Development Finance

PERSPECTIVES

Issue 1 ■ 2012

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Council of Development Finance Agencies

Project Finance: Leveraging the Capital Stack

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- Explaining the EB-5 Visa Program
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- Tracking State Tax Increment Finance Trends
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■ *Advancing Development Finance Knowledge, Networks & Innovation* ■

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Topics Discussed

Capital Markets	Innovation Finance
Infrastructure (P3) Finance	Environmental Finance
Energy Finance	Access to Capital
Tax Increment Finance	Legislative Updates
Bond Finance	Federal Finance
Tax Credit Finance	State & Local Perspectives
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Welcoming the Economic Recovery

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This edition of CDFA's *Development Finance Perspectives* marks the fourth volume of this highly acclaimed publication. I am so very proud to be part of this great magazine as it has opened up CDFA to the industry and expanded our presences within development finance. For each edition, I write this opening commentary focused on the pressing policy questions facing our industry, but I wanted to take a step away from this approach for this piece. Instead, I will talk about how the past three years have affected what we do at CDFA and how we have weathered the storm. I will also look at the future and give you all some hope for things to come.

By all accounts, the past three years have been tortuous. The federal deficit has skyrocketed, unemployment has rapidly increased, bond financing volume has plummeted, and state and local governments have suffered. I have watched hundreds of close colleagues suffer along the way with job loss, program elimination, and general struggles to pump out economic development wins. It hasn't been pretty, and 2011 was perhaps the worst year from CDFA's standpoint.

Despite the strongest legislative efforts in our history, we watched as Congress remained inactive on updating the regulations and capacity of bond finance. We witnessed stiffer regulation in the face of industry wide opposition, and we battled a very serious fight to preserve tax-exempt bonds. The CDFA Board of Directors, for the first time in a decade, reached into their limited Board reserve fund to finance CDFA's successful *Built by Bonds* publication. This publication was sent to over 18,000 development finance stakeholders throughout the country, and a customized copy was provided to every member of Congress.

The response was catalytic, with positive reactions across the nation and within the halls of Congress. Our phones and inboxes have been inundated with congratulatory responses, and we have received dozens of inquiries from members of Congress. CDFA is a major player today, thanks to this effort, and we are now influencing our federal leaders in a way not seen before.

> As 2012 has progressed, positive signs of economic recovery have blossomed everywhere. Make no mistake: we are sitting on the edge of our next great economic boom.

It is amazing how much of a difference a year can make. As 2012 has progressed, positive signs of economic recovery have blossomed everywhere. Make no mistake: we are sitting on the edge of our next great economic boom. Unemployment is falling rapidly. Factory orders are increasing exponentially. Bond volume has taken off in the first few months of the year, and the development finance industry is accessing capital once again.

The federal leadership is hearing the message too and leading the way. Congress is looking for new ideas to improve and update bond financing regulations. The threat to tax-exempts has been mitigated in Congress for now, although the Obama Administration continues to attack this critical financing tool, despite widespread industry outcry. Members of Congress are contacting CDFA for answers and ideas, and we could not be in a better place to assist.

Despite all the struggles of the past few years, CDFA never wavered. Last year, over 7,000 industry professionals were engaged in our efforts. We provided 18 free, national webcasts on dozens of topics, and we provided technical assistance to countless communities. In a time when other national associations buried their heads and became insular, we expanded, invested, and came out shining.

I promised to end on a positive note, and as you can see, I am excited for our future. If you are not excited, then get engaged in something at CDFA, and we will turn your attitude around. Be part of something special happening at CDFA today. Join a free webcast, become a member, attend our National Summit in DC, buy a book, sponsor, or just call me. Let's talk progress. I promise you will be happy that you made the investment.

5 full-time and 6 part-time staff

535 Congressional offices receiving letters from CDFA

9 books in the CDFA bookstore

4 CDFA legislative policy areas

301 member organizations

9 training courses

12 CDFA – BNY Mellon Development Finance Webcast Series Broadcasts

2,700+ resources

3 new CDFA publications in 2011

10,500+ headlines

52 issues of DFRW per year

32 CDFA Board Members

GET ENGAGED TODAY

75+ federal officials engaged by CDFA staff in 2011

4,100+ webcast attendees in 2011

440+ training course attendees in 2011

70+ development finance tools explained in CDFA's *Practitioner's Guide*

74 flights by CDFA staff in 2011

179 programs in the Federal Financing Clearinghouse

24 technical assistance projects

389 CDFA Reference Guides mailed in 2011

3 CDFA offices

1 National Development Finance Summit

150 tax-exempt bond finance projects in CDFA's *Built by Bonds* publication

15 national sponsors

50+ Congressional offices visited by CDFA in 2011

15,500+ subscribers to DFRW

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A New Era of Tax Increment Finance

Katie Kramer,
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With tightened budgets, states and municipalities are analyzing how to meet the economic and redevelopment needs of their communities, while at the same time allocating incentives in a transparent and accountable manner.

Specifically, a variety of states are considering whether to use tax increment finance (TIF), how much TIF to allow, and for what types of projects TIF can be used. These same questions have been asked for decades, but as the economic downturn has stressed government capacity, legislators are taking a more active role in the redevelopment process.

Below is a sampling of the TIF-related movements CDFA is following across the country.

California

California is the birthplace of TIF, but unfortunately, the California Supreme Court upheld a new law requiring the state's redevelopment agencies to close. This has effectively eliminated TIF in the state. Many are debating the future of redevelopment in the state. This challenge is also causing very serious concern over the status of outstanding TIF districts and projects currently underway.

