



# **Economic Development Seminar**

## **“Pennsylvania: New Deals”**

### **Tuesday, February 24, 2009**

**Ballard Spahr**

Helps build the nation



# Welcome

- Michael Sklaroff

# Traditional Economic Development Programs

- John H. Estey

# Traditional Economic Development Programs

## Redevelopment Assistance Capital Program (RACP)

- Grant program administered by the Office of the Budget for the acquisition and construction of regional economic, cultural, civic and historical improvement projects
- Commonwealth's borrowing authority for the RACP is \$3,450,000,000
- Program requirements
- Program eligibility
- Reimbursable and non-reimbursable cost categories

# Traditional Economic Development Programs

## Governor's Action Team (GAT)

- Team of nearly two dozen economic development experts designed to provide guidance for domestic and international businesses seeking to expand or relocate to the Commonwealth
- Since January 2003, 820 GAT projects have been completed creating 87,474 new jobs and 199,051 retained jobs with more than \$1.5 billion in state assistance
- GAT provides critical information and data

# Traditional Economic Development Programs

## The Commonwealth Financing Authority (CFA)

- CFA was established to have fiduciary responsibility over funding provided through Pennsylvania's Economic Stimulus Package of 2004
- Through 2007, CFA had approved nearly \$900 million in grants, loans and guarantees for 598 projects
- CFA and its corresponding programs focus on investing in:
  - Infrastructure projects
  - Key tourism projects
  - Agricultural projects
  - High-growth companies

# Traditional Economic Development Programs

## Pennsylvania Department of Transportation (PennDOT)

- PennDOT provides funding for:
  - State roads and highways
  - Rail Freight
  - Aviation
  - Other transportation related projects
- The Bureau of Aviation, Bureau of Rail Freight Programs, the Bureau of Design Programs and the Pennsylvania Infrastructure Bank offer funding opportunities to eligible projects

