Development Finance

PERSPECTIVES

Issue 1 ■ 2013

cdfa Council of Development Finance Agencies

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Scaling Up Success-Driven Development Finance

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The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing public, private and non-profit development entities. CDFA is a leader in the development finance industry offering nationally acclaimed training courses, legislative representation on Capitol Hill, a weekly e-newsletter, a comprehensive Online Resource Database, and the National Development Finance Summit – the premier gathering of leaders and innovators in the profession.

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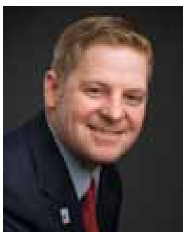
New York Times Rebuttal: Private Activity Bonds Support Job Creation & Economic Development

Flawed, Inaccurate New York Times Article Debunked



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The New York Times article, *A Stealth Tax Subsidy for Business Faces New Scrutiny*, is riddled with inaccuracies and misinterpretations of one of the nation's most important economic development tools: qualified private activity bonds (PABs). The story, sensational and misleading throughout, highlights perceived misuses and infers abuses of the U.S. tax code, all the while ignoring the essential public purpose that these bonds serve. PABs are exactly as they sound, a bond instrument, supported and endorsed by the United States Congress since 1914, that catalyze private investment in projects and industries that may otherwise not receive conventional financing. PABs are one of the oldest tax policies on record and were included in our Nation's first formal tax code.

Let's address the article's inaccuracies. First, the Times states that the 1986 tax code created a "stealth subsidy for private enterprise". Stealth? The tax exempt bond section of the Internal Revenue Code is very well established, dating back 100 years, and it allows over 50,000 state and local bond issuers throughout the country access to this critical financing tool. The PAB market amounts to just a fraction of the total market for tax-exempt bonds. This tool is decisively not stealth, and in fact is one of the most well understood and well regulated parts of the tax code. They were, as the article indicates, well vetted during the long and transparent tax reform process of 1986. The end result was an improved development finance tool – not a "stealth subsidy". The inference that PABs are a secret or a loophole that allows large private business interests to benefit where others would not is either naïve or purposefully misleading. Most private businesses would prefer to use conventional lending tools, but given market and project economics, some require alternative lending options to access capital. The private activity bond market provides this critical access to capital.

Second, the article identifies a handful of potentially alarming projects – a golf course, museum, basketball arena and office buildings for two financial institutions. There are two substantive flaws in the Times article. While these projects may seem less worthy of tax-exempt financing on their face, such a cursory review is irresponsible at best. To begin, the identified projects represent a mere fraction of the overall number of projects that benefit from PABs. PABs are issued on behalf of thousands of private enterprises like small manufacturers, non-profits, veterans, housing developers, universities, first time farmers, cultural institutions, hospitals and renewable energy providers annually. Further, each of these projects were supported and approved for PAB financing by state or local governments with their understanding that the projects were important to the economic development and long range stability of their communities.

The same goes for the special bond programs targeted in the Times article such as New York Liberty Zone Bonds, Gulf Opportunity Zone Bonds, Midwestern Disaster Area Bonds and Recovery Zone Bonds. Here is perhaps where the Times makes its most fatal mistake. These programs were created with bi-partisan Congressional support and strongly supported by two Presidential Administrations. These programs addressed the devastation and destruction felt in the Gulf States after Hurricane Katrina, floods in the Midwest and job loss from the national recession. These programs work outside and independent of the 1986 tax code regulating private activity bonds. They are unique, broadened bond programs not related at all to the established use of PABs and have no bearing whatsoever on the discussion concerning PABs. Traditional PABs cannot be issued for golf courses and office towers as these special programs were created as unique access to capital tools to directly address targeted needs in states and to spur private enterprise growth.

For example, the Bank of America and Goldman Sachs buildings provided much needed economic stability to New York after September 11th. Through the issuance of New York Liberty Zone Bonds these projects signaled to the world that our country's greatest city was open for business and that nothing would hold back America's effort to create jobs, spur investment, grow our economy and continue the process of healing after the 9/11 tragedies. Without this specialized PAB financing, those institutions may well not have chosen to re-locate where they did. It should also be pointed out that the redevelopment and rebirth of the World Trade Center site has been financed using New York Liberty Zone Bonds. This project marks one of our country's greatest redevelopment success stories. Would the Times suggest that this is a misuse or abuse of this Congressionally authorized financing tool?

To imply misuse or abuse is to undermine the core role that these critical financing measures play in supporting the American economy. Again, it remains the prerogative of the local communities to make decisions on how best to support economic development and community investment after these tragedies. Without these bond programs, the same investment would not have happened. Congress should be applauded for creating these programs, not criticized for supporting America's communities.

Third, the Times article implies that the federal government is forgoing tax revenue by offering lower interest rates and interest free income through PABs. This could not be further from the truth. Little is lost by the federal government because, in the vast majority of these deals, the projects would not have otherwise proceeded without the tax-exempt bond financing authorized by the federal government and issued by local governments. More plainly stated, how can the federal government lose revenue when they never had it in the first place? The notion that the projects would have happened anyway and that investors would have otherwise invested in taxable instruments is not supported by data or by any reputable development finance professional – it is an academic theory. And this is to say nothing about the economic growth and economic activity that result from these investments, spurring job growth and widening the base of federal taxpayer support – a net benefit to the United States Treasury.

Fourth, as the article states, "it is difficult to calculate the precise dollar amount of the subsidy, given the number and variety of these bonds, experts say the annual cost to federal taxpayers could run into the billions." If the argument is that PABs are an unfair or unqualified subsidy to private enterprise, why can't the New York Times produce a number or study that references a single amount of lost revenue to the U.S. Treasury? Why? Because this assertion is unsubstantiated and unreasonable.

PABs present near zero risk to the federal, state and local government. They are non-recourse bonds that have no impact on local, state and federal tax revenues. In fact, in the event that a project goes bad, the bond holders, who knowingly invested in this risk financing product, are the only stakeholders impacted. Not the government issuers. And not citizens. Further, defaults are extremely rare and the tax-exempt bond market has historically performed better than any fixed-income investment market in the world.

Fifth, the article attempts, rather poorly, to draw a connection between the tax reform battles of the 1980s and the current state of affairs on Capitol Hill. It is true that there are proposals for eliminating or capping the use of bonds for the types of projects identified in the article. But that is not the whole story. The proposals presented by the White House and in Congress to date have suggested a cap or elimination of all tax-exempt bonds, including for essential and purely public purposes like roads, bridges, sewer, waste water treatment, energy, infrastructure, schools, and hospitals. And they have done so under the auspices of deficit reduction and comprehensive tax reform – not as suggested policy reforms. These actions, highly rejected by the entire development finance industry, would burden state and local government by driving interest rates up and increasing the cost of project financing, which would naturally decrease the ability of government to support economic development. The end result would be higher local taxes for individuals and increased rates for taxpayers. These results are all well documented by the Municipal Bonds for America Coalition and many other organizations fighting to preserve tax-exempt bonds.

Finally, the Times sinks to an all-time low by inferring that tax-exempt bonds are funding terrorists in Afghanistan. I understand that the Times is in the business to sell papers, but this assertion is both dangerous and inflammatory. To suggest that there was any knowing, or unknowing for that matter, attempt to finance a project that ultimately benefited a terrorist organization is tantamount to journalist fearmongering. There is no place in this discussion for sensational grandstanding.

The decades-long story of private activity bonds is one of local business assistance, job creation and economic revitalization. Take the case of Qualified Small Issue Manufacturing Bonds, more commonly known as Industrial Development Bonds (IDBs), or simply manufacturing bonds. These are a type of private activity bond that allow the public sector to assist manufacturers with expansion, investment and job creation through the issuance of tax-exempt bonds – assistance to a sector that since 2001 has lost nearly 5.7 million jobs. Low-cost, affordable, flexible, and efficient capital access, remains the number one concern for these manufacturers and IDBs provide just that.

Manufacturing bonds are a bedrock tool and the single most actively used bond program for financing the small- to mid-sized manufacturing sector, which often does not otherwise have access to affordable financing mechanisms. These bonds are highly regulated with limitations strictly governing their use and support expansion and investment in existing manufacturing facilities, as well as the development of new facilities and the purchase of new machinery and equipment. They are issued in small quantities; no more than $10 million per project, and fill a financing need that conventional lending cannot and will not meet.