Iowa

Considered one of the most lenient TIF statutes in the country, Iowa is contemplating a new TIF statute. Proposed reforms include limiting TIF districts to 20 years, mandating annual audits of TIF projects, and requiring that a municipality receive approval on a TIF plan from affected taxing entities, such as a county or school district. These are widely believed to be good accountability and due diligence measures for the state.

Nebraska

Nebraska is considering a fundamental change to its TIF statute, transitioning from a geography-based law to a property value-based law. Proposals call for the amount of TIF invested in a project to be restricted to 7% of the total property value in a taxing jurisdiction, giving municipalities a cap for how much TIF could be allocated at any point in time. This policy already exists in a number of states and strengthens the accountability of TIF.

Arizona

Arizona is the only state that does not have statewide TIF legislation. However, the Glendale City Council has urged the state to adopt tax increment financing. The city argues that it has become increasingly difficult to attract development projects with limited ability to collect development impact fees. A small group of state development finance leaders are working diligently to overcome both constitutional and perceptional challenges to get TIF approved in the state.

Colorado

Colorado's recent Regional Tourism Act requires an independent analysis of all applicants seeking TIF for tourism projects to verify that the projected visitors and revenues are reasonable. The most recent analysis of six applicants showed that each project overestimated these projections, and therefore more TIF was requested than necessary. The state body that approves TIF applications will be taking this analysis into consideration when approving TIF funds later this year.

Stay informed on these states and other TIF matters by reading CDFA's daily headlines. Also, use CDFA's TIF Resource Center or TIF State-By-State Map to look-up your state's TIF statute.

The stories behind these states, and from municipalities that are similarly reviewing their TIF practices, are compelling because they demonstrate the growing focus on due diligence, transparency, and accountability. In fact, these are the main tenets of CDFA's *Recommended Practices for Effective TIF Program Management.*

CDFA urges local communities use TIF judiciously to protect the public's interest and to promote the economic development and redevelopment of areas that might otherwise not receive investment. All decision makers, including the project managers and advisory team, should be accountable to the public and local government, and must provide accurate, informative, and timely information.

Decisions by elected leaders to support projects should be based on financial analysis, identifiable community needs, and potential project impact. Without these elements as the foundation of the decision making process, the use of TIF can become counterproductive.

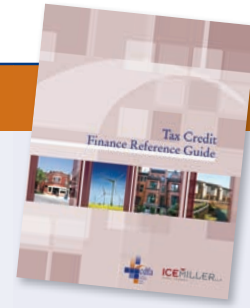
To avoid these problems, CDFA's Recommended Practices provide local governments with a roadmap for developing sound TIF policies. However, this roadmap can be applied most effectively by local officials who have thorough underlying knowledge of TIF.

That is why education is the first step when considering how TIF should best be used in your community.

In September, the CDFA Training Institute will once again host TIF Week–four days of intensive TIF training with an in-depth look at the guiding principles and appropriate applications of TIF. The entire program will be offered online, giving you access to this timely and comprehensive education no matter your location.

The Intro TIF WebCourse will be offered September 18-19, and the Advanced TIF WebCourse will be offered September 20-21. Join us for one or both courses to learn the basic mechanics of TIF and how to structure TIF deals and develop short- and long-term policies. Both of these courses qualify for the CDFA Training Institute's Development Finance Certified Professional (DFCP) Program.

A Note on State Tax Credits



CDFA has seen an uptick in states analyzing the effectiveness and availability of tax credits for development projects. A variety of states are reviewing the types of tax credits they offer. Below is a snapshot of notable examples:

- **Michigan** – After significant cuts to its tax credit programs in 2011, Michigan is reconsidering whether their film tax credit is creating enough jobs for the investment or should see further reductions.
- **Oregon** – The state reworked many of its tax credit programs last year, and is discussing the potential for a more comprehensive tax credit program to encourage job growth.
- **Kansas** – As part of a broad tax reform effort, the Governor of Kansas has proposed significant cuts to the state's tax credit programs, including the elimination of the angel investor credit and the historic preservation credit.
- **Virginia & Georgia** – Both states have proposed a series of tax credits to spur job creation in the manufacturing sector.
- **New Jersey** – The GrowNJ Assistance Program was recently created in New Jersey to provide tax credits to companies relocating in designated areas that have seen disinvestment or have lost jobs.

For a more in-depth look at tax credit programs at both the federal and state levels, read CDFA's *Tax Credit Finance Reference Guide*. Developed in conjunction with Ice Miller LLP, this guide explains how tax credits are used to support economic growth. Included are 26 case studies of projects that successfully used tax credits as part of the financing package.

Project Finance: Leveraging the Capital Stack

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In an ideal world, economic development finance is easy. A small manufacturer needs a factory expansion and equipment purchase to keep up with rising demand. A standard bank loan might be too expensive, and mean delaying the project. However, a local conduit issuer can provide tax-exempt industrial development bonds (IDBs), enabling the manufacturer's expansion to go forward.

There are many cases where this relatively straightforward scenario proceeds as described. Oakland County, Michigan issued a $3.3M IDB on behalf of Total Door & Openings, which was subsequently able to support 80 jobs. Producers Feed Co. of Humphreys, Mississippi used an IDB from the Mississippi Business Finance Corp. to create 60 jobs. The Industrial Development Corp. of the City of Blackfoot, Idaho issued $4.5M in IDBs to enable an equipment manufacturer to construct a new facility and support 30 jobs. There are hundreds of these examples throughout the country.

> Find 150 examples of projects financed with tax-exempt bonds in CDFA's *Built by Bonds*.

Much of the time, of course, economic development finance is a more complex proposition.

Anyone in the development finance industry is familiar with the problems. Tax credit-eligible projects are challenged by current uncertainty over the longevity of the programs. Tax increment finance is repeatedly challenged by poor public understanding. Bond finance has been challenged in recent years by the shriveling of the market for credit enhancement products.