# Traditional Economic Development Programs

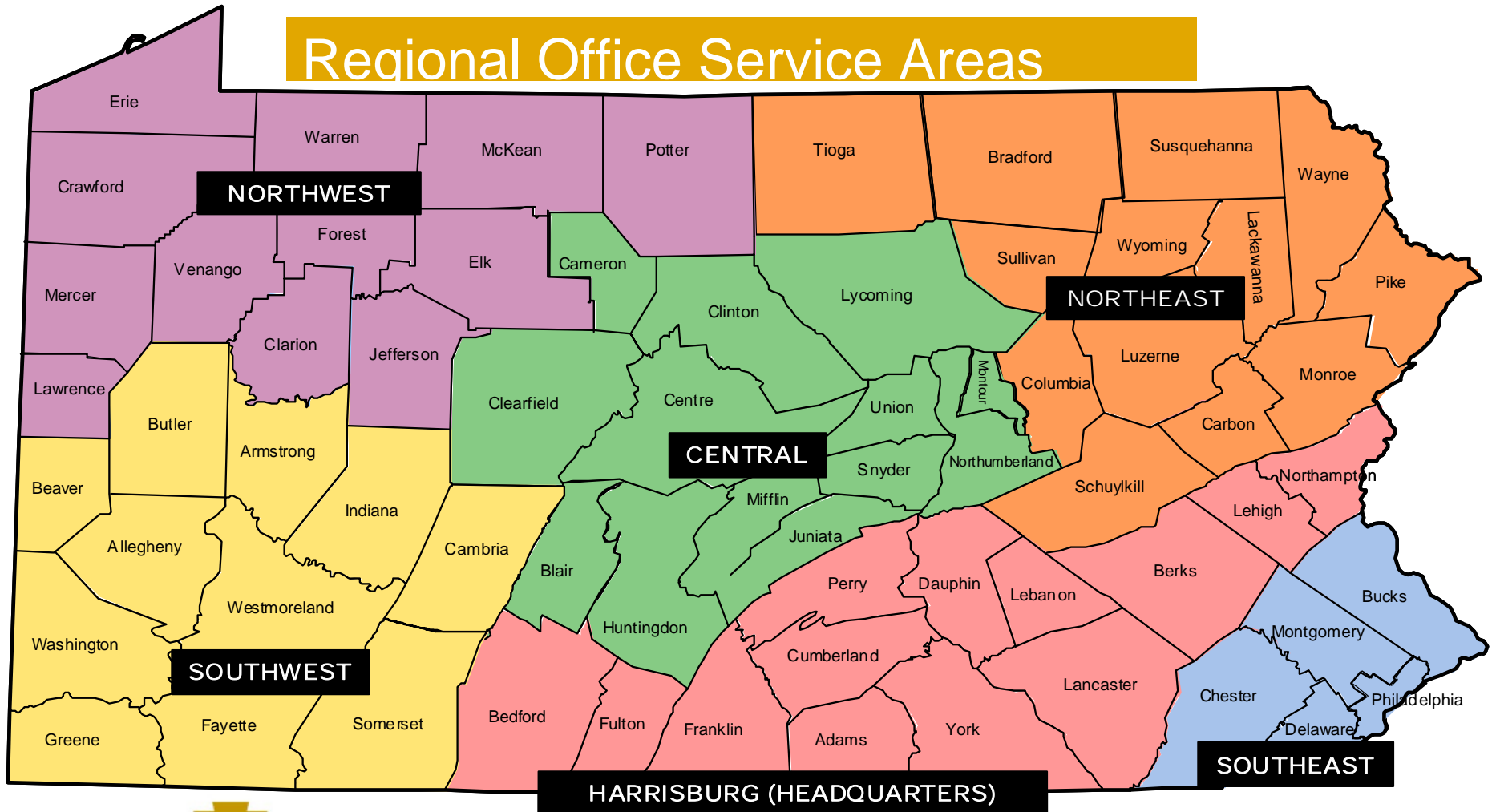
- Michael E. Rossman



## The Governor's Action Team (GAT):

- The front line of Pennsylvania's economic development efforts
- Team of 24 economic development professionals
- Headquartered in Harrisburg
- Regional offices in Philadelphia, Pittsburgh, Scranton, Erie and Lewisburg

## Regional Office Service Areas



## Services Provided By GAT

- Site Selection Information
- Interagency Coordination
- Package Financial Incentives

## Services Provided By GAT

### Site Selection Information:

- Available sites and buildings
- Workforce
- Utilities
- Transportation
- State and local taxes

## Services Provided By GAT

### Interagency Coordination:

- Direct interface at Cabinet level
  - DEP
  - PADOT
  - Department of Revenue
  - Labor and Industry

## Services Provided By GAT

### Package Financial Incentives: Grants

- Opportunity Grant
- Customized Job Training/WedNet
- Infrastructure Development Program
- Infrastructure & Facilities Improvement Program

## Services Provided By GAT

### Package Financial Incentives: Tax Credits

- Job Creation Tax Credits
- Research and Development Tax Credits
- Enterprise Zone Tax Credit Program

## Services Provided By GAT

### Package Financial Incentives: Loans

- PIDA
- Machinery and Equipment Loan Fund
- Infrastructure Development Program
- Small Business First
- Citizens Job Bank



## Keystone Opportunity Zones (KOZs)

- Virtual tax-free zones
- 100% property tax abatement
- Other taxes fully or partially abated:
  - Corporate Net Income Tax
  - Capital Stock/Franchise Tax
  - Sales and Use Tax
  - Local business taxes

## Keystone Opportunity Zones (KOZs)

### 2008 Legislative Changes:

- Expansions
- Extended benefits
- 15 new zones
- Enhanced sales tax exemption
- Apportionment

## Business Retention and Expansion Program

### **Nationally Recognized Business Calling Program:**

- Over 49,000 visits made from 1/1/2003 – 12/31/2008
- Over 260 professionally trained Business Liaisons
- Over 700 service providers, including:
  - Colleges/universities/technical schools
  - Career Link centers
  - Small Business Development Centers
  - Industrial Resource Centers
  - All Commonwealth agencies

## GAT's Record of Success January 1 , 2003 – December 31, 2008

- Engaged in over 2,400 projects
- Successfully completed nearly 1,100 projects that have or will:
  - Create over 115,000 new jobs
  - Retain over 260,000 existing jobs
  - Leverage over \$13.4 billion in private investment

