

COAL FINANCE CONFERENCE

FINANCIAL TOOLKIT FOR REDEVELOPMENT PROJECTS



Institute for
Policy Integrity
new york university school of law



INSTITUTE FOR
ENERGY ECONOMICS
& FINANCIAL ANALYSIS



MARCH 18, 2014

ROOTED IN TRUST



ACACIA
FINANCIAL GROUP, INC.

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I. Acacia Financial Group Information

Acacia Financial Group Overview

Footprint Extends from Coast to Coast

- **Top Ranked Independent Financial Advisory Firm:**

- Ranked 5th in U.S. for 2012 and 2013
- Ranked 1st in Illinois for 2012 and 2013
- More than \$16 billion in issuance

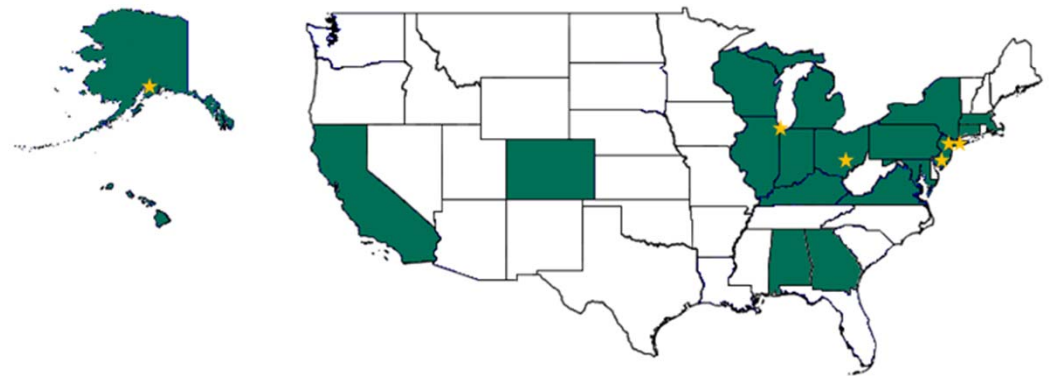
- **National WBE firm with six offices and 20 public finance professionals**

- **Focus on Tax Exempt and Taxable Bonds, Financial Consulting, Public Private Partnerships (“P3”)**

- **Industry practice specialties:**

- Infrastructure (Transportation, Water / Wastewater, Public Facilities)
- Economic Development
- Alternate Energy
- Education

Acacia Financial Group
Project Locations and Firm Offices



- ★ Acacia Financial Group Offices
- States where Acacia staff have completed projects

Office Locations

Montclair, NJ	Marlton, NJ	New York, NY
Chicago, IL	Columbus, OH	Anchorage, AK

Phoebe Selden

Contact Info and Brief Bio

Key member of infrastructure team.
Public Accounting training.
Served City of Chicago for 13 years, ultimately as City Comptroller, with oversight over all City credits, Enterprise Financings and TIF.
Former Head of Moody's Chicago Office.
30 years of public sector experience.

Select Experience:

- **Alaska Railroad** - 5307 grant financing and potential acquisition of private passenger line
- **Chicago Infrastructure Trust** – Advisor to City for Inaugural Transaction and Pipeline development
- **Cook County Hospital Adaptive Reuse** – Real Estate assessment of redevelopment opportunities
- **Denver Union Station Redevelopment** – TIFIA Loan assistance
- **Evanston Crown Recreation Center Redevelopment** – P3 Option Analysis for Multi-sport facility
- **Gary/Chicago International Airport** – Letter of Intent Grant Application and TIF Planning
- **Honolulu Light Rail** – Finance Plan, Commercialization and Transit Oriented Development analysis
- **Los Angeles / Ontario International Airport** – Option Analysis, P3 Valuation and Financial Strategy
- **Wayne County** - Economic Development Projects, Bond FA



