Wise Financing for Smarter Growth in Today's Cash-Strapped World

New Partners for Smart Growth Conference

February 3, 2011

The Never-Ending Challenge

- Aging and outdated infrastructure
- Public demand for more and better services and amenities
- Increasing interest in mixed use and redevelopment
- Severely constrained federal, state, and local revenues
- Opposition to increased property taxes

The Challenge

- How to finance infrastructure efficiently and effectively without creating added barriers to housing affordability
- Exactions such as impact fees are imperfect tools for many reasons
- More and better financing tools are needed today than ever before
- And we all need to understand how to use the tools in combination

The Search for Solutions

- Need to re-think old ways and assumptions
- Better leverage limited resources
- Seek out lessons learned
- Establish trust and collaborate across public and private sectors

Building for Tomorrow: Innovative Infrastructure Solutions

- Key innovative financing tools explained
- Case studies highlighted
- Downloadable from www.nahb.org/
- infrastructurefinance

Building for Tomorrow

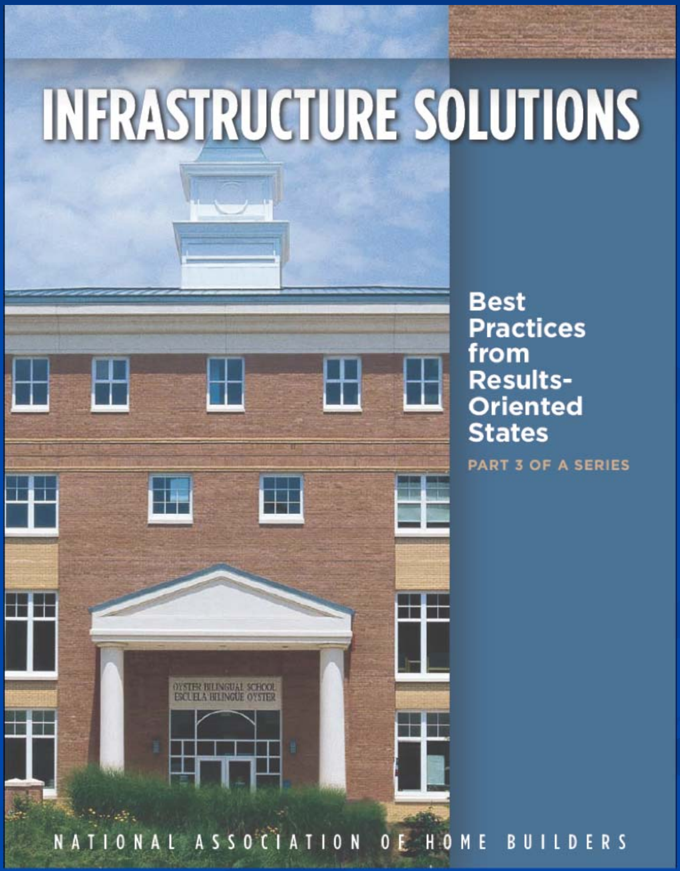
- Details 27 alternative tools, such as:
  - Tax increment financing
  - Special districts
  - Community development districts
  - State revolving loan funds
  - Tax-exempt municipal leasing
  - Partnership schools

Does Your State Encourage Innovation?

- Which states allow the use of particular tools?
- Easy to use matrix
- Surprising positive change across the states over the years

Best Practices from Results-Oriented States

- Identifies states with most effective enabling authority for 11 key tools
- A guide for states who do not yet authorize particular tools



Good Climate for Collaboration!

- Public & private sectors today know they cannot do this on their own
- Public-private partnerships manage risks and rewards for both sides

Filling The Gap – Where Do We Go From Here?

HISTORICAL PERSPECTIVE

Creating The Gap	2007	1977
Total U.S. Spending on Public Infrastructure - Capital	$161 Trillion	$98 Trillion
State and Local Portion	64%	40%
Total U.S. Spending on Public Infrastructure – Capital and Operating	$356 Trillion	$204 Trillion
State and Local Portion	77%	61%

Source: U.S Congressional Budget Office

PUBLIC-PRIVATE PARTNERSHIPS

Relationships work both ways.

Tax Increment Financing

<u>Public Sector</u>
Provides financing or incentives for private development

Special Assessment Districts

<u>Private Sector</u>
Builds, finances or operates projects normally undertaken by the public sector.