## Activity and Accomplishments *Historical Performance*

Year	Offers Made	Successfully Completed Projects	Jobs Created	Jobs Retained	Total Project Cost (\$ billions)	State Assistance Offered (\$ millions)	Private to Public Ratio
2005	292	219	21,778	44,583	\$2.6	\$451.3	6 : 1
2006	265	220	27,212	53,041	\$3.8	\$603.5	6 : 1
2007	207	165	16,514	33,462	\$2.7	\$358.4	8 : 1
2008	219	138	15,213	34,121	\$2.2	\$240.4	9 : 1
<b>Avg</b>	<b>246</b>	<b>186</b>	<b>20,179</b>	<b>41,302</b>	<b>\$2.8</b>	<b>\$413.4</b>	<b>7 : 1</b>

## 2008 Top Projects by Project Cost

Company	Total Project Cost	County
C/G Electrodes	\$150,000,000	Elk
Samuel Adams PA Brewery (Boston Beer)	\$141,000,000	Lehigh
Church & Dwight Inc.	\$140,000,000	York
Dick's Sporting Goods	\$134,000,000	Allegheny
First Quality Enterprises, Inc.	\$127,478,000	Mifflin

## 2008 Top Projects by Jobs Created

Company	Jobs Created	County
Amazon.com	1,121	Luzerne
BAE Systems Land & Armaments	624	York, Franklin
Keystone Helicopter	559	Chester
W.L. Gore & Associates	550	Chester
First Quality Enterprises, Inc.	500	Mifflin

## GAT Project Profile

### **Church & Dwight, Inc. - York, PA**

- \$140 mm new manufacturing/distribution facility in eastern U.S.
- 1.1 mm square foot LEED-certified bldg.
- 300 new jobs
- Highly confidential



## GAT Project Profile

### **Church & Dwight, Inc. - York, PA**

#### GAT Services Provided:

- Site search
- DEP - permitting/SRBC
- PADOT– road/rail improvements
- First Energy Corp. – power line relocations
- Incentives

## GAT Project Profile

### **Church & Dwight, Inc. - York, PA**

Funding:

- DCED – OGP, JCTC, CJT, IDP
- DEP – PEDDA
- PADOT – Rail TAP

# Philadelphia Regional Produce Market

- J. Brian O'Neill

# Philadelphia Regional Produce Market: History

- Started in the 1600's on Dock Street
- 33 unique vendors
- Many vendors have 4th generation businesses
- Provides more than 1,500 Philadelphia jobs
- Delivers produce up and down entire East Coast

# Philadelphia Regional Produce Market: History



# The Challenge

- Second Largest Produce Distribution Terminal in US (Should be #1)
- Growth Constrained at Current Location
- Current facility impedes PRPMs global expansion
- Facility does not meet current industry standards
- PRPM has an occupancy requirement of 2010
- Philadelphia risks losing a Central Market

# NJ Makes A Play

- New Jersey began to woo PRPM to several sites on the other side of river
- Financial incentives were created by NJ
- PRPM did not want to leave Philadelphia
- Philadelphia Industrial Development Corporation (PIDC), The Philadelphia Regional Port Authority, and local government officials explored sites and solutions for PRPM