Financial Advisors

Phoebe S. Selden
SENIOR VICE PRESIDENT
pselden@acaciafin.com

221 N. LaSalle St.
Suite 1500
Chicago, IL 60601
Tel: 312-269-0041
Cell: 312-307-2938
www.acaciafin.com

II. Public Finance Framework and the Municipal Advisor Rule

Regulation of Financial Professionals

Dodd-Frank Transformed Public Finance

- **Dodd-Frank has transformed public finance**
 - In 2010, Dodd-Frank Wall Street Reform and Consumer Protection Act expanded the Municipal Securities Rulemaking Board's ("MSRB") jurisdiction to include regulation of Municipal Advisors ("MAs") and protection of issuers
- **Municipal securities dealers and MAs are regulated by the MSRB**
- **Dealers and MAs are required to follow rules established to promote fair, efficient and transparent transactions; to prevent fraudulent, manipulative and other unfair practices; to minimize conflicts of interest; and to protect investors and issuers of municipal securities**
- **Municipal securities dealers and MAs engaging in underwriting or advisory activities are subject to MSRB rules and must be registered with the MSRB**

Municipal Advisor Rule

MA Definition Issued in September, 2013

- **Securities and Exchange Commission (“SEC”) gave final approval on the definition of an MA on September 18, 2013. Key highlights include:**
 - MAs have explicit fiduciary duty to their clients
 - Exempts state and local government employees and officials
 - Exempts certain professionals provided they are not providing financial advice
 - Rule may limit discussions with underwriters unless the issuer has an MA
 - GFOA has overview of MA Rule on website
- **MA Rule is effective on July 1, 2014 (SEC delayed from January 1, 2013)**
- **Key component of Rule is that an entity is a MA based on services provided: MAs provide advice on structure, timing, terms or other similar matters**
- **MA Rule will change how issuers interact with all finance professionals**

How Underwriters can Comply with the MA Rule

Specific Exemptions Allow Underwriters to Provide Advice

- **Independent Registered Municipal Advisor (“IRMA”) Exemption allows an underwriter to present tailored financial advice to an issuer if an issuer:**
 - **1st**, has an IRMA who is registered with the SEC and has not been previously associated with the firm seeking to use the exemption within the past two years,
 - **2nd**, the firm seeking the exemption must receive a written representation from the issuer that it is relying upon the advice of an IRMA and
 - **3rd**, the firm seeking to use this exemption must provide written disclosures to the issuer with a copy to the IRMA that it is not a MA and not subject to a fiduciary duty under the Exchange Act
- **Additionally, there are exemptions in the MA Rule for tailored financial advice given during a RFP/RFQ process and for advice given once an underwriter has been engaged on a specific financing (“Underwriter Exemption”)**
- **Together, these exemptions will permit issuers to continue to engage in discussions with the underwriting community**

Industry Reactions and Interpretations

Clarification is Needed on Rule

- **Underwriters primarily concerned with:**
 - Definition of advice
 - What constitutes engagement in the underwriter exclusion
 - Seeking flexibility within the RFP exclusion
 - Addressing how the final Rule will be able to work in connection with MSRB rules G-17 (fair dealing and conflicts) and G-23 (underwriters cannot serve as financial advisors)
- **Issuers are taking different approaches, to the extent that they have addressed the Rule**
- **Attorneys, accountants, MAs and underwriters are seeking clarifications**
- **SEC has released a set of FAQ's to provide needed guidance**
- **MSRB published a regulatory notice and is seeking comment on the draft MA rule by March 10, 2014**

What Will Happen Next?

Transition to the New Era Will Take Some Time

- **Traditional relationships between different services within the public finance industry will be redefined**
- **Issuers will need to affirmatively decide which rubric will work best**
- **MAs will have to step up to the plate to fulfill new requirements, roles and analytical expectations**
- **Potential exists for new era to be better and more effective for the public benefit**

III. Approach to Developing a Plan of Finance for Redevelopment Projects

Approach to Financial Planning

Redevelopment Projects Face Special Challenges

1. Understand Policy Objectives
2. Inventory Project Attributes
3. Needed Professionals
4. High Level Option Analysis
5. Plan of Finance
 - Identification of Financial Resources / Funding Sources
 - Financing Options
6. Term Sheet / Negotiations
7. Financing Documentation and Execution

While many of the funding and financing tools are the same as traditional capital planning, redevelopment projects are inherently more complex due to the interrelationships between the project, the community, other stakeholders and the ultimate sponsors.