Fortunately, despite these challenges, the industry has been very successful at finding innovative and creative ways to combine programs in order to complete a project's capital stack.

From the comparatively modest bonds and tax credits combination to the borderline mind-boggling bonds, tax increment finance (TIF), EB-5 visa program investments (see page 14 of this issue), and state grants and incentives, developers, financial advisors, and economic development agencies are using every financing tool in the toolbox to leverage public dollars and catalyze investment.

Bond Finance

Tax-exempt bonds are the bedrock of development finance in the U.S. The National League of Cities reported last year that 4M miles of roadway, 900K miles of water pipes, and 16K airports—to name just a few components of infrastructure—were at least partially financed with tax-exempt bonds. CDFA's survey of volume cap allocation found that $14.6B of Private Activity Bonds was issued in 2010 alone. Clearly, tax-exempt bonds deserve their status as the underlying financing tool for economic development.

Bond finance has been a critical component of infrastructure and private development because bonds are essentially loans, and tax-exempt bonds are therefore akin to low-interest loans. In the case of a loan, the lender will hold the debt, whereas in a bond financing, "bondholders," who may include traditional lenders, hold the debt. The low-interest benefit is gained when the bond is tax-exempt because the bondholders do not pay taxes on the interest payments they receive—and are therefore willing to accept a lower interest rate in return. The end result to the borrower is low-cost capital.

In the case of most project financings covered by CDFA, the types of bonds in question are Private Activity Bonds (PABs), which are tax-exempt bonds issued for the benefit of a non-government entity. Congress has defined a number of acceptable private uses of tax-exempt bonds, including small manufacturing, multi-family housing, solid waste disposal facilities, and non-profits, to name a few.

In order to qualify for the tax-exemption, the borrower must have a project that fits the usually narrow definitions of the particular category of PAB in question. For example, IDBs cannot be used for working capital and have a $10M issuance limit. Failure to adhere to the requirements of the PAB category may mean losing the tax-exempt status of the bonds—and may subject the bonds to additional tax-related penalties.

Combining Bonds and Other Financing Tools

Of course, other public development incentives have their own sets of requirements, which is why combining multiple incentives successfully often requires some creativity. In some cases, multiple programs may not be compatible, as is the case with a number of federal programs and tax-exempt bonds. In other cases, receiving assistance from one program may limit the level of assistance another governmental unit is willing to provide. Identifying program requirements and investigating the plausibility of balancing multiple incentives are steps that must be undertaken early on for a potential project.

See CDFA's *Tax Credit Finance Reference Guide*, Chapter 3, for more information on combining tax-exempt bonds and federal tax credits.

In order to avoid unnecessary challenges, developers and development agencies may find it preferable to combine financing tools that have a record of being used together successfully. New Markets Tax Credits (NMTCs), for example, have been used with tax-exempt bonds numerous times. NMTCs provide a 39% credit over seven years for projects that are developed in low-income census tracts and can pair well with tax-exempt projects that fall within one of these tracts.

Wofford College in South Carolina was able to combine 501(c)(3) bonds and NMTCs for portions of a project that renovated four residence halls and built two more, including an apartment-style housing complex for senior students. Harry Huntley of the South Carolina Jobs-Economic Development presented this project, which also created 32 jobs and retained 414 jobs.

Laura Radcliff of Stifel Nicolaus presented the financing for the Grant Center Arts Academy, which combined a number of tools. In addition to non-public sources, the project received $14M in NMTCs and $600K in TIF bond proceeds, as well as $3.5M in federal historic tax credits and $2.7M in state historic tax credits. Although this was a complex financing structure, the project greatly benefited the 900-student performing arts charter school.

CDFA members can access dozens of presentations related to combining financing programs in the CDFA Online Resource Database.

When a one-two punch of public incentive programs is still insufficient for a project, then everyone involved must become even more creative to complete the deal. In addition to federal tax credit programs, state tax credits, TIF, tax abatements, governmental grants or loans, and a variety of other programs may be available to combine with bonds.

A recently-closed housing complex project, Walden Park, in Buffalo, New York used $4.9M in tax-exempt bonds, $3.4M in U.S. Dept. of Housing and Urban Development replacement housing funds, $3M in Low Income Housing Tax Credits equity, $650K from a city housing program, and $150K from a state energy project. This project, which was reported by WKBW news, combined five programs from local, state, and federal governments to leverage $12.1M into over 100 affordable housing units and a catalyst for redeveloping an entire neighborhood.

Of course, tax-exempt bonds—or any form of bond finance—are not always the answer to a project's needs. The East Bank Flats Project in Cleveland, Ohio combined multiple programs with taxable bonds. Brian Cooper of Robert W. Baird & Co. and Steve Strnisha of Project Management Consultants presented this $139.7M project. Of the financing sources, $21M came from state incentives, $20M came from EB-5 visa program investments, $18.9 from state loans, and $13.5M came from TIF bonds, to name a few. Once again, local, state, and federal programs were combined to enable a transformational development project.

To learn more about these projects, or to send CDFA information and photos for your own projects, contact Jason Rittenberg at jrittenberg@cdfa.net.

Many of the projects featured on the cover of this issue, or on the pages of this article, required creative financing solutions to complete. Some included bond financing, although some were successful with other tools alone. The Connecticut Brownfields Redevelopment Authority used TIF, bonds, federal assessments, and more to cleanup and redevelop a former tank farm. Walnut Street Capital and the Urban Redevelopment Authority of Pittsburgh used NMTCs, historic tax credits, TIF, grants, EB-5 investments, and more to complete the Bakery Square district. These are just two of the featured projects—as well as the Wofford Project above–provided by CDFA members.