# The Naval Yard Makes A Move

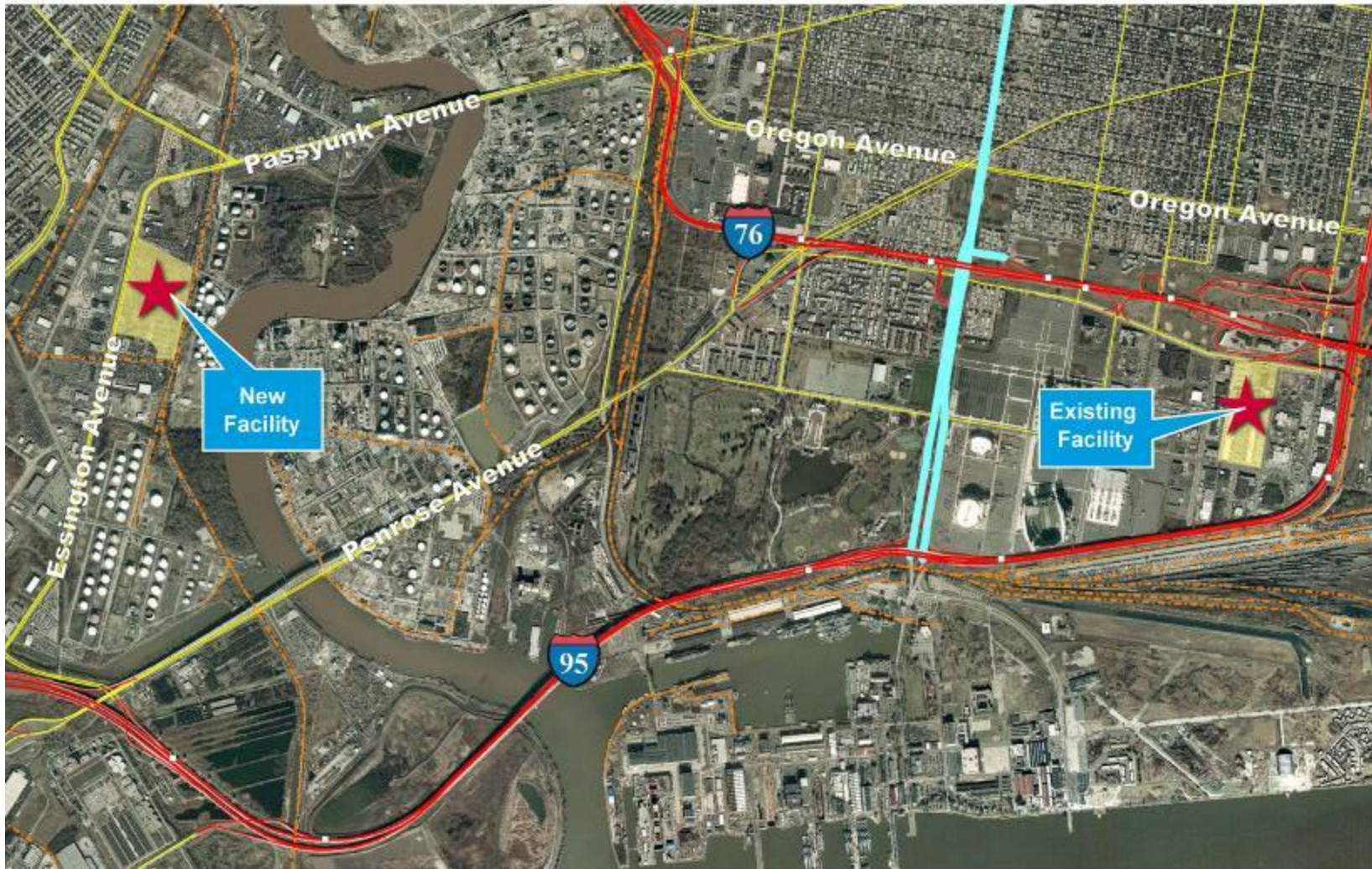
- Naval Yard was identified as a potential future site
- Cost for development was over \$400MM
- Timeframe was well beyond PRPM need to occupy
- TIME WAS RUNNING OUT, NEEDED A SOLUTION FAST



# Essington Avenue: A Solution

- 48 Acres
- 2,044 feet fronting on Essington Avenue
- 5-8 feet above flood plain of Schuylkill River
- Less than 10 minutes from current site
- Immediate access to major highways I-95 and I-76 as well as rail service
- Door-to-Door public transportation
- Iconic location
- Available for occupancy Fall 2010

# Current Site And Former Site



Ballard Spahr

Helps build the nation

# The Negotiation Begins

- 33 Produce Vendors
- PRPM Produce Board
- Philadelphia Regional Port Authority
- Philadelphia Industrial Development Corporation
- Local Neighborhood Group
- City of Philadelphia
- Governor's Office
- **A “Must-Make-It” Budget and a Quick Deadline**

# Funding And Financing

- Secured \$152.5MM from Commonwealth
- \$50MM AIG Loan
- \$2MM BEDI Grant
- \$3MM low-interest HUD 108 loan
- \$11MM low-interest PENNVEST Loan
- Annual \$770,000 for operating grant (IFIP)