Examples of the impact abound. For instance, Alabama recently issued two IDBs to support small manufactures in the state that have supported over 300 jobs. Virginia issued a small manufacturing bond for just $1.5 million to help support 42 important jobs at a local machine shop. Maybe Michigan presents the best example where three small IDBs supported three separate manufacturers to create and retain over 210 jobs. For states hemorrhaging manufacturing jobs, it is hard to argue against the impact and the value of this important tool.

The New York Times would have state and local governments cease assisting these borrowers, the lifeblood of many American communities. I and millions of others respectfully disagree.

The development finance community calls on the New York Times and members of the United States Congress to engage in a more open, constructive and educated dialogue on national private activity bond policy.

CDFA Training Institute

Upcoming Educational Opportunities

Intro Public-Private Partnership (P3) Finance Course

August 6-7, 2013
Washington, DC

The **Intro Public-Private Partnership (P3) Finance Course** examines this emerging development finance model with a focus on how development finance agencies can adopt P3 principles to address a variety of projects. This course will cover basic P3 concepts, key players involved in transactions, asset valuation, contract negotiation, risk assessment, revenue stream development, and feasibility analysis. In addition, several P3 projects from across the country will be presented, and P3 experts will analyze the successful elements in each deal.

Early Bird Registration Deadline: June 14, 2013

Intro EB-5 Finance WebCourse

in partnership with IIUSA

September 18-19, 2013
Daily: 12-5pm (EDT)

New to the CDFA Training Institute

The **Intro EB-5 Finance WebCourse** is offered in partnership with the Association to Invest In USA (IIUSA). This course examines the basic statutes and regulations governing the EB-5 Visa program. Topics covered include direct EB-5 vs. EB-5 Regional Center programs, minimum investment requirements, securities regulations, and business plans and economic reports. Plus several case study examples will be discussed to showcase the variety of economic development projects that can benefit from this form of capital.

Early Bird Registration Deadline: August 23, 2013

Advanced Bond Finance WebCourse

October 15-16, 2013
Daily: 12-5pm (EDT)

The **Advanced Bond Finance WebCourse** is designed for professionals who already have an understanding of tax-exempt financing and seek detailed instruction on complex financing techniques, including the application of financial derivatives, advance refundings, investing bond proceeds and how to spot arbitrage issues. This course is an ideal opportunity to enhance your knowledge and maximize your community's ability to finance economic development using tax-exempt bonds.

Early Bird Registration Deadline: September 20, 2013

Intro Tax Increment Finance WebCourse

November 12-13, 2013
Daily: 12-5pm (EST)

The **Intro Tax Increment Finance WebCourse** offers an in-depth look at the guiding principles and appropriate application of TIF. This course brings TIF deal-making and best practices into focus through a two-day program targeting the entire TIF community. During this course, you will learn the building blocks of TIF and essential best practice principles, dissect TIF deals from start to finish, understand TIF bond issuance and mechanics, examine project- and district-based TIF approaches, and explore the benefits of using special districts, credits, and overlays.

Early Bird Registration Deadline: October 18, 2013

Intro Energy Finance WebCourse

December 11-12, 2013
Daily: 12-5pm (EST)

The **Intro Energy Finance WebCourse** explores the wide range of tools available for financing energy projects, including bonds, tax credits, revolving loan funds, grant programs, and more. This course will cover how new energy production/generation, energy efficiency, retrofitting and support programs are used throughout the country to encourage investment in large and small projects alike. This course is essential for public leaders, economic development professionals, financial experts, and anyone working to address energy development challenges.

Early Bird Registration Deadline: November 15, 2013

All of these courses qualify for the CDFA Training Institute's Development Finance Certified Professional (DFCP) Program. Start down the road to personal and professional advancement today.

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CDFA relies on dozens of sponsors to support our ongoing education, advocacy, research, and networking efforts. With over 50 sponsorship opportunities, there are countless ways to engage a diverse audience of development finance professionals in both the public and private sectors. Options range from supporting the CDFA National Development Finance Summit or one of the many state specific Roundtables to supporting special webcast series or trainings. Sponsors can also support every activity at the Council by becoming a CDFA National Sponsor. No matter your choice, CDFA is dedicated to developing a sponsorship package that meets your goals and assists you in promoting your organization to the development finance industry. Check out all of the sponsorship opportunities and the dozens of organizations that already support us, and then contact us today to become a sponsor!

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- CDFA National Sponsor
- CDFA National Development Finance Summit
- CDFA State Financing Roundtables – *Sponsor One Roundtable or All of Them*
- Specialized Webcasts
- CDFA Training Institute

Want something customized just for you? Past supports have sponsored publications, legislative affairs, promotional items, and much more. Give us a call today to discuss your options.

Exclusive Sponsor Benefits

CDFA sponsors receive the finest recognition and best marketing opportunities in the development finance industry. Our events regularly attract the leaders and dealmakers in the industry, offering every sponsor greater visibility and new business connections. Depending on your sponsorship package, you could receive any of the following exclusive sponsor benefits:

- Listing on the CDFA website with your logo displayed prominently throughout
- Recognition at each CDFA Training Institute course and the CDFA National Development Finance Summit
- Complimentary registrations to CDFA events
- Access to attendee lists to increase your networking and visibility at CDFA events
- Exhibiting opportunities at select CDFA events
- Advertising opportunities in CDFA's *Development Finance Perspectives* magazine, delivered to over 18,000 subscribers
- Listing in CDFA's Development Finance Review Weekly e-newsletter, delivered to over 18,000 subscribers
- Inclusion in regular newsletters, emails, webcasts, and other marketing materials as appropriate
- Special promotional opportunities in publications, handouts, and much more

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- Rating Agencies
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- Non-Profits
- Foundations
- Media Outlets

Not sure if sponsorship is the right fit for you? Give us a call! We will work with you to develop a sponsorship package that meets your needs.

What Interests Our Audience?

- Tax Exempt and Private Activity Bond Finance
- Tax Increment Finance
- Tax Credit Finance
- Revolving Loan Funds
- Energy Finance
- Public-Private Partnership (P3) Finance
- Seed, Angel & Venture Capital
- Brownfield Finance
- Guarantees, Linked Deposit, Capital Access
- Federal Financing Programs
- Credit Enhancement and Insurance
- Infrastructure Finance
- Micro-Enterprise Finance

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2013 CDFA Policy Agenda

Erin Tehan,
Manager,
Legislative &
Federal Affairs
etehan@cdfa.net

CDFA has been advocating on Capitol Hill for issues that affect the development finance industry for over 30 years. Each year faces new challenges causing the Council to release an updated comprehensive policy agenda to help guide these efforts. At the end of 2012, the development finance industry faced many obstacles that are still being addressed today such as the invocation of the Volcker Rule, sequestration, the "fiscal cliff", and the threat to the elimination of the tax-exemption. These challenges help the Council focus on what is important to advocate for this year.

The CDFA Legislative Committee and CDFA Board of Directors are proud to announce the 2013 Policy Agenda. This year's agenda builds on the success of last year's efforts and presents concrete legislative solutions for making tax-exempt bonds and federal financing programs more effective. For 2013, CDFA will focus on the following overarching policy areas and subsequent direct legislative priorities.

Policy Area 1: Enact the American Manufacturing Bond Finance Act

The **American Manufacturing Bond Finance Act** is a comprehensive reform package that will modernize Qualified Small Issue Manufacturing Bonds, more commonly known as Industrial Development Bonds (IDBs), or simply "manufacturing bonds."

Manufacturing bonds are a type of Private Activity Bond (PAB) that allow the public sector to pass considerable interest rate reductions on to private companies who wish to expand capacity and create jobs.

This bedrock tool is the single most actively used bond for financing small- to mid-sized manufacturing sector growth and is a key economic development tool for state and local economic development agencies.