As the examples in this article make clear, whatever the challenges posed to finance tools individually, creative approaches to economic development finance can still be successful, if not always easy.

■ ■ ■

Thank you to the CDFA members whose project photos appear in this issue:

City of Chicago
City of Cleveland
City of Conroe
City of Dunwoody
City of Nampa
Colorado Housing and Finance Authority
Connecticut Development Authority
MB Financial Bank
Midcoast Regional Redevelopment Authority
National Development Council
South Carolina Jobs-Economic Development Authority
Summit County Port Authority
U.S. Bank
Urban Redevelopment Authority of Pittsburgh

2012 Policy Agenda

Erin Tehan,
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CDFA is one of the strongest voices on Capitol Hill advocating for issues that affect the development finance industry, and every year the Council releases an updated comprehensive policy agenda to help guide these efforts. Last year, the Council was heavily focused on defending and preserving tax-exempt bonds and the important federal financing tools in our toolbox. CDFA was successful in 2011 in these efforts with the release of the highly acclaimed *Built by Bonds*, which ensured the preservation of tax-exempt bonds going forward.

The CDFA Legislative Committee and CDFA Board of Directors are proud to announce the 2012 CDFA 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 2012, CDFA will focus on the following overarching policy areas and subsequent direct legislative priorities.

Policy Area 1: Maximize & Improve Private Activity Bonds (PABs)

Private Activity Bonds (PABs) represent one of the most effective financing tools used by state and local governments to support capital improvements and encourage private investment. Over the past three decades, PABs have spurred job creation, manufacturing expansion, infrastructure investment, renewable energy development, health care expansion, educational advancements, and a vast amount of local economic development growth. To support this policy area, CDFA continuously works to improve the use of PABs through legislative improvements to the laws governing this important financing tool.

Industrial Development Bonds (IDBs) and 501(c)(3) Bonds are two particular areas of PABs that require immediate attention by Congress. To address outdated provisions related to IDBs and 501(c)(3) Bonds, CDFA has outlined the following priorities:

1. Renew the expanded definition of manufacturing for the use of IDBs to include tangible and intangible production.
2. Renew the allowance for "functionally related and subordinate" components to be eligible for IDB financing.
3. Expand 2% de minimus rule to financial institutions in relationship to IDBs.
4. Increase the capital expenditure limitation for IDBs from $20 million to $40 million, or remove this limitation entirely.
5. Eliminate the restriction on the use of accelerated depreciation by companies using IDB financing.
6. Increase the maximum IDB bond size limitation from $10 million to $30 million.

7. Expand and raise the small issuer limit for bank deductibility on IDBs and 501(c)(3) bonds to $30 million from $10 million and allow the limit to be applied to the borrower instead of the conduit issuer.
8. Permanently authorize the elimination of the alternative minimum tax (AMT) for tax-exempt bonds.

To address regulatory issues related to general PAB use, CDFA has outlined the following priorities:

1. Establish a strong working relationship with the Municipal Securities Rulemaking Board (MSRB) to enhance issuer and underwriter understanding of municipal bond financing.
2. Establish a strong working relationship with the Internal Revenue Service Tax Exempt Bond (TEB) division to enhance issuer and underwriter understanding of municipal bond financing.
3. Establish a strong working relationship with the U.S. Securities and Exchange Commission (SEC) to enhance issuer and underwriter understanding of municipal bond financing.

Policy Area 2: Advocate for Energy Financing Programs & Infrastructure

CDFA is an advocate for the continued development of financing tools that support renewable energy production and infrastructure. However, the federal development finance toolbox for supporting local renewable energy projects has diminished, and new federal programming is necessary to spur ongoing investment in this industry. To support this policy area, CDFA has identified the following legislative goals aimed at expanding these types of financing programs:

1. Create a new qualifying purpose for the exempt facilities category of PABs under the Internal Revenue Code named "renewable energy facilities" that includes allowances for assisting manufacturers with projects that encompass energy generation, transmission, and the sale of power.
2. Support the permanent renewal and extension of federal tax credit programs for energy production and investment.
3. Support the extension and increased authority of both the Qualified Energy Conservation Bond (QECB) and Clean Renewable Energy Bond (CREB) programs.
4. Recommend and suggest new financing structures and/or improved methodology that can enable the federal government to support local renewable energy development, such as infrastructure banks, Property Assessed Clean Energy (PACE) bonds, and loan guarantee programs.

Policy Area 3: Advocate for Sound Practices in the Use of Tax Increment Finance (TIF)

CDFA has established the national Tax Increment Finance Coalition (TIFC), which has become the leading advocate for the sound use of TIF. The TIFC will continue to:

1. Provide a national forum for tax increment finance users, service providers, and industry experts to share ideas, provide education, exchange knowledge, and promulgate best practices for this transformational tool.
2. Continue to develop and enhance CDFA's resource collection related to TIF, which provides one singular clearinghouse of resources, publications, research, documentation, state statutes, etc. on this topic.

Policy Area 4: 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 2012:

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 extend and permanently reauthorize 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, 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 2012, CDFA is planning an aggressive campaign to address development finance at the federal level. Through our Capitol Hill Days and ongoing legislative work with Congress, the Council is poised to make a positive impact on the development finance industry. As part of these efforts, CDFA will be awarding its first ever CDFA Federal Development Finance Leadership Award to an individual within the federal government who has advanced the cause of our industry. To nominate an individual, visit www.cdfa.net today.