TWO TOOLS COMPARED

TAX INCREMENT FINANCING	SPECIAL ASSESSMENTS
▪ No new taxes are requested. ▪ No existing taxes are used in the financing of the project. ▪ Once TIF bonds are paid off, the full tax base revenue is available to the local government.	▪ District formation requires consent of property owners. ▪ 100% of improvements are financed by property owners. ▪ Assessments are paid in addition to property taxes.

TAX INCREMENT FINANCING

- California first enacted TIF in 1952 to generate matching funds for federal programs.
- Today, TIF is the second most common form of target financing per the CDFA.
- 49 states and the District of Columbia now have enabling legislation.

HOW DOES A TIF WORK?

- A geographic area is designated (the TIF district) and a plan for specific improvements in the district is developed
- Bonds are issued and the proceeds are used to pay for the public improvements
- The improvements encourage private development and raise property values above where they would have been without the improvement
- With higher values, property tax revenues rise
- Property tax revenue above the base year (the tax increment) is used to service the debt.

BASIC TIF EXAMPLE

Year	TIF District Property Taxes	TIF District Base Year Tax "Frozen"	TIF District Property Tax Increment	Annual Debt Service	Debt Service Coverage Ratio
1	$100,000	$25,000	$75,000	$56,000	1.34
2	$125,000	$25,000	$100,000	$75,000	1.33
3	$131,000	$25,000	$106,000	$75,000	1.41
4	$138,000	$25,000	$113,000	$75,000	[illegible]
5	$145,000	$25,000	$120,000	$75,000	[illegible]
6	$152,000	$25,000	$127,000	$75,000	[illegible]
7	$160,000	$25,000	$135,000	$75,000	[illegible]
8	$168,000	$25,000	$143,000	$75,000	[illegible]
9	$176,000	$25,000	$151,000	$75,000	[illegible]
10	$185,000	$25,000	$160,000	$75,000	[illegible]3
11	$194,000	$25,000	$169,000	$75,000	2.25
12	$204,000	$25,000	$179,000	$75,000	2.39
13	$214,000	$25,000	$189,000	$75,000	2.52
14	$225,000	$25,000	$200,000	$75,00[illegible]	2.67
15	$236,000	$25,000	$211,000	$75[illegible]	2.81
16	$248,000	$25,000	$223,000	$7[illegible],000	2.97
17	$260,000	$25,000	$235,000	$75,000	3.13
18	$273,000	$25,000	$248,000	$75,000	3.31
19	$287,000	$25,000	$262,000	$75,000	3.49
20	$301,000	$25,000	$276,000	$75,000	3.68
		Net Present Value at 6%		$842,000	

TIF infrastructure funding may be Up-Front (i.e. bond) or Pay-As-You Go.

SPECIAL ASSESSMENT FINANCING

- Government Districts generate funds by applying special assessments on geographic areas to fund projects such as roads, sewers, schools and other public facilities.
- Districts may be Independent (Quasi-Governmental Units) or Dependent (Special Revenue Fund of Local Government).
- Special Assessment Districts are often used in conjunction with TIF.

SPECIAL ASSESSMENT EXAMPLE

Year	Monthly Assessment Per Unit	Total Units	Total Annual Assessments	Admin Chg	Debt Service
1	$9,600	10	$96,000	5%	$91,200
2	$20	400	$96,000	5%	$91,200
3	$20	400	$96,000	5%	$91,200
4	$20	400	$96,000	5%	$91,200
5	$20	400	$96,000	5%	$91,200
6	$20	400	$96,000	5%	$91,200
7	$20	400	$96,000	5%	$91,200
8	$20	400	$96,000	5%	$91,200
9	$20	400	$96,000	5%	$91,200
10	$20	400	$96,000	5%	$91,200
11	$20	400	$96,000	5%	$91,200
12	$20	400	$96,000	5%	$91,200
13	$20	400	$96,000	5%	$91,200
14	$20	400	$96,000	5%	$91,200
15	$20	400	$96,000	5%	$91,200
16	$20	400	$96,000	5%	$91,200
17	$20	400	$96,000	5%	$91,200
18	$20	400	$96,000	5%	$91,200
19	$20	400	$96,000	5%	$91,200
20	$20	400	$96,000	5%	$91,200
		Net Present Value at 6%			$1,046,000

“Tax Credit Programs to Promote Public-Private Partnerships”