The following eight reforms will expand the capacity and usability of manufacturing bonds to help create American jobs now:

1. Expand the definition of "manufacturing" to meet the needs of twenty first century manufacturers by permitting bond financing for both tangible and intangible production
2. Eliminate the restrictions on "Functionally Related and Subordinate Facilities" for manufacturing bonds to avoid arbitrary challenges and unnecessary inefficiencies that are currently associated with issuances
3. Increase the maximum bond size limitation from $10M to $30M for manufacturing bonds
4. Increase the capital expenditure limitation from $20M to $40M for manufacturing bonds
5. Expand and raise the limits for bank deductibility to $30M for manufacturing bonds and 501(c)(3) bonds
6. Eliminate the restriction on the use of accelerated depreciation by manufacturers using manufacturing bonds
7. Expand the 2% de minimis rule to financial institutions for manufacturing bonds and 501(c)(3) bonds
8. Allow Qualified Small Issue Manufacturing Bond volume cap allocation to be carried forward in accordance with other bonds subject to volume cap

Legislative language for the American Manufacturing Bond Finance Act has been drafted by CDFA and shared with the congressional tax writing committees. CDFA's goal for 2013 will be to see this important piece of legislation through to enactment.

Policy Area 2: Enact Legislation to Advance Clean Energy & Bond Financing Opportunities

CDFA is an advocate for the continued development of financing tools that support clean energy development, renewable energy production and energy infrastructure. The federal development finance toolbox for supporting clean energy and renewable energy projects is underdeveloped, and new federal programming is necessary to support ongoing, and to spur additional, investment in this sector. To support this policy area, CDFA has identified two specific legislative proposals aimed at expanding clean energy financing programs:

1. Expand the exempt facilities category of PABs under the Internal Revenue Code to include two new qualifying purposes. The "Renewable Energy Resource Facilities" and "Conservation and Efficiency Facilities and Projects" purposes would include allowances for assisting manufacturers with projects that encompass energy generation, transmission and the sale of power.

   Legislative language for creating this new category of bonding has already been drafted. CDFA's goal for 2013 is to have this important legislation introduced in Congress and enacted into law.

2. Introduce & pass the State Clean Energy Finance Initiative to accelerate access to capital through the bond markets for clean energy development. This new program would enable states to provide a mix of bond credit enhancement programs to support clean energy finance. Capitalized with as little as $5 billion, the Initiative would leverage over $50 billion in private investment through the capital markets for clean energy infrastructure and industry.

   The legislative proposal for the State Clean Energy Finance Initiative has been crafted by CDFA in partnership with the Clean Energy Group (CEG) through the national Clean Energy + Bond Finance Initiative (CE+BFI). The goal for 2013 will be to introduce and pass this important piece of legislation.

Policy Area 3: Defend & Preserve Tax-Exempt Bonds

CDFA has established a strong standing in the municipal bond industry, and it will continue to defend the full deductibility of tax-exempt bonds. Tax-exempt bonds remain the bedrock of development finance and are critical to the ongoing growth, development and maintenance of communities throughout the United States. To secure a bright future for tax-exempt bonds, CDFA will:

1. Continue to serve on the Executive Committee of the Municipal Bonds for America Coalition and work with other industry partners to protect the tax-exemption.

2. Produce *Built by Bonds: American Manufacturing* to demonstrate the importance and impact of private activity bonds in financing economic development throughout the country.

Policy Area 4: Lead and Advocate for the State Small Business Credit Initiative (SSBCI)

The State Small Business Credit Initiative (SSBCI) program, housed and managed by the U.S. Department of Treasury, represents one of the most important advancements in state/federal development finance efforts in decades. CDFA has taken a national leadership position to advocate for, and maximize the impact of, the SSBCI program for states. To continue this leadership, in 2013, CDFA will:

1. Establish the new CDFA SSBCI Coalition with a formal advocacy platform and methodology for improving and capitalizing on the program.

2. Conduct the CDFA SSBCI Webinar Series to educate states and federal stakeholders on best practices, cutting edge programming, common policy challenges and program performance.

3. Establish a periodic CDFA SSBCI Coalition advocacy day in Washington, DC to update and inform members of Congress and the Administration on the importance of the new program.

CDFA has established the online SSBCI Portal to provide educational resources for stakeholders and is working to build the SSBCI Coalition in 2013.

Policy Area 5: Support Federal Financing Programs

The federal government provides a wide variety of financing opportunities for state and local development finance needs. To support the ongoing ability of the federal government to offer these programs, CDFA has established the following priorities to support in 2013:

1. Support and work with industry partners to extend and permanently reauthorize the highly popular and successful federal New Markets Tax Credit (NMTC) program.

2. Support and work with industry partners to advocate for the successful and growing Immigrant Investor Program, more commonly known as EB-5.

3. Firmly establish the Federal Economic Development Finance Working Group as a collaborative initiative between public, private and non-profit institutions in the development finance industry.

4. Update, on an ongoing basis, the CDFA Federal Financing Clearinghouse for CDFA members to access information on all federal development finance programs.

5. Support the programming and funding efforts of the DOE, HUD, EDA, USDA, CDFI, SBA, DOT, DOL, EPA, and other federal agencies, as well as the efforts of the federal government to update and improve the programming offered by these agencies.

In 2013, CDFA is planning an aggressive campaign to address development finance at the federal level. Through Capitol Hill Days and ongoing legislative work with Congress, the Council is poised to make a positive impact on the development finance industry.

Contact Erin Tehan at etehan@cdfa.net to get engaged.

Support Legislative Affairs in 2013

CDFA has a rich history of affecting change on Capitol Hill, and we need your help in 2013. Get engaged:

Legislative Committee – Members are encouraged to join the CDFA Legislative Committee to be part of the action.

August 7 – Capitol Hill Day

Federal Small Business Finance Resources

Erin Tehan, Manager, Legislative & Federal Affairs
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For over thirty years, CDFA has supported tools and resources to assist small business with access to low-cost capital, including many of the financing programs offered by the federal government. Multiple federal agencies offer technical assistance, grants or loans, early stage capital, export-import assistance, workforce development benefits, and other financing resources designed to support small businesses. Several agencies also contain offices that specifically work to help address small business owners' barriers to growth.

In the Federal Financing Clearinghouse, CDFA tracks a dozen federal programs, offered by various federal agencies that specifically assist with financing the needs of American manufacturers. Here are four of them:

Intermediary Re-lending Program (IRP)

U.S. Department of Agriculture

The purpose of USDA's Intermediary Re-lending Program (IRP) is to alleviate poverty and increase economic activity and employment in rural communities. Under the IRP program, loans are provided to local organizations (intermediaries) for the establishment of revolving loan funds (RLFs). These RLFs are used to assist with financing business and economic development activity to create or retain jobs in disadvantaged and remote communities. Intermediaries are encouraged to work in concert with state and regional strategies, and in partnership with other public and private organizations that can provide complimentary resources.

Eligible Users:
Private non-profit corporations, public agencies, Indian groups, and cooperatives with at least 51 percent rural membership aimed at increasing income for producer members or purchasing power for consumer members may apply for intermediary lender status.

Financing Category:
Access to Capital | Revolving Loan Funds (RLF) | Rural Development

Office of Small and Disadvantaged Business Utilization

U.S. Department of the Treasury

The U.S. Treasury's Office of Small and Disadvantaged Business Utilization is responsible for the effective implementation of the Small Business Act in Treasury's procurement program. The Director and staff assists, counsels, and advises small business firms, small disadvantaged business firms, HUBZone small business firms, women-owned small business firms, veteran owned small business firms, and service disabled veteran owned small business firms on procedures for contracting with the Department.

Eligible Users:
Small business firms, small disadvantaged business firms, HUBZone small business firms, women-owned small business firms, veteran owned small business firms, and service disabled veteran owned small business firms.

Financing Category:
Community Development

Loan Guarantee

Export-Import Bank of the United States (Ex-Im Bank)

The U.S. Export-Import Bank (Ex-Im Bank) Loan Guarantee Program assists exporters by guaranteeing term financing to creditworthy international buyers, both private and public sector, for purchases of U.S. goods and services. With Ex-Im Bank's loan guarantee, international buyers are able to obtain competitive term financing from lenders when financing is otherwise not available or there are no economically viable interest rates on terms over one-to-two years.

Eligible Users:
Credit-worthy international buyers, both private and public sector, may be eligible for Ex-Im Bank loan guarantees.

Financing Category:
Access to Capital | Foreign Investment

Small Business Development Centers

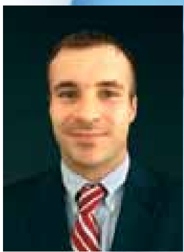
U.S. Small Business Administration

Small Business Development Centers (SBDCs) provide management assistance to current and prospective small business owners. SBDCs offer assistance to individuals and small businesses by providing a wide variety of information and guidance in central, easily accessible branch locations. The program is a cooperative effort of the private sector, the educational community, and federal, state, and local governments.

