

Economic Development Incentives For Municipal Finance

New Iberia, Louisiana
April 23, 2009



Crawford Lewis

Professional Limited Liability Company



CRITICAL CHALLENGES FACING MUNICIPALITIES

- Decaying infrastructure and expanding populations
- Lack of funding and decreases in capital outlay budget prevent necessary construction of roads, drainage and other necessities
- Mercy of the taxpayers—e.g., 2008 defeat of bond referendum in East Baton Rouge parish
- Impossible to address needs without subsidies and other incentives

Crawford Lewis

Professional Limited Liability Company



OVERVIEW OF INCENTIVES

- American Reinvestment and Recovery Act of 2009 (“Stimulus Bill”)
- Conduit Issuance of Tax Exempt Bonds
 - Competitive v. Negotiated Sale of Bonds
- Creation of Tax Increment Financing (“TIF”) Districts
- Additional Federal and State Incentives

Crawford Lewis

Professional Limited Liability Company



AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

- Recently enacted incentives are part of largest economic stimulus bill in U.S. history
- Creation and expansion of inducements for investors
 - Increase of Bank Qualified amount for issuers
 - Creation of 2% total portfolio safe harbor and AMT patch
- Establishes Build America Bonds and Qualified School Construction Tax Credit Bonds
- Provides Federal grants for “shovel ready” projects

Crawford Lewis

Professional Limited Liability Company



EXPANSION OF BANK QUALIFIED AUTHORITY

- Under U.S. tax laws, banks are prohibited from deducting interest expenses allocable to investments in tax-exempt bonds
- The IRC provides an exception for interest payable to “small issuers” of tax-exempt bonds
- Recovery Act increases the definition of “small issuer” from \$10 million to \$30 million per year per issuer
- Act also provides other inducements for investors including a 2% safe harbor for “non-bank” qualified obligations and extension of AMT patch from GO Zone Act

Crawford Lewis

Professional Limited Liability Company



BUILD AMERICA BONDS (“BABS”)

- Two alternative benefits for municipalities
 - (i) Direct-Pay Credit Bonds: Allows municipalities to sell taxable bonds and receive a 35% direct interest subsidy through nonrefundable payments from the federal government; or
 - (ii) Credit in lieu of tax exempt treatment: Allows investors to claim tax credits worth 35% of interest paid to municipalities
- Goal is not only to reduce “borrowing” costs to governmental entity, but also to open the municipal market to more institutional investors (e.g., pension funds)
- The introduction of more buyers into the marketplace should equate to lower interest rates
- Transactions must qualify under the tax-exempt rules of the IRC and the issuer must designate the bonds as BABS



RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS AND QUALIFIED SCHOOL CONSTRUCTION BONDS

- Recovery Zone Economic Development Bonds are a sub-category of Build America Bonds
 - 100% of capital expenditures must be used on public infrastructure, job-training or educational expenditures within a “recovery zone” as designated by the issuer
- Qualified School Construction Tax Credit Bonds
 - Issuer pays no interest on bonds and holders receive a nonrefundable tax credit equal to the percentage the U.S. Treasury determines will allow the bonds to be sold at par
 - Strictly for construction or rehabilitation of public schools

Crawford Lewis

Professional Limited Liability Company



GRANTS FOR “SHOVEL READY” PROJECTS

- The Recovery Act provides millions of dollars in federal subsidies to build and repair roads, bridges, sewer systems, power grids and communication infrastructure
- Priority is given to “shovel ready” projects, or those that have approvals and permits in place.
- Example -- \$9 Million grant provided to Lafayette Metropolitan Planning Organization for construction of roads and highways, which will be spread over 7 projects

Crawford Lewis

Professional Limited Liability Company



THE LCDA

- Louisiana Local Government Environmental Facilities and Community Development Authority (“LCDA”)
- Statewide political subdivision created by the Louisiana legislature to increase competition for issuing authority and assist local governments with financing needs
- Legislation backed by Louisiana Municipal Association
- Governed by board consisting of mayors and other public officials
- Defined process for bond issuance and project approval
- Membership is free

Crawford Lewis

Professional Limited Liability Company



THE LCDA

- LCDA issues bonds (on behalf of local governments) and loans money to municipalities
- Utilization of LCDA creates good credit rating and lower interest rate
- Repayment is secured by “Lawfully Available Funds,” or revenues accruing to general fund of municipality less specific ear-marked funds
- If municipality has existing revenues sufficient to pay debt, there is no need for tax referendum
- Loans of the LCDA are not limited to 10 year maturities as with Certificates of Indebtedness
- Maturity and amortization can match useful life of financed capital asset

Crawford Lewis

Professional Limited Liability Company



COMPETITIVE VS. NEGOTIATED SALE OF BONDS

COMPETITIVE SALE OF BONDS

- In some instances, the competitive sale of bonds is required by law, e.g., new money general obligation bonds of municipality
- Preliminary Official Statement is prepared and given to underwriters to distribute to potential buyers
- Actual bid deadline is a set time and date (usually during meeting of the governing authority)
- No flexibility in timing and fluctuations in the market
- Underwriters fee is not shown in costs of issuance, but underwriters include their fee through interest rates and reselling the bonds at a premium
- Chance of getting no bids or 1 bid is commonplace