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February 3, 2011

Federal Tax Credit Programs, Purposes and Applications

- LIHTC
- HPTC
- NMTC

Complementary State Programs

- North Carolina
  - Historic Preservation Tax Credits
  - Mill Rehabilitation Tax Credits

- South Carolina
  - Historic Preservation Tax Credits
  - Textile Mill & Retail Rehabilitation Tax Credits

Ways Tax Credit Programs Promote Smart Growth

- Location
  - concentrate development in the center city
  - utilize infill sites
  - redevelop brown/grey field areas
  - adaptive reuse of existing buildings
- Project Type
  - Income-producing commercial property redevelopment
  - for-rent or for-sale residential development
  - mixed use projects combining retail office residential

Public Private Partnership Case Study

- Context:
  - Durham, NC
  - Lower income area on eastern edge of downtown
- Project Description: Golden Belt
  - 155,000 sf of "creative energy" to live, work, play
  - 70,000 sf office
  - 30,000 sf retail, restaurants, fitness center
  - 39 live/work units 900-1300 sf with 14 ft ceilings
  - 35 artist studios plus gallery space

Site Plan of Historic Mill Campus

Private Financing

(Numbers not actual but reflect financing structure)

- Gap between Project Cost & Available Private Funds
  - Project Cost = $24 mill.
  - Justifiable Mortgage Loan = $11 mill.
  - Justifiable Equity Investment = $1.4 mill.
  - Gap = $11.6 mill. or 48% of Cost

- Loan at 1.2 Debt Coverage ratio
- Equity at 10-15% Cash-on-Cash return

HPTC Contribution

- Federal HPTC = $4.2 mill. on $20 mill. Qualified Rehabilitation Expenditures (QRE)
- NC Mill Rehabilitation TC = $3.6 mill. on $20 mill. QRE
- Total contribution of HPTCs = $7.8 mill.

NMTC Contribution

- NMTC generated from federal HPTC equity = $1.3 mill.
- NMTC generated from state mill rehabilitation TC equity = $1.1 mill.
- Total contribution of NMTCs = $2.4 mill.

Remaining Gap

- Closed with additional $1.4 mill. from private developer

- Funded from deferred developer fees up to 20% of QRE

Doing the Undoable Deal

• Project Cost = $24 mill.	Gap =
• Private Loan = $11 mill.	$13 mill.
• HPTCs = $7.8 mill.	$5.2 mill.
• NMTCs = $2.4 mill.	$2.8 mill.
• Private Equity = $2.8 mill.	$0

Everybody Wins

Public Finance Tools to Induce Smart Growth

WHERE WE ARE TODAY

The majority of states have a budget gap greater than 10%. For 10 states, the gap exceeds 20%.

January’$ big headline

2011 PERSPECTIVE

- Construction prices are incredibly low
- If you can borrow, money costs are extraordinarily low.

- The survivors are strong.
- There is discipline in the debt markets.

THE SMART GROWTH TOOLBOX

Financing Tools

- GO Bonds
- Non-Appropriation Debt
- Tax Increment Financing
- Assessment Financing

Extraordinary Options

- Public-Private Partnership
- Land Grants
- Tax Credits

PUBLIC INITIATED PROJECTS

- All started as local government initiatives
- All funded with traditional TIF financing.

1. Charleston, South Carolina
2. Greenville, South Carolina
3. Newberry, South Carolina
4. Columbia, South Carolina
5. USC at Beaufort

CHARLESTON, SC

- First city in SC to use TIF
- TIF #1 funded a waterfront park
- TIF #2 funded the King St. Gateway
- TIF #3 funded the redevelopment of a former mining and shipping site

NEWBERRY OPERA HOUSE

- Failing downtown
- No amenities except for one pool hall.
- TIF used to restore the opera house.
- Led to downtown revitalization.
- Pure TIF that spurred private investment.

PRIVATELY INITIATED PROJECTS

- All prompted by requests from private developers.