Eligible Users:
SBDC services are available to all small business populations with specialized programs for minorities, women, veterans, people with disabilities, 8(a) firms in all stages, as well as individuals in low and moderate income urban and rural areas.

Financing Category:
Access to Capital | Community Development

CDFA State Programs Update



Mathius Dillon,
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State Programs
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CDFA's State Programs initiative is a specialized effort aimed at building strong state and local networks through development finance education, research, reporting, engagement and technical assistance. CDFA offers this assistance primarily through targeted state financing roundtables, hosting webcasts, conferences, monthly newsletters, and a range of other programs customized to the specific opportunities, needs, and interests of each state. Through the coordination of State Financing Roundtables CDFA aims to form networks of collaboration among local development finance experts. CDFA provides a variety of opportunities to inform and educate roundtable participants of existing resources and case studies as a means to guide the use of smart and sustainable economic development practices.

Here are some of the current state financing trends we are watching:

CDFA California Financing Roundtable *in partnership with* CALED

- Governor's Office Releases Comprehensive Business Investment Guide
- California Lawmakers Try Again to Replace Redevelopment
- State Health Facilities Financing Authority Approves $1.9B Bond Sale to Finance 6 New Hospitals
- Cap-and-Trade Funds Proposed for Green Infrastructure Bank
- PACE Financing Utilized for Needed Infrastructure Upgrades in Sonoma County

Upcoming: CDFA California Financing Roundtable Conference – Fall 2013

CDFA Georgia Financing Roundtable

- State, Regional and City Leaders Collaborate to Secure Funding For Expansion of Savannah Harbor
- Downtown Renaissance Act Receives Interest for Future Legislative Consideration
- Falcons Stadium Deal Sets Aside $15M In Tax Allocation District Funds for Affected Neighborhoods
- Governor Deal Takes Steps to Boost Public-Backed Venture Capital Fund
- County Officials Seek Opportunity Zone Designations to Strengthen Local Economy

Upcoming: CDFA Georgia Financing Roundtable Webcast – Fall 2013

CDFA Illinois Financing Roundtable

- State Finance Authority Head Makes Case for Muni Bonds' Tax-Exempt Status
- Governor Quinn Launches Creative Economy Initiative
- Illinois Partners with Export-Import Bank to Help Small Businesses
- Governor Emphasizes Significance of Bonds for Needed Infrastructure Projects
- Illinois Farmers Have New Agriculture Microloan Program

Upcoming: CDFA Illinois Financing Roundtable Webcast – Fall 2013

CDFA Michigan Financing Roundtable

- Levin's Lean & Green Michigan Initiative Seeks to Create Statewide PACE District
- Detroit Economic Growth Corp.'s SmartBuildings Turn Energy Savings into Economic Development
- Proposed Legislation May Restrict Dearborn from Using TIF to Fund Downtown Development Authority
- Downtown Market gets $3 million loan from Michigan Economic Development Corp.
- Detroit Takeover Bodes Well for Investors, Muni Experts Say

Upcoming: CDFA Michigan Financing Roundtable Conference - Fall 2013

CDFA Ohio Financing Roundtable

- Third Frontier Program Sells $100M of General-Obligation Securities to Finance Technology Research
- Local Tax Incentives Help Cincinnati Emerge as One of Nation's Top Cities For LEED Certified Buildings
- Clean Ohio Revitalization Fund Returns $4.67 in New Economic Activity for Every $1 Spent
- Ashtabula County Port Authority Hosts European Wind-Energy Group
- Kroger Nonprofit Receives $20M In New Market Tax Credits to Battle Food Deserts in SW Ohio

Upcoming: CDFA Ohio Financing Roundtable Conference - September 2013

CDFA Oregon Financing Roundtable *in partnership with* business oregon

- Portland Implements Brownfield Revolving Loan Fund
- Oregon Department of Energy Reconsiders Approval of Business Energy Tax Credit for Wind Farm
- Business Oregon Unveils New Financing Widget that Directs Businesses to Appropriate State Programs
- Oregon Awarded Value-Added Producer Grants from USDA to Strengthen Rural Economy
- Loan Provided By NCB and ROC USA Helps Create Limited-Equity Cooperative in Clackamas

Upcoming: CDFA Oregon Financing Roundtable Conference – October 9 & 10, 2013

CDFA Pennsylvania Financing Roundtable

- PIDA Employs Creative Financing Techniques to Grow Local Manufacturers
- Pennsylvania Transportation Partnership Board Releases P3 Implementation Manual
- Redevelopment Assistance Capital Program Awards $125M Toward 54 Projects
- PA Tech Company Receives Export-Import Bank Loan for Wind Energy Projects
- FDI Magazine Ranks Pittsburgh 5th Best American City for Foreign Direct Investment Strategy

Upcoming: CDFA Pennsylvania Financing Roundtable Conference – Fall 2013

CDFA Texas Financing Roundtable

- Proposal to Finance Water Infrastructure Projects through Revolving Loan Program Gains Support
- Texas Legislature Redrafts Rules & Regulations for Public-Private Partnerships
- CEO of Federal Reserve Bank Claims Texas Century Bond is Effective Solution for Infrastructure Needs
- State Achieves Record-Low Interest Rate of 0.225% on Short-Term Debt Sale
- TIF, Tax Credits, & Loans Support Affordable Housing Development in Dallas Arts District

Upcoming: CDFA Texas Financing Roundtable Conference – Fall 2013

For a complete listing of upcoming CDFA State Programs, visit our website at www.cdfa.net.

Proposal: State Clean Energy Finance Initiative (SCEFI)

By Toby Rittner, CDFA President & CEO, trittner@cdfa.net; and
Lew Milford, Clean Energy Group President, lmilford@cleanegroup.org

Leveraging Private Financing for Clean Energy Development

Much of the dramatic growth of the clean energy industry over the past 15 years has relied on the provision of grants, incentives, rebates, policy initiatives and technical support from state clean energy programs. But continued growth will be limited as long as it relies primarily on deep public subsidy. What will be needed going forward is a more integrated approach, one that continues the important public role of providing incentives and technical support for the adoption of clean energy technologies, at the same time it provides public financial support in the form of credit enhancement to leverage more private capital. Public subsidy needs to advance in its approach and performance, becoming better at "right-sizing" its subsidy based upon better information, disclosure and understanding of evolving clean energy project economics. Efficient public incentives need to be better integrated with public credit support programs that induce more private capital investment. This integrated approach will allow clean energy companies and projects to achieve greater scale and tap into capital markets.

Public programs that leverage private investment cannot be created in a vacuum. Clearly, access to private capital on commercially reasonable terms is necessary to accelerate the clean energy investment. However, commercial banks are now faced with much greater credit oversight than in the recent past, and have consequently tightened their credit standards as they have regrouped in the aftermath of the Great Recession of 2008. Concerns regarding the adequacy of collateral, borrowers' debt capacity and the need for debt service and loan loss reserves have resulted in many borderline commercial loans not being made.

Acutely aware of this, there is a now a strong interest at the state level in finding ways to use public clean energy dollars to provide credit enhancement that attracts private investment to finance clean energy at significant scale. States want to make sure that their incentive dollars are structured efficiently to leverage the greatest amount of investment; at the same time, states want underwriting and credit enhancement decisions to remain at the local, not the federal, level.

Recognizing the need to significantly increase the availability of credit to small businesses during the recession, the U.S. Department of the Treasury created a program to expand state programs that provided credit enhancement to private lenders and investors for small business finance. It is this model – the State Small Business Credit Initiative – that could now be applied to the clean energy sector to efficiently leverage public dollars with private investment.

An Innovative Federal Financing Model

The State Small Business Credit Initiative (SSBCI) was passed by Congress as part of the Small Business Jobs Act of 2010. The legislation provides the U.S. Department of the Treasury (Treasury) with $1.5 billion to bolster state programs supporting small business lending. Under this innovative delivery mechanism, the federal funds are applied through programs of the states' choosing, although Treasury must approve program designs. The ultimate goal of the program is to leverage billions of dollars in private lending alongside the public funding.

