market and raise funds that can be lent to borrowers for qualified projects. The rating allows unrated borrowers – like the owner of the PNC Plaza – to access the capital markets and gives the Finance Authority the ability to offer a long term, fixed rate financing solution.

The Central Ohio Regional Bond Fund has been managed by the Finance Authority since 2007 and has allowed the organization to help finance significant economic development projects in Central Ohio. As of December 2015, the bond fund has originated 12 loans and issued $17.3 million in bonds. Its portfolio of projects includes central business district improvements, energy improvements, assisted living and mixed-use properties.

S&P’s assessment of the Central Ohio Regional Bond Fund included a careful analysis of the authority’s operating performance, financial policies and risk profiles.
Washington (state)

- Washington has launched the Renewable Energy Manufacturing Program, the newest program added to the Clean Energy Fund. It’s a unique combination of financing opportunities targeted to advanced solar and renewable energy manufacturing facilities in Washington state. The Department of Commerce and the Washington Economic Development Finance Authority (WEDFA) will jointly market their respective programs:

- Economic Development Bonds, to be issued and sold by WEDFA, are financed with loans made by private lenders to the owners of the facilities financed with the bonds. A large interest cost subsidy would be paid from Commerce to reimburse borrowers for up to 80% of the interest payments they make on their qualifying loan. Only projects approved by WEDFA for economic development bonds are eligible for the interest rate reimbursement from Commerce.
The City of Minneapolis has a partnership with the Saint Paul Port Authority to finance clean energy projects and pay them back in part with Property Assessments. This unique finance tool allows for up-front private capital to pay for building upgrades that facilitate clean energy improvements by eliminating up-front costs, providing low-cost, long-term financing, and making it easy for building owners to transfer repayment obligations to a new owner upon sale. The **Property Assesses Clean Energy Program (PACE)** began in December 2013 when the City of Minneapolis entered into a Joint Powers Agreement with the Port laying the groundwork for the program.

The Port issued $10 million in bonds after legislative approvals, and the PACE program was up and running as a pilot in Minneapolis in 2014. The City did four projects in the pilot program in 2014 with unanimous council approval.
Others

- **Hawaii** – Bond sale to capitalize green energy financing programs
- **New York (NYSERDA)** – bond issuance to recapitalize green financing programs, backed by US EPA RLF pool
- **Ohio** – Various port authorities have issued bonds to support PACE projects
- **Florida** – Recently passed legislation to authorize PACE with heavy emphasis on bond use
- **South Carolina JEDA** – Issued QECB to support energy retrofit financing
- **Many more…**
Bond Finance is Fun!

Thank You!

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