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

Support Legislative Affairs in 2012

CDFA has a rich history of affecting change on Capitol Hill, and we need your help in 2012. Get engaged:

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

March 14 – Capitol Hill Day
August 1 – Capitol Hill Day

Federal Energy Finance Programs

Erin Tehan, Legislative & Federal Affairs Coordinator
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The renewable energy industry is playing an increasingly important role in overall U.S. economic development. For example, the Clean Energy Group states that there are now more jobs in wind and solar than in coal mining. However, financing renewable energy projects through traditional financing tools remains a challenge for our industry. To help U.S. state and municipal governments, as well as business and individuals, the federal government offers over 40 programs supporting the financing of renewable energy.

CDFA offers many opportunities to learn more about energy and federal finance. Visit www.cdfa.net and check out CDFA's Intro Energy Finance Course, the CDFA-Stern Brothers Renewable Energy Finance Webcast Series, in partnership with Clean Energy Group, and the CDFA Federal Financing Clearinghouse.

Four programs from the Clearinghouse are highlighted below.

Rural Energy for America Program Guaranteed Loan Program (REAP Loan)

U.S. Department of Agriculture

The REAP Guaranteed Loan Program encourages the commercial financing of renewable energy (bioenergy, geothermal, hydrogen, solar, wind, and hydro power) and energy efficiency projects. Under the program, project developers will work with local lenders, who, in turn, can apply to USDA Rural Development for a loan guarantee up to 85 percent of the loan amount.

Eligible Users:
Borrowers must be an agricultural producer or rural small business. Most lenders are eligible, including national and state-chartered banks, Farm Credit System banks, and savings and loan associations.

Financing Type:
Energy Finance | Access to Capital

State Energy Program (SEP)

U.S. Department of Energy

The State Energy Program (SEP) provides financial and technical assistance to states through formula and competitive grants. SEP emphasizes the state's role as the decision maker and administrator for the program activities within the state. States use their formula grants to develop state strategies and goals to address their energy priorities. States provide a 20 percent match under SEP annual formula allocations. Competitive grant solicitations for the adoption of energy efficiency/renewable energy products and technologies are issued annually based on available funding.

Eligible Users:
States

Financing Type:
Energy Finance | Access to Capital

Qualified Energy Conservation Bonds (QECBs)

Internal Revenue Service

Qualified Energy Conservation Bonds (QECBs) finance qualified energy conservation projects. At minimum, 70 percent of a state's allocation must be used for governmental purposes, and the remainder may be used to finance private activity projects. There is no statutory deadline for eligible public entities to issue QECBs. In March 2010 the HIRE Act (H.R. 2847 (Sec. 301)) changed QECBs from tax credit bonds to direct subsidy bonds, similar to Build America Bonds (BABs). The QECB issuer pays the investor a taxable coupon and receives a rebate from the U.S. Treasury.

Eligible Users:
QECBs may be issued by state, local, and tribal governments.

Financing Type:
Bond Finance | Energy Finance

Production Tax Credit (PTC)

Internal Revenue Service

The Recovery Act allows a tax credit for the generation of qualified energy from qualified facilities. The Production Tax Credit (PTC) specifies amounts, credit periods, and definitions of qualified facilities by technology. Qualified energy resources include: wind, biomass, geothermal, solar, hydropower, and others.

Eligible Users:
Electricity produced from qualified energy resources at qualified facilities must be sold by the taxpayer to an unrelated person.

Financing Type:
Energy Finance | Tax Credits

CDFA Training Institute

Council of Development Finance Agencies

Upcoming Educational Opportunities

Summer & Fall 2012

Innovation Finance WebCourse
May 8-9, 2012
Daily: 12-5pm (EDT)

The **Innovation Finance WebCourse** explores the growing seed, venture capital, and angel investment industry and provides clear direction for designing and implementing capital formation models at the local, regional, and state levels. This course differs from other capital formation curriculums in that it focuses more concretely on designing a program that uses public-sector connections, resources, and coordination to drive long-term and sustainable private-sector investment.

Early Bird Registration Deadline: April 13, 2012

Intro Energy Finance Course
July 31-August 1, 2012
Washington, DC

The **Intro Energy Finance Course** 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 will be held in conjunction with CDFA's National Development Finance Summit.

Early Bird Registration Deadline: June 15, 2012

Intro Tax Increment Finance WebCourse
September 18-19, 2012
Daily: 12-5pm (EDT)

Advanced Tax Increment Finance WebCourse
September 20-21, 2012
Daily: 12-5pm (EDT)

Make plans for TIF Week! The **Intro Tax Increment Finance WebCourse** offers an in-depth look at the guiding principles and appropriate application of TIF, while the **Advanced Tax Increment Finance WebCourse** focuses more concretely on structuring the deal and developing short- and long-term policies. Register for one or both courses!

Early Bird Registration Deadline: August 24, 2012

Intro Tax Credit Finance WebCourse
November 6-7, 2012
Daily: 12-5pm (EST)

The **Intro Tax Credit Finance WebCourse** examines the application of tax credit programs in greater economic development finance efforts. This course discusses the practical application of tax credit programs including new markets, low income housing, historic preservation, and state-specific programs. This course differs significantly from other tax credit trainings because participants will learn how to effectively apply tax credits to development opportunities, rather than just be taught the facts and figures of each program.

Early Bird Registration Deadline: October 12, 2012

Winter 2012 – Spring 2013

Tentative course offerings for Winter 2012 – Spring 2013 include:

Intro Revolving Loan Fund WebCourse ▪ Fundamentals of Economic Development Finance WebCourse
Intro Bond Finance WebCourse ▪ Advanced Bond Finance WebCourse

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.

Register online today at www.cdfa.net

Feature Story
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EB-5
Addressing the Financing Gap

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Over the past year, the development finance industry has been rapidly embracing the Immigrant Investor Program, more commonly called "EB-5." This old, but increasingly popular program has seen one of the fastest growth rates in our industry. In January, CDFA held a national webcast featuring the EB-5 program and, judging by the over 400 registrations, the program will only continue to grow in the coming months.