1. Sun City – Carolina Lakes in Lancaster County, South Carolina
2. Carolina First Building in Columbia, SC
3. Bluffton Parkway in Beaufort County, South Carolina
4. Research Campus in Kannapolis, North Carolina

SUN CITY – CAROLINA LAKES

- Assessment district financing and special tax levy
- County needed a new library branch and fire station
- All costs covered by property owners in Sun City

- Positive impact on development in Lancaster to Charlotte corridor

BLUFFTON PARKWAY

- TIF created parallel roads to main highway
- Reduced curb cuts
- Opportunity for denser development
- Relieved traffic in US Hwy 278

US Highway 278

THE FUTURE

- Magnolia in Charleston, SC
- Project X

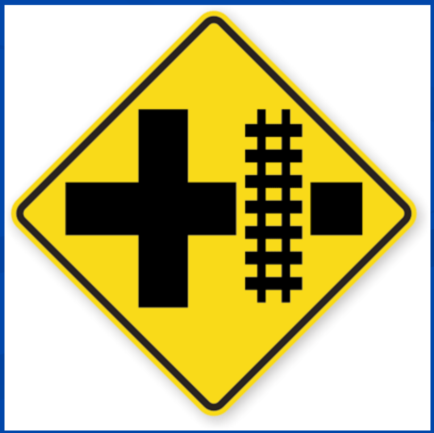
PROJECT X

- New library
- Fire and EMS facilities
- Recreational facilities
- 2 elementary schools, a middle school, a high school and a performing arts center

- Incremental tax collections
- Special assessments
- Existing school impact fee
- School district contributions

TRANSIT CONNECTIONS

Planning, incenting and building the rail.



Using Tax Increments to Fund Public Facilities and Infrastructure

Bob Hagemann

Senior Deputy City Attorney

Charlotte, North Carolina

- The Tool Box
- Case Studies
  - Synthetic TIF
  - Tax Increment Grant
  - Public-Private Development
  - Infrastructure Reimbursement

Tool Box

Private Sale of Real Estate – City Charter Sec. 8.22(d)

Public-Private Development – NCGS 160A-458.3

Interlocal Agreements – NCGS 160A-460 *et seq.*

Infrastructure Reimbursement – NCGS 160A-309, -320, and -499; NC SL 2001-329

Elizabeth Ave Redevelopment

A Synthetic TIF (STIF)

ELIZABETH AVENUE REDEVELOPMENT

GRUBB PROPERTIES

Elizabeth Ave. project

- 250,000 sf retail
- 340,000 sf office
- 810 residential
- 3,000 parking spaces
- $220 million private investment
- 10-15 year build out

City purchases and finances up to 1,000 public parking spaces in a maximum of four decks

City purchase a maximum of 4 increments w/in 10 years; each increment at least 100 spaces

County pays City pro rata (tax rates) share of debt service – interlocal agreement

Conditions

- Incremental property taxes >110% of debt service
- Developer pays shortage if incremental taxes fall below debt service

The Metropolitan

A Tax Increment Grant (TIG)

Phase I

Home Depot Expo Design and Target

800 space parking deck

$6.9 M road, intersection, bridge improvements

Phase II

160,000 sq. ft. retail/restaurant

75,000 sq. ft. office

90+ condominiums

parking deck to support retail/restaurant/ office

relocated bridge


PAPPAS PROPERTIES
COLLETT & ASSOCIATES
EXPO
Design Center
A HOME DEPOT COMPANY
Midtown Mixed Use
Charlotte, North Carolina
COOPER CARRY
Copyright2004 204048 07/20/04