1. What are the Public Policy Objectives?

Each Project has Unique Policy Goals and Considerations

- **Project stakeholders can seek to achieve diverse and, at times, contradictory objectives**
 - Job creation / retention
 - Infrastructure improvement
 - Housing
 - Education
 - Transportation
 - Stimulate commercialization / retail
 - Create community anchors
 - Environmental
 - Tax base creation
 - Historic preservation
- **Government objectives can be supported through planning, zoning, legal, financing and other assistance**

Planners, sponsors, community organizers and other stakeholders can help establish the vision for each project and bring diverse groups together.

Financial Advisors can be helpful identifying opportunities early on, but typically don't get fully involved until further along.

2. What are the Project's Attributes?

Project Attributes can Help or Hinder Financial Plans

- **Location, Location, Location**

- Real Estate value, highest and best use and marketing potential
- Tax Increment Financing (“TIF”) or similar incentive areas, Community Reinvestment Act (“CRA”), Tax Abatement Areas, New Markets Tax Credits (“NMTC”), etc.

- **Site features**

- Size and physical characteristics
- Environmental liabilities / benefits
- Transportation networks

- **Building characteristics**

- Size, layout, loading docks, elevators, parking lots, etc. can all help define the art of the possible
- Certain features, such as parking or commercial potential, can be harnessed within the financial plan

- **Other attributes can include include stakeholder vision**

3. What Professional Services are Needed?

Planning, Sequencing and Managing the Team

- **Team can help drive the project to that it achieves the sponsors' vision**
- **Professionals need to be managed and fees included in budget**
 - Procurement rules and other sponsor requirements can determine future eligibility for reimbursement
- **Needed services may include:**
 - Financial Advisor
 - Real Estate consultants (market analysis studies), TIF consultants
 - Feasibility consultants (demand analysis)
 - Transportation and other planners
 - Engineers and Architects
 - Attorneys
 - Environmental/remediation
 - Underwriter(s)

4. High Level Option Analysis

You Have a Project Vision, Now is it Financially Feasible?

- **Financial Advisor will get actively involved with other consultants after basic decisions have been made**
 - Develop high level Sources and Uses with I.D. of potential gaps
 - Cashflow forecasting of project revenues and expenses can I.D. timing differences
 - Initial thoughts on demand analysis / Project Revenue potential
- **Identify funding opportunities and other resources**
 - Use redevelopment toolkit
 - Consider asset sales, collateralization to augment resources
- **Outline potential financing plans**
 - Sensitivity analysis will determine need for augmentation
- **Confirm Findings with Stakeholders**

5. Plan of Finance Development

High Level Analysis of Financial Feasibility Comes First

- **Project costs need to be fully understood**
- **Identify funding opportunities and other resources**
 - Use redevelopment toolkit
 - Consider asset sales, collateralization to augment resources
- **Sources and Uses**
- **Develop high level Base Case**
 - Cash flows
 - Financing tools
- **Sensitivity Analysis**

6. Term Sheet Preparation / Negotiations

Moving Toward Execution

- **Attorneys will work with Financial Advisors to draft a term sheet**
- **Term Sheets frame the plan of finance and sharpen feedback from participants**
 - Term sheets can be used for lease negotiations and discussions with funders
 - Potential financing partners can use to seek credit feedback and, ultimately, approval
 - Public finance options will require approval of governmental body
- **Term sheets can also become the underpinning of credit discussions with the rating agencies**
 - Private Indicator Ratings can be used where substantial uncertainty exists
 - Allows an environment where feedback can be sought
- **Negotiated Term Sheet will become the basis of transaction documentation**

7. System Documentation and Execution

Moving toward execution

- **Transaction documentation can take a variety of forms**
 - Resolutions or ordinances are generally used to seek public agency approvals
 - Official Statements, Offering Memoranda, Private Placement Memoranda for debt
 - Public sales can be effectuated on a competitive or negotiated basis
 - Issuers can include a sponsoring unit of government or various conduit issuers
- **Credit Ratings are often required**
 - Number of ratings
 - Indicator or evaluation process can be converted into a rating
- **Grant agreements must be executed on timely basis**
- **Financial advisors will play a vital role in pricing regardless of form of sale**

IV. Financial Toolkit for Redevelopment Projects

Overview of Public Finance Options

Government Role can Include Supporting Policy Objectives

Public Finance Options (Tax-Exempt or Taxable)

- G.O. Bonds, Lease Revenue Bonds or Certificates of Participation
- Revenue Bonds (Project Revenues, Parking Revenues, Grant Revenues)
- TIF Bonds
- Conduit Financings

Method of Sale:

- Negotiated, Competitive or Direct Placement

Short Term options have performed well in current market

- Commercial Paper
- Bond or Grant Anticipation Notes
- Variable rate

Type of debt, primary credit and back up pledges should be matched to the project and to the sponsor's level of support. Decisions as to duration, step in rights and even variable vs. fixed must be considered from both a financial point of view as well as from risk tolerance perspective.