The EB-5 program is a federally-authorized visa category created by Congress in 1990. The primary concept is to encourage foreign investment in job-creating U.S. economic development projects or companies in return for a U.S. green card. These projects or companies must create or save 10 full-time jobs in the states, and a minimum investment of $1M is required. This investment can be reduced to $500K, if the investment is made in a high unemployment or rural area.

Once the investment in a qualifying project or company has been made, the investor receives a conditional green card for two years. After two years, the investor must prove that their investment has been maintained, and that the 10 jobs continue to exist. At this point, the conditional status is removed. Through the early periods of the program, this was the primary investment strategy, and it worked sparingly.

Originally, the program was established without any official intermediary between investors, projects, and the green card process. In 1993, Congress boosted the program by also allowing private and public agencies to create Regional Centers, which can accept the investment from the green card-seeking investor. The U.S. Citizenship and Immigration Services, the managing federal agency, sets aside 10K green cards each year for foreign investors participating through designated Regional Centers. The centers invest in projects that meet all of the program criteria.

> The development finance industry is poised to make a big splash in the EB-5 market.

In 2002, Congress further improved the program by altering the job creation/retention definitions. Today, investors who make investments in Regional Centers only have to show indirect job creation or retention achievements, instead of direct impacts. This has allowed more projects to qualify for the program, which has increased its popularity significantly. In 2002, roughly 300 EB-5 visas were issued, while over 3.7K visas were issued in 2009. Additionally, $22.5M was invested and 450 jobs supported through the program in 2003, compared to $845M invested and 17K jobs supported in 2010. The popularity of the Regional Center approach continues to grow, and 208 centers have now been designated throughout the country.

Using the EB-5 program is not simple, and there are significant investment and timing rules that must be followed. These rules can mean the difference between an investor receiving a green card or being deported. CDFA highly recommends consulting and working with reputable and qualified Regional Centers, immigration lawyers, and project finance experts. There is a wealth of expertise in this field, and partners should be fully vetted before making any commitments to investors or projects.

Having said all that, the development finance industry is poised to make a big splash in this market, as the EB-5 program presents a new source of capital for projects. In Vermont, Wisconsin, and Ohio for instance, the EB-5 program is working successfully to bring capital to projects that otherwise would have a significant funding gap. In California, EB-5 investments are being considered as a replacement for the now defunct state tax increment finance program, showing EB-5's potential to be a true gap financing tool.

To learn more about EB-5, visit CDFA's Online Resource Database, with over 40 resources on the program, including case studies, program documentation, presentations, and fact sheets.

Sources

Miller Mayer, www.millermayer.com

David Andersson, IIUSA, CDFA BNY-Mellon Webcast presentation, www.cdfa.net

James Candido, Vermont EB-5 Regional Center, CDFA BNY-Mellon Webcast presentation, www.cdfa.net

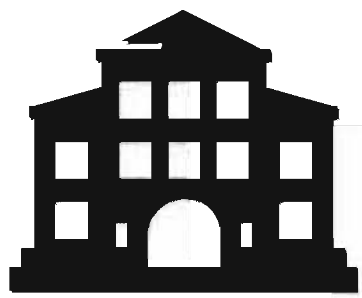
Revolving Loan Funds

Revolving loan funds (RLFs) are a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones. RLFs are an access to capital lending tool primarily used for development and expansion of small businesses.

Quality RLFs issue loans at market or otherwise competitive and attractive rates. RLF programs should be built on sound interest rate practice, and should not be perceived as free or easy sources of financing. RLFs must be able to generate enough of an interest rate return to replenish the fund for future loan allocations.

With competitive rates and flexible terms, a RLF provides access to new financing sources for the borrower, while lowering overall risk for participating institutional lenders.

Capitalization Source



Loan Fund

Loans to Borrowers

Capitalizing a Revolving Loan Fund

Initial funding, or capitalization, of a RLF usually comes from a combination of public and private sources. Funding acquired for capitalization usually does not need to be paid back, although some sources will require the RLF continue to meet certain criteria in order to retain the capitalization support.

State and local governments often use one or more of the following to capitalize a RLF:

- Direct appropriations from the state or municipality
- Banks and other lending institutions
- Utility companies
- Private foundations

Federal Sources:

- Community Development Block Grants (HUD)
- Community Adjustment and Investment Program (USDA)
- Economic Adjustment Assistance Program (EDA)
- Brownfields Revolving Loan Fund (EPA)

Model Programs

Regional Growth Capital, Inc. (St. Louis County Economic Council)
This St. Louis-area RLF targets local, expanding small businesses. The fund has a rather unique capitalization source: stock purchases by 28 local and regional banks. The RLF issues 4-8 loans per year. The max loan size is $500K, with rates 3-4% above floating prime rate.

Business and Commercial Real Estate RLF Programs (Urban Redevelopment Authority of Pittsburgh)
The Pittsburgh-based Urban Redevelopment Authority operates several RLFs, providing loans up to $5M for terms of 3-25 years. These programs have been capitalized through loan repayments, and state and federal grants, such as CDBG. Loans particularly benefit small businesses (95% of loans) and M/WBE companies (25%).

Oregon Business Development Fund (Business Oregon)
This fund provides fixed-rate financing at a max term of 20 years for a variety of business uses. Borrowers must create or retain jobs to be eligible, and preference is given to rural or small businesses. The fund receives capitalization support from the Oregon lottery.

Payments to Loan Fund

Borrowers

QUICK FACT

Interest returns from a $2M revolving loan fund will support 1.5 full-time staff members.