Program Requirements

The general goal of the SSBCI is to facilitate small business lending by making private financial institutions comfortable making loans to almost credit-worthy small businesses. The program requirements reflect this objective. States, including all territories and municipalities in non-participating states, submitted small business lending support programs to the Treasury for review. Eligible programs are required to never protect more than 80% of a loan and to achieve a minimum 10:1 ratio of private-to-public lending. Loans are required to go to small businesses, which are defined as 500 (or 750) or fewer employees, and loan sizes are also restricted to $5 million (or $20 million) or less.

The SSBCI legislation encourages specific small business lending program models. These are capital access programs (CAPs), loan participation programs, loan guarantee programs, collateral support programs, and venture capital. States are allowed to use SSBCI funds to support one or more programs, and funds can be used to capitalize new programs or to bolster existing ones. Through the program approval process, the states and Treasury work together to select the right mix of small business lending programs to fit the capital needs of the state, the capacity of the applying organization, and the requirements of the federal legislation and guidance.

State Clean Energy Finance Initiative at a Glance:

- State Clean Energy Finance Initiative designed to assist clean energy industry in accessing affordable capital.
- Initiative, housed at the U.S. Dept. of the Treasury, would apply federal support for clean energy development through state-operated financing programs.
- State Clean Energy Finance Initiative would emphasize bond finance, the primary financing vehicle for American infrastructure, for clean energy development.
- Program models receiving support from the Initiative would be loan loss and debt service reserves, letters of credit, loan guarantees, collateral support, and subordinated debt.
- Objective of state programs supported by the Initiative would be to achieve a leverage ratio of $10 in private investment for every $1 of federal contributions to state programs.
- Recommended State Clean Energy Finance Initiative capitalization is $5 billion to leverage $50 billion in private clean energy investment.

Program Review
The SSBCI is an innovative delivery model for federal economic development assistance to the states. By allowing states to submit a package of programs to Treasury for approval, states retain a much higher degree of autonomy than is typical with federal programs and are better able to address the small business capital access needs in each state. This model has also faced challenges in its first iteration. The home rule approach led to Treasury's approval of more than 140 individual program designs, creating severe federal administrative burden and effectively preventing participation from regional and national lenders. States have also struggled to implement programs effectively—or, at least, to implement the programs on the scale necessary to support $1.5 billion of public and an additional $15 billion of private lending over a five year period.

There are clear benefits to the State Small Business Credit Initiative model of federal assistance, but there are also clear lessons that could make future programs even stronger.

An Opportunity to Leverage Clean Energy Private Investment
The SSBCI model should be extended to help address the capital access challenges confronting clean energy. Establishing a financing-based model to bolster this sector would encourage the development of clean energy at a time when direct appropriations to the industry are facing increased pressure. An SSBCI-like model should be applied to clean energy supply chain companies needing financing for working capital, equipment, real estate acquisition or improvements to their business premises, as well as to project financings of on-site and district clean energy generation limited to eligible technologies, size limitations, and capital requirements.

State Clean Energy Finance Initiative
This "State Clean Energy Finance Initiative," modeled on the SSBCI, would be an efficient means of attracting significant private investment to clean energy. This Initiative would also be housed in Treasury. However, the underwriting and credit enhancement roles would be placed at the state and local levels where these roles belong. Treasury would develop guidelines defining various structuring factors to a manageable toolbox of program structures, and Treasury would approve each state's clean energy credit support programs. Each state would have the right to select only the programs that the state wants to operate.

The State Clean Energy Finance Initiative would also target a 1:10 leverage ratio of public-to-private investment. In the instances where the Initiative's programs may not provide enough confidence to private lenders and investors to participate in a transaction, the programs can serve as a strong incentive to state clean energy funds to provide additional matching credit enhancement as well.

The original SSBCI Act specifically referenced the intended participation of U.S. Treasury-certified Community Development Financial Institutions (CDFIs), and they should be included again in the proposed clean energy program. CDFIs are flexible, CARS-rated financial institutions with their own extensive bank and investor relationships that can be drawn upon to meet the model's 1:10 leverage requirement.

> There are clear benefits to the State Small Business Credit Initiative model of federal assistance, but there are also clear lessons that could make future programs even stronger.

Energy Bond Finance Programs
In order to effectively address the credit challenges of the clean energy industry, the State Clean Energy Finance Initiative would include a slightly different mix of programs than those found in the SSBCI. Venture capital and capital access programs, included in the original SSBCI legislation, would not be eligible under the proposed program. Each of the designated types of credit support programs—loan loss and debt service reserves, letters of credit, loan guarantees, collateral support, and subordinated debt—are important and familiar roles for development agencies to play and do not result in heavy administrative or loan servicing burdens.

The proposed State Clean Energy Finance Initiative would fund credit enhancement tools providing credit support for bond finance structures, such as pooled bond funds and small issue bonds for manufacturers in the clean energy supply chain. By mitigating risk for investors, credit enhancement would raise more capital more efficiently, at lower cost, to multiple energy projects.

There are various forms that this credit enhancement might take:

- *Loan loss and debt service reserves.* Program funds could be structured as loan loss reserves that would be available to protect investors from losses arising from individual non-performing assets, including those within a bond pool. Similarly, the proposed program could fund the debt service reserves required by bond covenants, freeing up bond proceeds for other purposes or reducing the size of the issuance and debt service burden.

- *Letters of credit.* Program funds could support bank letters of credit that protect investors from losses. Letters of credit are a common form of credit enhancement for private activity bonds, and would be effective in raising tax exempt and taxable bond financing for energy projects without each bond pool transaction having to be rated by a credit rating agency.

- *Guarantees.* Program funds could provide support for a state fund or agency's guaranty of a bond pool, ensuring repayment to investors if there is a payment default from the underlying assets.

- *Collateral support.* Program funds could support borrowers with insufficient collateral by creating a cash deposit at a financial institution to serve as additional borrower collateral.

- *Subordinated debt.* A state fund or agency could use program funds to purchase a portion of a bond issuance, repayment of which is subordinated to the payment of the other bondholders.

By appropriating $5 billion in funding for clean energy credit support, the proposed program could leverage an additional $50 billion of private and other capital for companies and projects in every state in the nation, requiring little if any additional federal administrative burden.

For More Information
About Clean Energy + Bond Finance Initiative (CE+BFI): CE+BFI, created by CEG and CDFA, is working with finance and energy professionals across the country to find ways to increase clean energy investment by an additional $5 billion to $20 billion in the next five years. For more information, visit: www.cleanenergybondfinance.org.

The 2013 CDFA National Development Finance Summit

About the Development Finance Summit

The 2013 CDFA National Development Finance Summit will be an extraordinary, can't miss event with an in-depth look at development finance in the United States. This special program will provide more opportunities than ever before for attendees to engage in a diverse cross-section of development finance topics, federal engagements, and legislative activities. This year's National Summit will examine the role of the federal government in supporting job creation and business investment and bring together the top federal leaders to address the challenges facing our nation's economy. The National Summit will also include the unique opportunity for attendees to participate in CDFA's Capitol Hill Day as we deliver the development finance message to Congress.

Explore Washington, DC

Take advantage of the opportunity to explore the nation's capital. Washington, DC is rich in history and culture with many monuments and landmarks to see, as well as many fine museums, galleries, restaurants, and literally thousands of activities. Visit places like the White House, Washington Monument, Lincoln Memorial, WWII Memorial, Jefferson Memorial, and FDR Memorial, to name just a few.

Special Features

- National Summit Kickoff Reception
- Walking Monument Tour
- Sunrise Fun Run
- Capitol Hill Dining Adventures
- CDFA Excellence in Development Finance Awards
- Legislative Breakfast

Pre-Summit Training

Intro Public-Private Partnership (P3) Finance Course:

Two day, extra fee course that examines this emerging development finance model with a focus on how agencies can adopt P3 principles.

Pre-Summit Workshop: Food Systems Finance 101:

This three hour workshop, free for Development Finance Summit attendees, will feature how to finance local food systems with experts from around country.

2013 CDFA Capitol Hill Day

On Wednesday, August 7, from 1:00 – 5:00 pm, help deliver the development finance industry's message to Capitol Hill. Join CDFA as we meet with the Representatives from your state to discuss important issues impacting development finance.