ten year grant not to exceed $12.3M

payments don't begin until developer delivers

annual payments not to exceed 90% of incremental property taxes

City/County pay *pro rata* (tax rates) share of each grant payment

Wachovia Cultural Campus

Public-Private Development

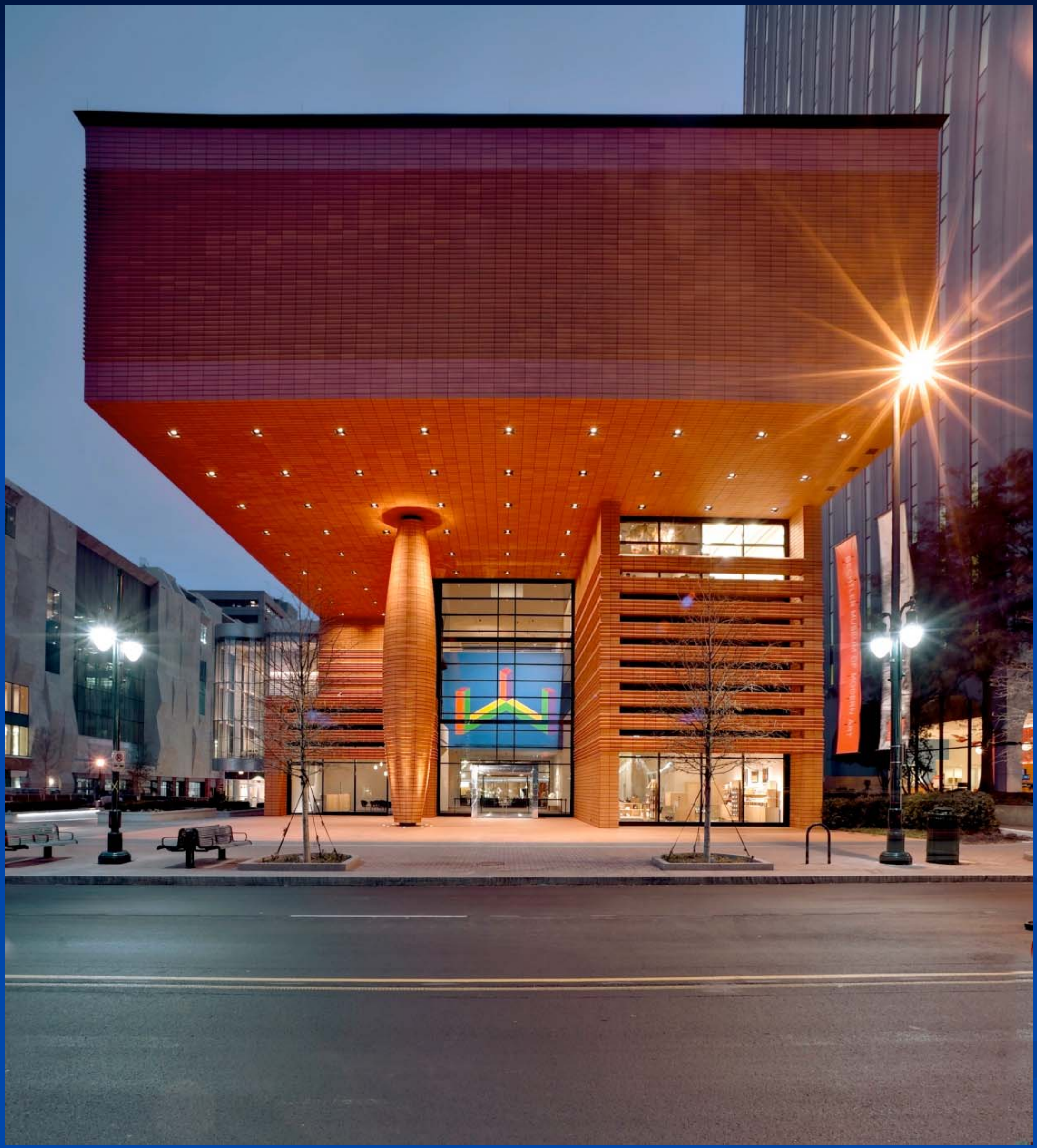
Project

- 54 story Duke Energy Center
- Mint Museum
- Knight Theater
- Harvey B. Gantt Center for African-American Arts + Culture
- Bechtler Museum of Modern Art
- Underground parking


WESTIN


KNIGHT THEATER


Harvey B. Gantt Center



- Wachovia/RBC constructs public-private project
- strict budget for each facility
- City purchases/finances cultural facilities
- cultural facilities leased to cultural partner
- Arts & Science Council endowment

Public Capital Funding

- $158.5M program (includes Discovery Place)
- $90.1M from 4% Rental Car Tax
- $58.4M synthetic TIF – backstopped
- $10.0M corporate contribution

Infrastructure Reimbursement

Old Coliseum Site

- 170 acre mixed use project
- City funds north-south connector and related improvements
- City payments equal to or less than estimate of public bid


EXISTING HOTEL
BILLY GRAHAM PKWY
O-1(CD)
B-1(CD)
I-2(CD)
I-1(CD)
CONSERVATION EASEMENT
PEDESTRIAN CONNECTION
PROPOSED LOOP PEDESTRIAN TRAIL
PROPOSED DUKE POWER LINE RELOCATION
PROPOSED LOOP TRAIL

- developer designs, constructs and dedicates
- $5.81M maximum reimbursement
- ten year reimbursement – commences 1, 2, or 3 years after inspection/ acceptance
- annual payments equal to 45% of incremental taxes
- SBE program

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