More Resources at www.cdfa.net

- CDFA Online Resource Database
- CDFA Intro Revolving Loan Fund Course
- CDFA *Revolving Loan Fund Reference Guide*
- CDFA Federal Financing Clearinghouse
- CDFA Revolving Loan Fund Resource Center

cdfa Council of Development Finance Agencies

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The Momentum Behind Access to Capital Programs

Over the course of 2010 and 2011, Access to Capital—or debt and equity finance—tools have become an increasing area of focus for CDFA and its members.

In 2011 alone, CDFA took a number of actions on this front, including launching the Innovation Finance Course, publishing the *Innovation Finance Reference Guide*, growing the "Access to Capital" section of the CDFA Online Resource Database to 650+ items, and taking a leadership role in the U.S. Dept. of the Treasury's State Small Business Credit Initiative.

In 2012, CDFA is continuing this momentum by giving greater coverage to the EB-5 visa program (see page 14 in this issue) and by launching the CDFA Revolving Loan Fund Resource Center, which will include a RLF programs database.

The reasons for the increased attention to access to capital programs are easy to see. First, lending support programs are frequently appropriate for small businesses, which may not be ready, or eligible, for larger tools, such as an Industrial Development Bond or New Markets Tax Credit investment.

Second, the lack of access to capital—rightly or wrongly—received tremendous coverage in 2011. This, in turn, led many individuals, businesses, and agencies to seek information on how the public sector can facilitate access to capital. Similarly, supporting capital access for small businesses was a particularly popular political position in 2011.

Third, local, state, and federal economic development agencies created, revamped, or expanded a number of access to capital programs in 2011. The growth of this industry is impossible to ignore.

U.S. Dept. of Treasury's State Small Business Credit Initiative (SSBCI)

The SSBCI has been a significant factor in the expansion of state-level access to capital programs. Over the course of 2011, 47 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands were approved to receive federal funding to launch or bolster state programs.

The SSBCI was authorized to distribute $1.5B to small business access to capital programs. Of SSBCI funding allocated thus far, 75% went to debt programs, including capital access programs, loan guarantee programs, collateral support programs, and loan participation programs.

More specifically, 25% of the funding went to capital access programs (CAPs) alone. The somewhat high percentage of CAP funding may seem surprising, considering that only approximately 14 states had active CAPs before the SSBCI. However, the Initiative's authorizing legislation, the Small Business Jobs Act of 2010, was primarily written for these types of programs.

Loan participation, guarantees, and other structures have accounted for 50% of current SSBCI allocations. Collateral Support Programs (CSPs) have been an unexpectedly popular design. Sharing similarities with both CAPs and guarantees, a CSP has the state make a cash deposit with a lender to bolster a borrower's collateral. In the event of a default, the lender has rights to the state's deposit. Ten states are currently using SSBCI funding for these programs.

The remaining 25% of SSBCI funds allocated thus far have gone to state venture capital programs. More specifically, 27 states and territories have used funds to support venture capital programs of various designs, including direct state investment funds and fund-of-funds models.

Innovation Finance

Venture capital investments totaled $28.4B in 2011, marking the second-straight year of 22% growth, according to

Calls for Participation

Revolving Loan Fund Program Profiles
Provide details on your RLF so that it can appear in CDFA's new RLF Program database.

Tax Increment Finance Statutes
Support the CDFA TIF State-by-State Map by sharing the details of your state's statute.

Tax Credit Finance Projects
Submit a project financed with federal tax credits.

To participate in any CDFA project, contact Jason or visit the Original Research Focus page at www.cdfa.net.

a report by PricewaterhouseCoopers and the National Venture Capital Association. States across the country are continuing to encourage investment growth.

In the first few weeks of 2012 alone, 15 separate state development offices and agencies appeared in CDFA's "Innovation Finance" headlines for getting more engaged in this area. Specifically, states are coalescing resources, launching new seed, angel, and venture funds, leveraging public/private development entities to make investments, announcing program successes, or otherwise promoting the state's innovation strategies.

Several states are having success with the direct use of state monies or funds. For example, Illinois recently announced the first investments from a new, $78M state fund. Texas invested $169M in technology companies since 2006, creating 820 jobs and leveraging more than $600M in additional investments. Rhode Island has reached an agreement to invest up to $9M through a technology fund that will support startups in the state.

Some states are looking to encourage the investments made by private citizens. New angel investment networks are sprouting up in West Virginia and Alabama, providing startups with financing in states that have not always been known for providing access to this type of funding. Iowa, Wisconsin, and other states are looking at boosting state investor tax credits in order to increase the investments made by residents into local companies.

Clearly, Innovation Finance programs are an exciting area of growth for the development finance industry. Learn more and stay up-to-date with the latest news with training courses, reference guides, program resources, and daily headlines at www.cdfa.net.

Research Numbers

626 Resources added to the CDFA Online Resource Database in 2011, bringing the total over 2,900.

3,408 Development Finance headlines added to the CDFA website in 2011.

25 Percent of federal SSBCI funding that went to state venture capital programs.

74 New EB-5 Regional Centers approved by the USCIS in 2011.

An Advocate for Development Finance

Steve Johnson,
CDFA Board of Directors,
Director of Commercial Lending, Colorado Housing and Finance Authority

Last November, I participated in a CDFA Capitol Hill Day focused on explaining the importance of tax-exempt bonds to Members of Congress. Over the course of the day, fellow CDFA members and I held dozens of meetings to drive home the connection between the federal tax exemption and infrastructure investment, local economies, and quality jobs. A combination of the deficit commission, Presidential proposals, and calls for tax reform made these visits a critical endeavor for our industry.

From where we stand in early 2012, the development finance industry appears to be in a much better position—in no small part because of advocacy by CDFA and its members.