Invited to Participate

- White House Administration
- U.S. Senate
- U.S. House of Representatives
- U.S. Internal Revenue Service
- Municipal Securities Rulemaking Board
- U.S. Securities & Exchange Commission
- U.S. Department of Transportation
- U.S. Department of Energy
- U.S. Department of Agriculture
- U.S. Department of Housing and Urban Development
- U.S. Economic Development Administration
- U.S. Small Business Administration
- U.S. Environmental Protection Agency
- U.S. Department of the Treasury

The Fairmont Washington DC

Located in Washington's fashionable West End and adjacent to historic Georgetown.

Program-at-a-Glance

Tuesday, August 6

Intro Public-Private Partnership (P3) Finance Course – Day 1 (8:30 AM-5:00 PM)

This course examines this emerging development finance model with a focus on how development finance agencies can adopt P3 principles to address a variety of projects. This course will cover basic P3 concepts, key players involved in transactions, asset valuation, contract negotiation, risk assessment, revenue stream development, and feasibility analysis. In addition, several P3 projects from across the country will be presented, and P3 experts will analyze the successful elements in each deal.

Wednesday, August 7

Intro Public-Private Partnership (P3) Finance Course – Day 1 (8:30 AM-12:00 PM)

Continuing from Day 1.

CDFA Capitol Hill Day (1:00-5:00 PM)

Help deliver the development finance industry's message to Capitol Hill.

Pre-Summit Workshop: Food Systems Finance 101 (2:00-5:00 PM)

Eat Local, Shop Local is an economic development trend that is here to stay. Local food sourcing, vending, and aggregation have been some of our industry's toughest challenges, but new financing mechanisms are starting to emerge. Join CDFA as we explore how to finance local food systems with experts from around country.

Development Finance Summit Kickoff Reception (6:00-7:30 PM)

Join CDFA and your fellow development finance colleagues as we kickoff the 2013 CDFA National Development Finance Summit with networking, food and drink.

Thursday, August 8

8:30 AM: Summit Opening: Development Finance Under the Microscope

This session will include a distinguished panel of the industry's top minds exploring the bond markets, private and public investment, access to capital, industry trends, and more.

10:00 AM: Technology Showcase: informAnalytics

Participate in this interactive discussion as the Center for Governmental Research outlines best practices for assessing economic impact in the decision-making process.

10:30 AM: Drilldown Sessions (3)

- Disaster Recovery Financing Solutions
- The Deal: TIF & Tax Credit Strategies for Sustainable Smart Growth
- Best Practices: Engaging Independent Financial Advisors

12:00 PM: CDFA Excellence in Development Finance Awards (& Business Meeting)

The CDFA Excellence in Development Finance Awards recognize outstanding development finance programs, agencies, leaders, projects and success stories.

1:45 PM: Drilldown Sessions (3)

- Best Practices: Accessing Capital for Local Microfinance Efforts
- Energy Efficiency (EE) & Renewable Energy (RE) Financing Best Practices
- Enforcement & Regulatory Updates: IRS, SEC, MSRB

3:00 PM: Bonds Showcase: Ask an Expert

Join the industry's top experts during this informal showcase to ask questions, talk about bond financing potential, or develop a new partner for future projects.

3:30 PM: General Session: Clean Energy + Bond Finance Initiative

To move the national conversation on clean energy bond finance forward, this general session will bring together clean energy and development finance professionals to consider innovative state programs, financial market imperatives, energy finance policy, and more.

Friday, August 9

7:45 AM: CDFA Legislative Breakfast

During this breakfast we explore the landscape of legislative activities and the political environment in Washington, DC, including the serious threat to tax-exempt bonds. Special guest speakers from the Capitol and the industry's top advocacy organizations will be on hand to share their insight into this critical issue.

8:45 AM: Drilldown Sessions (3)

- Innovative Transit Oriented Development (TOD) Finance Approaches
- Maximizing the EB-5 Financing Opportunity
- Credit Enhancement: Letter of Credit & Bond Insurance Options

10:00 AM: Federal Agency Development Finance Showcase

During the final session of the 2013 National Summit, the federal government will be on display during this interactive and engaging showcase. Representatives from numerous agencies will be on hand for roundtable discussions covering the programs, opportunities, and vast resources available through federal partnerships. This is a "can't miss" opportunity to learn and network with the federal government's top leaders in the development finance industry.

12:00 PM: Conference Adjourns

informANALYTICS by CGR

CDFA and the Center for Governmental Research (CGR) have launched a new partnership to provide the development finance industry with access to informANALYTICS, an industry leading technology-based analytical tool. CDFA and CGR will also collaborate to provide trainings, webcasts and resources on new technological advancements in the areas of impact analysis and performance assessment.

This partnership will produce new benefits for both CDFA members and the development finance industry. informANALYTICS, designed by CGR, is a cost benefit analysis tool for economic development professionals to quickly and reliably assess the direct and spillover economic impacts of a proposed project. CDFA members will receive exclusive discounts to purchase informANALYTICS. Another benefit that will be available to the entire industry will be a new online resource center that focuses on the use of analytical tools for assessing economic development finance. The resource center will be created to highlight tools and advanced solutions for understanding these new technologies.

Slated for early 2014, CDFA will develop, with input from CGR, a two-day training course focused on performance assessment, impact analysis and technology use in the economic development finance industry. The course will be offered through the CDFA Training Institute. Prior to the training course, CDFA and CGR will provide webcasts and other events focusing on case studies and best practices related to technological advancements and analysis tools. Live demonstrations of the informANALYTICS software will be showcased at the **CDFA National Development Finance Summit**, held August 6-9, 2013 in Washington, DC.

GOVERNING & cdfa

THE STATES AND LOCALITIES

Council of Development Finance Agencies

CDFA is proud to recognize GOVERNING as the official media sponsor of CDFA for 2013. GOVERNING is the nation's leading media platform covering politics, policy and management for state and local government leaders. Recognized as the most credible and authoritative voice in its field, GOVERNING provides nonpartisan news, insight and analysis on such issues as public finance, transportation, economic development, health, energy, the environment and technology. With this collaboration, CDFA and GOVERNING will be able to offer timely information to the development finance industry and will jointly work together to promote new trends and ideas.

Throughout the year, CDFA and GOVERNING will join forces to promote best practices and provide new insight in reporting on development finance for state and local agencies. This partnership will bring about new relationships in development finance, enabling CDFA and GOVERNING to reach a broader audience. As part of this partnership, CDFA members will be entitled to benefits including a complimentary yearlong subscription to GOVERNING magazine.

GOVERNING will also be the official media partner of **CDFA's National Development Finance Summit** on August 6-9, 2013 in Washington DC.

Feature Story

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Tax Increment Finance: A Success-Driven Tool for Catalyzing Economic Development and Social Transformation

This article appeared in Volume 9, Issue 1 of the Federal Reserve Bank of San Francisco's Community Development Investment Review in April 2013.

By Toby Rittner, CDFA President & CEO, trittner@cdfa.net

In the wake of an economic downturn, many cities are left with sites, projects, districts, or entire urban cores requiring redevelopment. The need for social improvements such as community centers, school rehabs, and parks has also become a critical development challenge. However, the ongoing risks of the development market require communities to be even more diligent and aware when entering into the use of public financing mechanisms such as Pay for Success (PFS) financing. One such mechanism, tax increment finance (TIF), has the potential to forge a new path for communities to fund development projects on the basis of their success.

What Is Tax Increment Finance?

TIF is a targeted development finance tool that captures the future value of an improved property to pay for the current costs of those improvements. This mechanism can be used to finance costs typically pertaining to public infrastructure, land acquisition, demolition, utilities, planning, and more. TIF funds have also been used to help support community amenities such as parks, recreational facilities, schools, and network infrastructure.

TIF can focus attention on a problematic area and catalyze development that addresses both the economic needs of a community and the quality-of-life advancements that improve cities. Dozens of TIF projects have been introduced throughout the country, including the University North Park project, which adds both mixed-use development and a beautiful park to Norman, Oklahoma, and the "Green Corridor" project, which aims to create a business park as well as to clean and connect waterfront public spaces in Baltimore, Maryland.

The TIF process begins when the community establishes the TIF district's geographic boundaries. Next, the initial value of all land within the district is assessed, and the current value of property (or other) tax revenue is established as a baseline. As development occurs and revenue from property taxes rises, the increase—or increment—above the baseline is used to pay debt service for the improvements made to the district. In this way, municipalities are able to build infrastructure and incentivize development without raising taxes. In fact, only the new tax revenue generated by the development is used to finance the improvements, thus creating a sustainable pool of resources for the project.