Tax Increment Financing (“TIF”)

TIF can be Used for Wide Array of Redevelopment Projects

- **TIF can be a powerful tool**
 - Useful for wide variety of projects and settings, subject to state law
 - Pay-as-you-go or debt financing often possible
 - G.O. backup pledge can enhance credit if needed
- **Property tax base is set when TIF district is established**
 - Increment generated due to increase in assessed value
 - “Decrements” in value can reduce increment in certain states
- **TIF financing and planning requires in depth understanding of developer motivations and business model**
- **Capital markets will require a detailed TIF analysis and forecast by a reputable (generally local) expert**



Aerial view of Gary/Chicago International Airport

- TIF designed to support complex runway expansion and potentially the large redevelopment district
- TIF supplements large FAA grant and is expected to support bond financing program

Financial Tools:

Federal, State and Local Tax Credit Examples

Tax Credits can enhance project funding capacity, but may add complexity to the transaction.

- **Tax Credits are often used as one layer in multi-layer financial plan**
- **Tax Credits can be one time (need to have a taxpayer) or multi-year**
- **Tax Credit examples:**
 - Community Development Block Grants
 - New Market Tax Credits is a federal tax credit for investments in designated Community Development Entities
 - Historic Tax Credits give 20% tax credit for substantial rehabilitation
 - Brownfields tax credits for rehabilitating a qualified Brownfield Property
 - Energy and Alternate Energy Tax Credits
 - Empowerment Zone credit for building in or employing people in Zone
 - Low Income and Other Housing Tax Credits
 - Clean and Drinking Water, Stormwater management
 - Laboratory Tax Credits for opening a technology focused company
 - First Responders facility rehabilitation tax credit and Homeland Security

Conduit Issuers Can Provide Market Access

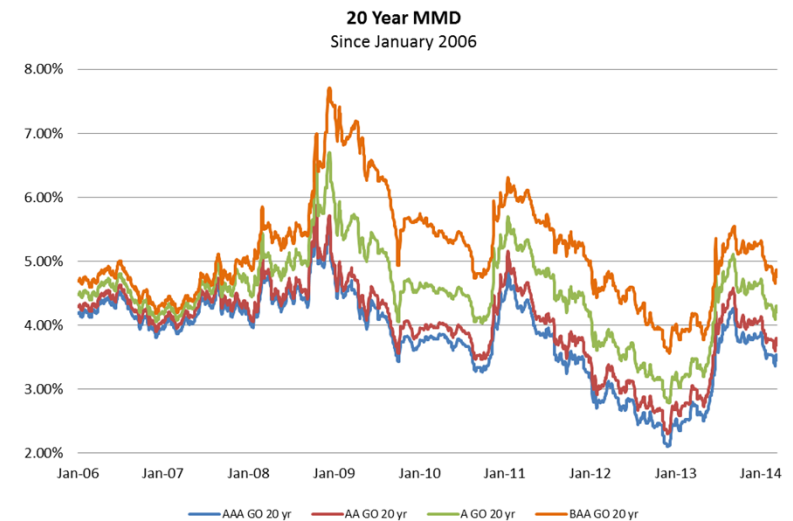
Illinois Finance Authority is One Example of Conduit Issuer

- State level finance authorities, housing finance development corporations, bond banks and other similar programs can help provide vehicles for conduit issuance
- Moral obligation pledges may be available



Illinois Finance Authority (“IFA”)

- IFA Credit Committee serves critical role:
 - Review/approve all borrowings that seek IFA Board approval
 - Review potential applicants and borrowers that seek IFA assistance
- Pooled financing programs possible
- State tax exemption for issuances



Credit quality is very important in today's market and governmental issuers and their financial advisors can help shape and improve project credit attributes.