Crawford Lewis

Professional Limited Liability Company



COMPETITIVE VS. NEGOTIATED SALE OF BONDS

NEGOTIATED SALE OF BONDS

- Issuer engages an investment bank/underwriter and a financial advisor
- Underwriter and financial advisor provide structuring advice such as credit enhancement, as well as interact with appropriate parties
- Working group prepares a Preliminary Official Statement and distributes to potential buyers
- Underwriter and Financial Advisor make recommendations based on prevailing market conditions and have flexibility to price the bonds on a date the market is favorable for the Issuer
- Final interest rate accepted by the Issuer and remains in place until closing
- Underwriter's compensation is contingent and negotiated with the Issuer and is shown as a fee on costs of issuance
- Advantage of professional advice, responsibility for rating agency and assistance with credit enhancement presentations

Crawford Lewis

Professional Limited Liability Company



TAX INCREMENT FINANCING DISTRICTS ("TIFS")

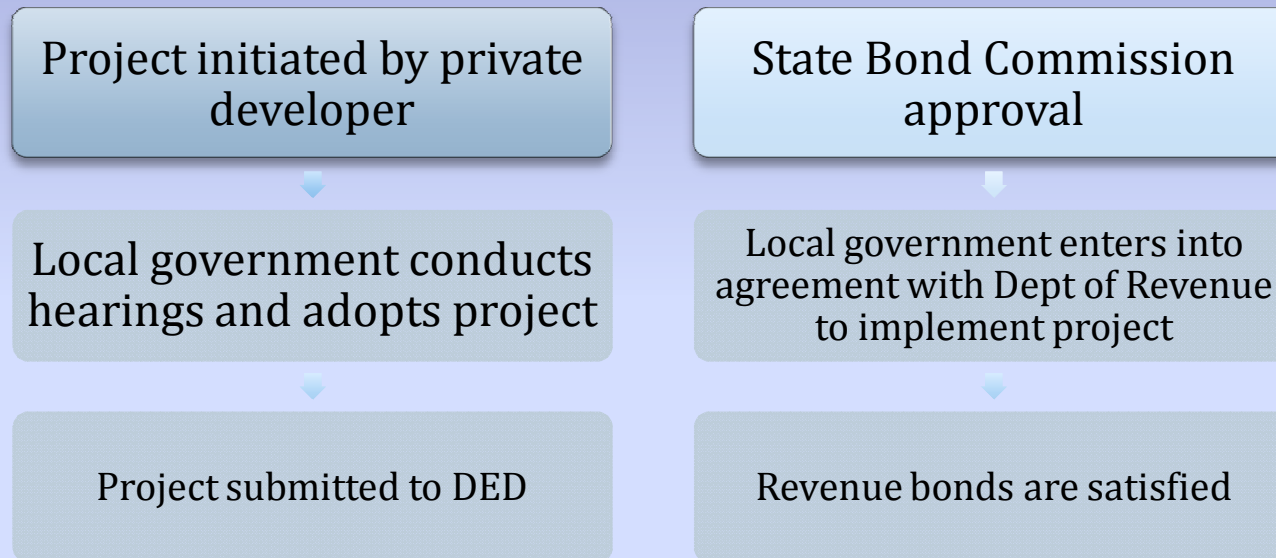
- Louisiana law permits a parish or municipal governing authority to establish a TIF, or economic development district to assist in economic development financing
- Once the TIF is established, it can issue revenue bonds to finance infrastructure improvements
- TIF revenue bonds are secured by the incremental sales tax revenues, property tax revenues and/or hotel/motel tax revenues of the district
- If no registered voters live in the geographic area defined by the TIF, the governing authority may impose up to an additional 2% local sales tax without a tax referendum
- At the conclusion of the time period establishing the district, all revenues (initial tax base and increment) revert to governing authority

Crawford Lewis

Professional Limited Liability Company



THE TIF PROCESS





EXAMPLE OF SUCCESSFUL TIF

AMBASSADOR CAFFERY ECONOMIC DEVELOPMENT DISTRICT

- Provided approximately \$43 Million to extend Ambassador Caffery from Verot School Road south through Broussard to Highway 90
- Funding: Combination of state and federal funds, but required a \$10 Million local match
- Solution: City of Broussard formed TIF District and issued bonds for the local match—bonds are being repaid from sales tax increments along the corridor
- Results:
 - Opened new area to commercial development
 - Created 639 new jobs
 - Municipalities retain funds (tax dollars) locally as residents of Broussard and Youngsville will now shop locally, instead of having to drive to Lafayette
 - Additional hurricane evacuation route
 - Successfully received \$.01 of the State's \$.04 sales and use tax in TIF District

Crawford Lewis

Professional Limited Liability Company



OTHER ECONOMIC INCENTIVES

- New Markets Tax Credits (Federal and State)
 - Formation of Community Development Entity (“CDE”) to assist in financing economic development in low income areas
 - Municipality “acts” as bank/financing arm
 - Competitive process, but Federal government is searching for rural “poster child”
- Section 108 Loan Guarantee Program
 - Allows local governments to transform CDBG funds to loans for economic development
- Advocate and Purveyor of Information for Developers/Economic Development Projects
 - Empowerment Zones
 - Quality Jobs Programs
 - Angel Investment Credits
 - Brownfield Credits

Crawford Lewis

Professional Limited Liability Company



**A copy of this presentation will be available within 24 hours at
www.crawfordlewis.com**

Crawford Lewis

Professional Limited Liability Company

Committed to Results...*Just Like You*