The benefits of this model have made TIF a popular development finance tool, particularly for addressing blight and promoting district-oriented development. TIF is currently authorized in forty-eight states and the District of Columbia and is employed by cities of all sizes. In the most creative places, like Chicago, Illinois, and Columbus, Ohio, TIF is being used to develop both private enterprise and community assets.

TIF is designed to effect both physical and social changes in a community. In fact, the best TIF projects are public-private partnerships in the truest sense, where developers and investors receive incentive payments only if the project is successful. This model is called "pay-go" and implies that as the project moves forward successfully, the community pays for its share of the related and financed infrastructure. The "pay-go" model is used throughout the country and allows communities to continue to invest in infrastructure while limiting potential risk from project challenges.

An example of this financing model is the Shops at Worthington Place in Worthington, Ohio. This nontraditional redevelopment of an obsolete mall is being financed using the "pay-go" model over the course of the next twenty years. As the developer makes improvements to the mall, the city reimburses the developer for qualified infrastructure improvements. The city only pays as estimated tax revenue projections are achieved, making this arrangement a true win-win project for the city and the developer. The project has achieved early success and has spurred a second, new project adjacent to the mall, catalyzed by the initial investments from the developer and the city.

What Makes Tax Increment Financing Successful?

TIF can be effective for addressing blight and promoting development, but this is not a given. The nation's newspapers are filled with stories of both successful and unsuccessful uses of TIF. Unfortunately, these articles rarely indicate (at least, not explicitly) what separates the good TIF districts from the bad.

Much of the time, unsuccessful TIF districts are the result of insufficient awareness or transparency. In other cases, the project needed additional support or planning on the financial side of the equation. Successful operation of TIF districts requires attention to both project financing and best practices. TIF districts also need to be rational and entail a commitment from both the public and private partners to the transaction.

Best Practices in Tax Increment Financing

Best practices are important in the use of any development finance tool, but this may be particularly true for TIF. Once property (or other) taxes have been frozen and any TIF bonds (revenue bonds issued and supported through debt service payments by the future tax increment generated by the new development) have been issued, revenue collected from the TIF district has the potential to become a sore point among community stakeholders, including area residents, school districts, and others. Following best practices in creating and operating the TIF district can help ensure that the community remains committed to the project.

The first area of TIF best practices is related to public policy and statutes. For example, a TIF project should be clearly eligible according to the state's authorizing statute. In most cases, in order to ensure appropriate use of tax revenue, the project should remain viable even if it did not receive any TIF assistance. The project should yield a positive net gain for the community.

The second area of TIF best practices is focused on the mechanics of the project. Identifying the experience and financial history of the developer is a crucial early step. The municipality and developer should determine up front when TIF funds will be needed and whether the project will require TIF bonds. In assessing the financial viability of the project, consideration should be given to whether the development or redevelopment has a high likelihood of maintaining an enduring presence in the community.

The third—and often forgotten—area of TIF best practices is community support and buy-in. The municipality should identify the project's broader stakeholders, which include neighborhood groups, business leaders, school districts, and elected officials. A plan for communicating the importance of the project, as well as information on how the project will be financed, should be developed and executed.

Pairing Tax Increment Financing and Other Development Finance Tools

Unfortunately, strict adherence to best practices does not always determine the financial viability of a project, and TIF alone may be insufficient or inappropriate for some or all of a project. This may be the case when some particular problem with the area—such as environmental damage or acute poverty—causes a project to have particularly high initial costs or long-term risk. In such a case, an additional development finance tool may be necessary to attract investors, complete a project, or lower the cost of TIF bonds.

For example, consider a property blighted by environmental damage caused by a previous owner. The high initial costs and risks of redeveloping this property may make TIF bonds less than ideal for at least the first phase of redevelopment. Brownfield finance programs may finance the site's cleanup costs to a sufficient level to make a later bond issuance on the property viable.

Brownfield programs, which are another targeted development finance tool, often pair well with TIF districts and projects. The US Environmental Protection Agency offers several brownfield programs, including a tax incentive and assessment grants. State and local development agencies also frequently offer support for brownfield cleanup. Payment-in-lieu-of-taxes (PILOT) programs, tax abatements, and grants are common forms of brownfield cleanup financing.

> The nation's newspapers are filled with stories of both successful and unsuccessful uses of TIF. Unfortunately, these articles rarely indicate what separates the good TIF districts from the bad.

Regardless of the program type, brownfield programs help reduce the costs and risks of redeveloping properties blighted by environmental damage. Depending on the needs and wants of the community, the TIF district can be put in place before the cleanup or after it. This decision will have a significant effect on the district's frozen value—and therefore on the district's potential to generate TIF revenues. In either case, issuing TIF bonds after the cleanup risks have been borne out will likely result in a more favorable financing structure.

Other TIF projects that may require additional financing are those that take place in districts encompassing low-income census tracks. These projects may be considered particularly risky, as a financial analysis could well indicate that businesses will be reluctant to invest in such areas. In these cases, an investment tool such as the New Markets Tax Credit (NMTC) Program could be paired with TIF redevelopment to make low-income areas attractive to stakeholders, including investors, businesses, developers, and nonprofits.

The NMTC Program is designed to incentivize investment in businesses located in low-income census tracts. Receiving financing for a qualified project also requires working with a community development entity that has received a tax credit allocation. A TIF district covering a blighted area may well meet NMTC requirements.

The benefit of the NMTC Program for a TIF district is that the tax credits can provide an additional source of equity for a project that costs more than TIF bonds alone can bear. TIF revenue can be put toward the related public costs of infrastructure, while developer and tax credit equity can go into the bricks-and-mortar development to be located within the district. These two programs may work particularly well in states that strictly limit the use of TIF revenue to infrastructure costs alone.

Getting the Most out of Tax Increment Financing

Although complicated and occasionally challenging to implement, TIF has much to offer communities and businesses looking to redevelop sites that are neglected or otherwise blighted. Atlanta has used TIF to redevelop the entire BeltLine transportation corridor surrounding the city; Washington, DC, has used the tool to facilitate redevelopment and establish a popular new museum; and communities throughout the country have used TIF to add business parks, repair blighted properties, and improve parks. These communities have all incorporated a variation of the "pay-go" model, paying for success as the projects prove successful.

Economic development finance agencies should utilize TIF as part of their development finance toolbox and promote the benefits of this tool to their constituents. By following best practices and creatively pairing district revenue with other financing tools, communities can employ TIF to effectively provide targeted redevelopment. And ensuring that developers adhere to PFS principles will allow communities to reward positive development and protect against challenging economics. ■

Qualified Private Activity Bonds

Qualified Private Activity Bonds (PABs) are the development finance tools that drive most projects involving both the public and private sector. When a PAB is "qualified," the interest on the bonds is exempt from federal income taxes, providing the borrower with lower-cost capital than would be available through taxable bonds or traditional bank loans.

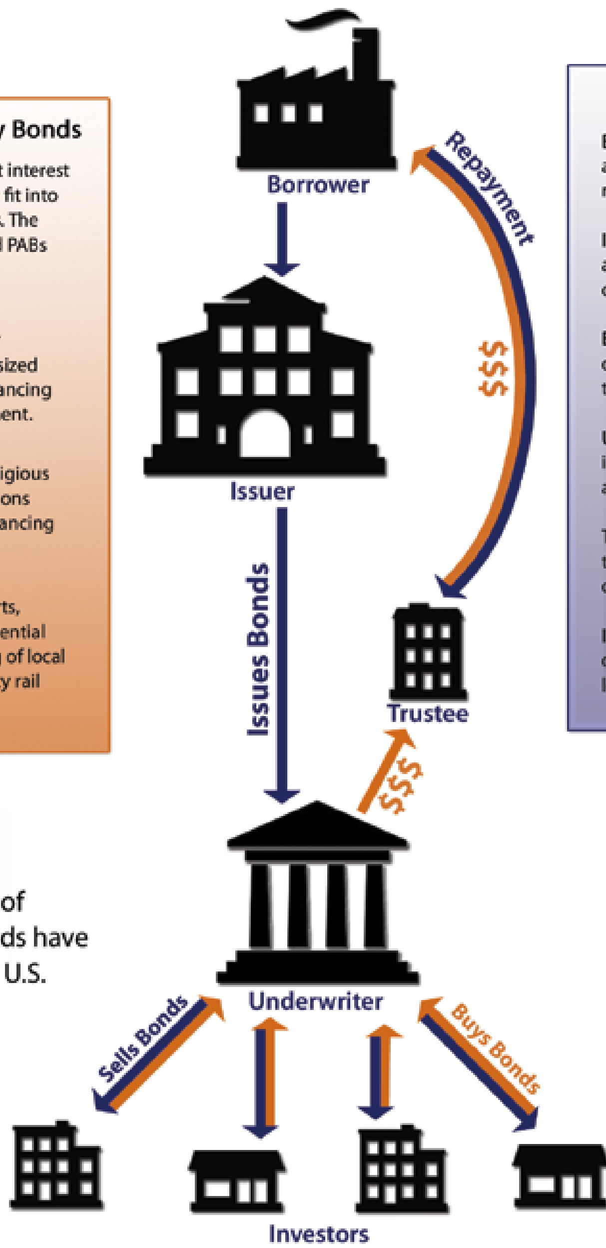
Unlike governmental bonds, PABs enable private entities to access the capital markets. This process is conducted through a conduit issuer, which is an agency or organization granted issuing authority from the state.

