From Cleveland With Love: The Evolving World of the Ohio Bond Market

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CDFA Ohio Round Table

Kip Wahlers, Partner
Ice Miller LLP
Columbus, Ohio
Kip.Wahlers@IceMiller.com
614.462.1074

Development Finance – the Classic Days

Development Finance – the Classical View

- Ohio's Bond Market has historical strength
  - Local Governments
    - Cities and Counties
      - Community Improvement Corporation
    - Port Authorities (1959/1964)
  - Public/Private Projects
    - Parking Garages
    - Grain Elevators
    - Hospitals/Nursing Home
    - Industrial Development Bonds

Development Finance – the Classical View

- Investment Community
  - Retail investors
  - Mutual Funds
  - Institutional
- Tax Exemption
  - Usually Tax-exempt
- Notions of urban renewal
  - Cleveland default

Development Finance – early 1980's

Development Finance – 1980's (Pre-1986)

- State of Ohio becomes increasingly active
- Industrial Development Bonds include not only traditional manufacturing, but also many other private projects including
  - Fast food franchises
  - Shopping Centers
- Largely Tax-Exempt (because there were few restrictions requiring taxable issuances)
- TIF Authorized in Ohio in 1976

The Ohio Bond Market Comes of Age

Ohio Development Finance – Post 1986 - 2008

- Issuers
  - Port Authorities
    - Bond Fund Transactions
    - Conduit transactions
    - Sales Tax Savings
    - Off-Balance Sheet financings
  - State of Ohio
    - Department of Development/Treasurer of State
    - Ohio Air Quality Development Authority
    - Ohio Higher Educational Facility Commission
    - Ohio Water Development Authority

Ohio Development Finance – Post 1986 - 2008

- Issuers
  - Local Governments
    - Cities and Counties
      - TIF Transactions – public and private improvements
      - Non-tax revenues
      - Conduit Transactions
        - Housing
        - Hospital/Nursing Homes
        - IRB's
      - Increased willingness to back economic development with municipal revenues.
    - Special Districts
      - Special Improvement Districts
      - Community Development Authorities

Ohio Development Finance – Post 1986 - 2008

- Investors
  - Retail
  - Insurance Companies
  - Funds
- Taxable/Tax-Exempt
  - Mostly Tax Exempt wherever possible
  - Investors normally divided between taxable and tax-exempt issues.
  - Lower floater market
- Disclosure
  - Bank letters of credit.
  - SEC begins to look at municipal market requiring continuing disclosure.
  - Bond Insurance prevalent.
- Rating Agencies

The World Changes - 2008

The Bond Market in Transition – 2008 -2011

- Investors
  - Build America Bonds - Created a new market for taxable debt
  - Became more wary as markets imploded.
  - Credit work became more important.
  - New bank regulations tightened credit and ability to do new deals.
  - Revenue cash flows decreased
  - Interest rates became more volatile
  - Bond insurance disappeared
- Rating Agencies
- Underwriters
- Financial Advisors

The Bond Market in Transition – 2008 -2011

- Ohio Issuers
  - Cities and Counties
    - Declines in tax and other revenue
    - Higher operating costs
    - Increased investor scrutiny
    - Collapse of credit enhancement
  - Port Authorities
    - Bond Funds became unrated
    - Off-balance sheet financing

Responses – the Ohio Bond Market Today

The Ohio Bond Market Post Crisis

- Funding Sources
  - JobsOhio – New public private partnership agency, leveraging state liquor franchise.
  - Public-Private Partnerships – new legislation in Ohio intended to incentivize private investment.
  - New Community Authorities – special districts with broader powers.
  - EB-5
  - New Market Tax Credits
  - Equity

The Bond Market Post Crisis

- Investors
  - Banks
    - National market
    - Local market
  - Tax-Exempt Investors
  - Taxable Investors
  - Equity
  - Real Estate Investors
  - Developers
- Unrated Market
- Many failed deals – bonds trading at much less than par
  - Opportunity to create value in bonds
  - Opportunities to realize project value

The Bond Market Post Crisis

- Underwriters/Municipal Advisors
  - Pre-Crisis – Underwriters often served as de facto financial advisor to local governments; however had no fiduciary responsibility.
  - Post-crisis – MSRB and SEC rules clarifying that Municipal Advisors have a fiduciary duty to bond issuers that underwriters do not have.
  - Consequence is an increase in presence of municipal advisors in the market and increased availability of advice to issuers.
  - Those same duties may not apply to non-public bodies.
- Emphasis on disclosure – continuing disclosure of paramount importance
- Increasing reliance on private placements

Some practical approaches

Post Crisis Case Studies

- Harrison County, West Virginia
  - Issued TIF Bonds backed by special assessments in 2007.
  - Developer unable to pay special assessments/bonds nearing default.
  - Solution:
    - Principal deferment for three years, utilize reserve fund to pay debt service.
    - New district formed where sales tax revenues would be used to purchase land from developer and thereby restore reserve fund balance.
    - Local bank and developer purchased sales tax revenue bonds.
    - Bonds were bank qualified
  - Investor response: Would have given even more to the Developer, had the investor been granted more control over the development.

Post Crisis Case Studies

- Hickory Chase, Hilliard Ohio
  - New Community Authority created; issued TIF Revenue Bonds the proceeds of which were used to fund Britton Parkway in the City of Hilliard.
  - Bonds secured by TIF Bonds, and backed by Community Development Charges.
  - Developer of Hickory Chase declared bankruptcy
    - Trustee ultimately sold bonds and land to new developer.
    - New developer purchased bonds for less than par. Bonds can be refunded or reoffered to public.

Post Crisis Case Studies

- Simon/Tanger Outlet Mall, Delaware County Ohio
  - Ohio Department of Transportation required mall developer to ensure that up to $33 million of public infrastructure could be funded at Route 36/37 interchange
  - Public improvements paid for with:
    - TIF Revenue
    - County Contribution
    - New Community Development Charges levied on the basis of projected sales at the Outlet Mall.
  - Law changes to NCA statute enabled funding of project

Unlocking Value Post Crisis

- Value of securities
- Restructuring debt
- Finding new sources of revenue
- Redeveloping real estate
- Rethinking public-private partnerships and the role of the investors.

The End