The better position we now find ourselves in is reflected in the CDFA Policy Agenda (pages 10-11), which advocates doing more than just maintaining the status quo. During 2012, CDFA will push for reforms that will positively affect the use of tax-exempt bonds. These include expanding the definition of manufacturing and raising the total project limits for industrial development bonds. The CDFA Policy Agenda will further seek to support the expired—but critical—federal New Markets Tax Credit (NMTC) program with a permanent reauthorization. That CDFA is taking these positions is something that we at the Colorado Housing and Finance Authority (CHFA) appreciate.

A core part of CHFA's mission is to strengthen Colorado's economy by providing finance assistance to businesses. Bond finance, and particularly industrial development bonds, is a critical tool in this mission. Rule changes that would increase accessibility to bonds by manufacturers would be a tremendous benefit to the state, catalyzing additional investments and jobs. The reauthorization of the NMTC program would also greatly enhance our ability to strengthen Colorado's economy.

During 2012, CDFA will push for reforms that will positively affect the use of tax-exempt bonds.

It is not really possible for me, or for CHFA, to be a sufficiently active and engaged advocate for development finance tools and regulations. Participating in the CDFA Capitol Hill Day was an important contribution, to be sure, but these meetings were just one part of CDFA's broader advocacy campaign. CDFA also held numerous meetings with other officials and industry stakeholders, conducted critical research, and published *Built by Bonds*—a definitive argument for preserving tax-exempt bonds. In my experience, employees of public agencies simply do not have the time or ability to engage in this type of round-the-clock advocacy, even though these efforts are crucial to our continued operation and growth.

Because CDFA does have the time and ability to be this tireless advocate for economic development finance, I am proud to be part of the Council.

Of course, there are many other reasons to be members of CDFA. Several CHFA employees attended last year's Development Finance Summit and benefitted from programming on issues that affect us—such as financing best practices and tax exempt bonds. We also benefit from exclusive access to CDFA's Online Resource Database, Federal Financing Clearinghouse, and a network of thousands of development finance professionals.

During this time of economic and programmatic uncertainty, CDFA has been a critical partner to the development finance industry both as a resource and a voice. Don't just take my word for it, explore the resources CDFA offers, and I'm confident you will come to the same conclusion. And if you attend an upcoming CDFA Capitol Hill Day, then I'll probably see you there.

Membership Corner

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New Member Benefits

We've kicked off 2012 by adding more value to your CDFA membership!

Members now have the opportunity to **post job openings and request for proposals (RFP)**, free of charge, in CDFA's Development Finance Review Weekly e-newsletter. The e-newsletter, sent to over 15,000 professionals across the country in both the public and private sectors, is a great way to promote your organization's needs. Members may post each job opening and/or RFP twice in the e-newsletter. Non-members pay $500 to post jobs, representing a significant savings for CDFA members. CDFA has developed these new member benefits to accomodate a growing request from members.

For more information about posting your job opening or RFP in the next edition of the Development Finance Review Weekly, contact sstoller@cdfa.net.

2012 CDFA National Development Finance Summit

Planning is well under way for the CDFA National Development Finance Summit. We're very excited to add some new elements to the event, including the President & Chairman's Breakfast. This is the first year we will be hosting a breakfast exclusive to CDFA members. Come and mingle with fellow members while learning about what CDFA has been up to. I hope you'll mark your calendars and join us in Washington, DC this August! Check out the website to view the program and register.

Welcome CDFA's New Members
November 2011 – February 2012

Belsheim & Bruckert LLC
Boone County Economic Development Corporation
Business Development Corporation of Vernon
Center for Governmental Research
City of Lancaster
City of Worthington
Clean Energy Finance and Investment Authority
Erie County Redevelopment Authority
G8 Development Inc.
Hinds County Economic Development Authority
Housing Authority of the County of San Bernardino
Industrial Development Authority of the City of Maricopa
Nicholson & Company, PLLC
Prince George's Financial Services Corporation (FSC First)
Renew Moline
Rockwood Real Estate Advisors

Join CDFA

The benefits of being a CDFA member are on the rise. With this year's added benefits, you can't afford to miss out:

- Access to the member-exclusive Federal Financing Clearinghouse
- Reduced rates to CDFA training courses and the National Development Finance Summit
- Legislative and federal representation on Capitol Hill
- Member access to the Online Resource Database
- Complimentary job and RFP postings in CDFA's weekly e-newsletter, Development Finance Review Weekly
- Discounted publication rates in the CDFA Bookstore and special offers from industry partners

To learn more about CDFA membership, including dues, visit www.cdfa.net.

About CDFA

The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests. CDFA represents the nation's leading and most knowledgeable members of the development finance community from the public, private and non-profit sectors.

The Council was established in 1982 to strengthen the efforts of states and local development finance agencies using development bonds and other public-private finance programs for job creation and economic growth. CDFA has since expanded its mandate to reflect the broader needs of economic development finance professionals.

Today 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.

Council of Development Finance Agencies

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March

Intro Bond Finance Course
March 15-16, 2012
Washington, DC

May

Innovation Finance WebCourse
May 8-9, 2012
Daily: 12-5pm (EDT)

August

Intro Energy Finance Course
July 31-August 1, 2012
Washington, DC

Register Today
CDFA National Development Finance Summit
July 31-August 3, 2012
Washington, DC

September

Intro Tax Increment Finance WebCourse
September 18-19, 2012
Daily: 12-5pm (EDT)

Advanced Tax Increment Finance WebCourse
September 20-21, 2012
Daily: 12-5pm (EDT)

November

Intro Tax Credit Finance WebCourse
November 6-7, 2012
Daily: 12-5pm (EST)

GET ENGAGED!