In its simplest form, a bond is a loan that is issued and sold to the investing public, while the sale's proceeds are used for project capital. In practice, bond financing is complex and is facilitated by the involvement of an issuer, underwriter, counsel, trustee, ratings agency, and borrower.

Types of Qualified Private Activity Bonds

In order to receive the benefits of a tax-exempt interest rate, private borrowers and their projects must fit into one of the federally-recognized PAB categories. The most common economic development-related PABs are noted below:

- **Industrial Development Bonds**
  Under the Qualified Small Issue Bonds for manufacturing category, small- and mid-sized manufacturers can access tax-exempt financing for their facilities, machinery, and equipment.
- **501(c)(3) Bonds**
  Nonprofit entities, including hospitals, religious or charitable groups, educational institutions and others, can qualify for tax-exempt financing for a variety of purposes.
- **Exempt Facility Bonds**
  A wide range of facilities, including airports, mass commuting facilities, qualified residential rental projects, facilities for the furnishing of local electric energy or gas, high-speed intercity rail facilities, can qualify under this category.



Participant Roles

Borrower - The borrower of qualified PABs must be a private business with a project meeting the requirements of a tax-exempt PAB category.

Issuer - PAB issuers are state or municipal entities and and authorities that support economic development or specific development project types.

Bond Counsel - The bond counsel provides a legal opinion assuring the qualified status, and therefore the tax-exempt eligibility, of the project.

Underwriter - The underwriter is the financial institution that sells the bonds (or directly purchases) and provides the proceeds to the borrower.

Trustee - Acting as a surrogate of the issuer, the trustee facilitates a bond issue by administering funds, disbursements, payments, and more.

Investors - Individuals and institutions invest in qualified PABs, providing the proceeds in return for longterm repayment, plus tax-exempt interest.

QUICK FACT

Since 2005, over $8.5 billion of Industrial Development Bonds have been issued throughout the U.S.

Model PAB Programs

Common Bond Fund Revenue Program - MN
The City of Minneapolis created a pooled bond program for manufacturers and 501(c)(3)s that secures an "A+" rating for participants.

Bond Guaranty Program - AR
The Arkansas Development Finance Authority provides projects with a guarantee backed by the Authority's "A" rating and low interest for participants.

Oregon Express Bond Program - OR
Business Oregon has standardized Industrial Development Bonds for projects under $5 million in order to reduce the time and cost of issuance.

More Resources at www.cdfa.net

- CDFA Online Resource Database
- CDFA Intro and Advanced Bond Finance Courses
- CDFA Bond Finance Resource Center
- *CDFA Advanced Bond Finance Reference Guide*
- *CDFA Development Bond Finance Reference Guide*

cdfa Council of Development Finance Agencies

TRENDS *in Development Finance*

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State Small Business Credit Initiative (SSBCI) Update

The State Small Business Credit Initiative (SSBCI), part of the Small Business Jobs Act of 2010, was funded with $1.5 billion to bolster state programs supporting small business lending. States may use SSBCI funds to support programs that leverage private lending to help finance creditworthy small businesses. Permissible programs include Capital Access Programs, loan guarantee programs, and venture capital funds. Many exciting developments have transpired over the last few months:

- The State of Arkansas has successfully deployed the first two tranches of SSBCI funding, creating over 250 jobs and retaining over 30. The state has been approved to access the third tranche of funding.
- Utah has allocated $4 million towards seed or early stage venture funds to invest in companies throughout the state. To date, $2.7 million of this allocation has been invested in select funds as Utah prepares to draw down its second tranche of funding.
- Rhode Island's Slater Technology Fund has leveraged nearly $1.9 million in SSBCI funds towards equity investments in Rhode Island-based technology firms.
- New Mexico has launched a tour of their Collateral Support Loan Participation Program, raising awareness throughout the state. The New Mexico Economic Development Association has identified training as a barrier to the adoption of the program, as lenders are unaware of how Collateral Support can work with existing programs.

CDFA continues to support states through the SSBCI Coalition, offering webcasts, resources, and technical assistance. As part of this ongoing effort, CDFA created the CDFA SSBCI Webinar Series, a dedicated four-part educational offering specifically addressing this innovative program. The CDFA SSBCI Portal provides an accessible interface for program information and materials in the CDFA Online Resource Database.

Local Food Systems Finance

Food trucks, grow/shop local movements, food deserts and food islands have become major economic development themes throughout the country. CDFA has been monitoring the trends in food systems finance for the past eighteen months and has identified several exciting opportunities and outcomes.

- Communities throughout the United States are considering novel approaches to the eradication of food deserts with limited access to healthy food options. The City of Atlanta recently pledged to use its New Markets Tax Credit allocation toward the financing of healthy food access, and the Village of Robbins, IL is planning a TIF to support a full-service supermarket in an impoverished neighborhood.
- The Slow Money National Gathering took place in late April to discuss the challenges of financing food systems and the growing diversity of financing mechanisms, such as Social Impact Bonds, independent niche industry lenders, crowdfunding, and CDFI's.
- RSF Social Finance, a nonprofit financial institution which provides capital to entities within targeted social industries, recently announced a loan to Regional Access Inc., a regionally sourced wholesale food distributor based in Ithaca, NY. The loan will enable an expansion of local, healthy food availability throughout the State of New York.
- Food trucks continue to attract interest from aspiring entrepreneurs looking to enter the food service industry. Several nonprofit organizations have taken advantage of this trend and now offer services geared toward helping prospective food truck owners develop a business plan and obtain financing for their concept. SCORE of San Antonio provides the community with start-up counseling, business plan assistance, and connections to appropriate small business lenders.

Opportunities to support food systems are only now emerging in a cohesive manner, and as these trends grow local communities will need education and resources to implement this exciting form of finance. But how do you help finance the local farmers, grocers, and businesses behind this important movement? Local food sourcing, vending, and food aggregation have been some of our industry's toughest challenges, but new financing mechanisms and adaptations of existing tools have begun to emerge. Join CDFA this August 7th as we explore how to finance local food systems with experts from around the nation during a special Pre-Summit Workshop at the National Development Finance Summit. Learn more and register online at www.cdfa.net.

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CDFA is Working for You

CDFA is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing thousands of public, private and non-profit development entities.

Members are state, county and municipal development finance agencies and authorities that provide or otherwise support economic development financing programs as well as a variety of non-governmental and private organizations ranging from regional and large investment banks to commercial finance companies to bond counsel, bond insurers, trustees, venture capital companies, rating agencies, and other organizations interested in development finance.

The Council was formed in 1982 with the mission to strengthen the efforts of state and local development finance agencies fostering job creation and economic growth through the use of tax-exempt and other public-private partnership finance programs. Today, CDFA has one of the strongest voices in the development finance industry and regularly communicates with Capitol Hill, state and local government leaders and the Federal Administration. The Council provides a number of avenues for assisting the development finance industry including education, advocacy, research, resources and networking. Learn more and join at www.cdfa.net.

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- State Small Business Credit Initiative (SSBCI) Portal
- Dedicated coalitions for TIF and SSBCI

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