Tapping Into Private Sector Capacity

Full Spectrum of P3 Options Can Enhance Redevelopment Efforts

- **Private development**

- Public policy objectives may be harder to influence
- Likely to require taxable financing

- **P3**

- “Greenfield” projects may be easier to do
- P3 of existing assets can be challenging to the degree that there is a sense of public ownership of the related asset
- Availability payment / sharing models are gaining in popularity

- **Design / Build / Finance / Operate / Maintain**

- Inject Private Sector Capacity into project delivery
- Risk transfer and other goals can be achieved

- **Management contracts can improve operations for similar benefits**

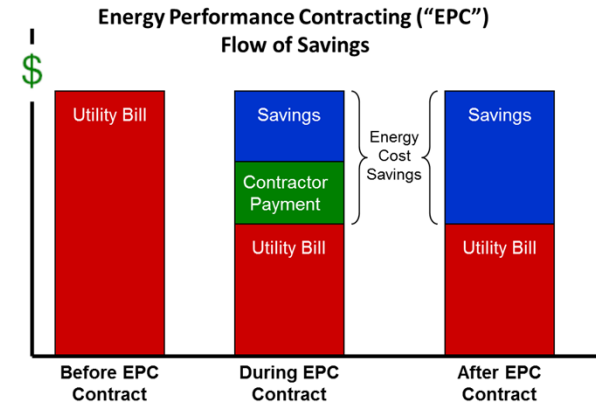
- **Evaluation must consider “value for money” Concept of risk transfer, project delivery and cost, and other factors often outweigh what may be a higher cost of financing**



Energy Service Company (“ESCO”)

ESCO Financings can be Implemented “Off Credit”

- ESCOs analyze the energy performance of facilities and implement conservation measures:
 - Prepare an investment grade audit
 - Provide financing (need to analyze to determine if it is most economical source)
 - Implement conservation measures
 - Guarantee energy savings
- Governments should analyze payback period and sharing of savings in conjunction with determining if desired improvements are addressed
 - “Low hanging fruit” can make ESCO guarantees more attainable
 - Longer payback period gives opportunity to address more costly projects such as H&R plants



Acacia assisted **Public Building Commission** with formation of its ESCO program, helping with:

- Drafting RFQ and evaluating responses
- Worked with the Commission and its counsel in identifying and evaluating potential financing sources and structures
- Developed a preliminary finance plan to permit evaluation process to proceed

Assisted City of Chicago with establishment of its landmark **Chicago Infrastructure Trust** which will end up providing innovative financing to expand capacity

The Search for Revenues

Parking, Rental Car, Port, and Other Transportation Links

- **Parking facilities can serve many roles**
 - Generate revenues, support financing plans, support transportation initiatives
 - Can serve as location for commercial and retail which in turn can support public facilities
 - Parking financings can be structured as well rated credits
- **Rental Car facilities can serve similar transportation purposes**
- **Transit options can be critical to support the viability of many redevelopment options**



City of Elizabeth Parking Authority, NJ

- Parking facility designed to support activities of Union County, Union County College and daily parking
- 63-20 Corporation (an “on behalf of” corporation) to issue NMTC obligations
- In addition, traditional revenue bonds financed remainder of project costs
- Easement and license agreements established public

Alternative Generation is Appealing for Many Projects

Mercer County Implemented Program for Community Colleges



- **Alternative Generation can help replace load lost from coal plant redevelopment**
- **Transmission and other infrastructure can help project implementation**
- **Financing tools can often take advantage of tax credits**
- **Government sponsorship will be useful for project financing**

Acacia assisted MCIA with implementation of a Renewable Energy Program for the Mercer County Community College as follows:

- Issuance of an RFP for a Power Purchase Agreement for the purchase, by the MCCC of electricity generated by a photovoltaic solar energy system estimated to be 10MW (DC) and to be designed, permitted, acquired, constructed, installed, operated and maintained at the MCCC campus by the successful respondent to the RFP

RFP requested electricity pricing based on three financing options:

1. Self finance with title retention
2. MCIA financed up to 70% of costs issuance of taxable bonds, with MCIA ownership and tax friendly leaseback of the system
3. MCIA provides 100% financing, and ownership is treated as in Option 2

Ultimately MCIA issued \$29.5 million County Guaranteed Renewable Energy Program Lease Revenue Bonds which financed the project.