# Many Groups, Many People: 1 Goal

## City & State Officials

- Governor, Edward G. Rendell
- Mayor, Michael Nutter
- Senator, Vincent Fumo
- City Council President, Anna Verna
- Andy Altman, Commerce Department
- Tony Radwanski, Communications Director
- Brian Johnson, Deputy Executive Director/Project Mgmt.
- Cheryl Cook, Deputy Secretary, Governor's Office
- Randy Albright, Senator Fumo's Office
- Doug Oliver, Mayor's Office
- Katherine Martin, Mayor's Office
- Jean Lonie, PA Dept. Of Agriculture, Governor's Office
- Joe Resta, PA Convention
- Scott Denver, PGW
- Denise Ring, PGW
- Nicholas Scafidi, Redevelopment Authority
- Dennis Yablonsky, DCED
- Scott Dunkleberger, DCED
- Brian Eckert, DCED
- Erin McKenna Zimmerman, Greater Select Philadelphia
- Meghan Lyons, Greater Select Philadelphia
- Elvira Stewart, Eastwick PAC
- Shawn Weiss, Pennvest
- Jayne Blake, Pennvest
- Paul Marchetti, Pennvest
- Vickie Johnson, Pennvest
- Brion Johnson, Pennvest
- Anne Cavender, Pennvest
- Jim Bowman, Pennvest

## PRPM

- Sonny DiCrecchio, Managing Director
- James Storey, President
- Joseph Procacci, Owner, Procacci Brothers, Inc.
- Richard Nardella, Owner Nardella, Inc.
- George Manos, TMK Produce
- Michele Garfagno, TMK Produce

## PRPM Counsel

- Michael Sklaroff, Ballard Spahr
- Michael Taichman-Robbins, Ballard Spahr
- Stephanie Wittenberg, Ballard Spahr

## PRPM Consultants

- Bill Popoff, Northstar Advisors
- Chris Caggiano, Northstar Advisors
- Norm Liedtke, Northstar Advisors
- Ron Street, Northstar Advisors

## PRPA

- John Estey, Chairman
- Greg Ianarelli
- Kate Philips
- Michael Scott
- Brian Diehl

## PRPA Counsel

- Jeffrey Leonard, Cozen O'Connor
- Christopher Preate, Cozen O'Connor
- Rob Shulman, Cozen O'Connor

**Ballard Spahr**

Helps build the nation

# Many Groups, Many People: 1 Goal, continued

## **O'Neill Properties Group**

- Brian O'Neill, Chairman
- Rich Heany, Executive Vice President of Acquisitions and Divestitures
- Jim Savard, Senior Vice President, Office Development
- Stephen Forester, Public Finance
- Yolanda Rodriguez, Lead Counsel
- Dan Kane, Project Manager

## **O'Neill Properties Counsel**

- Johnathon Spergel
- Yolanda Rodriguez
- Catherine Sibel, MMC
- Jonathan Spergel, Manko Gold
- Lori Zehner, Pepper Hamilton
- Raymond L. DeLuca, Pepper Hamilton
- Alan Kessler, Wolf Block
- Christy Deutsch, Wolf Block
- Meredith Bieber, Wolf Block
- Susan Costello, Wolf Block

## **Brokers**

- Keith Kiner, PernaFrederick
- Steve Perna, PernaFrederick

## **O'Neill Properties Consultants**

- Abby Wilson, Environmental Standards
- Gerry Kirkpatrick, Environmental Standards
- Joe Kraycik, Environmental Standards
- Steve Brower, Environmental Standards
- Tom Friese, Pennoni Associates
- Eric Peterson, SCS Engineers
- Josh Roth, SCS Engineers
- Mike McLaughlin, SCS Engineers
- Jack Widman, SWB Counselors
- Brian Motter, Tran Systems
- William Bremner, Tran Systems
- Mark Celoni, Pennoni
- Grant Harrington, Pennoni
- Jason Haynes, Pennoni
- Elizabeth Norton, Pennoni
- Tim Stout, Langan Engineering
- Michael Mariano, Econsult
- Steve Mullin, Econsult

# Many Groups, Many People: 1 Goal, continued

## **AIG**

- Michael Medvin, AIG
- Ed Kang, AIG
- David Mbutia, AIG
- Paul Doering, Paul Doering Associates, LLC  
(consultant on behalf of AIG)

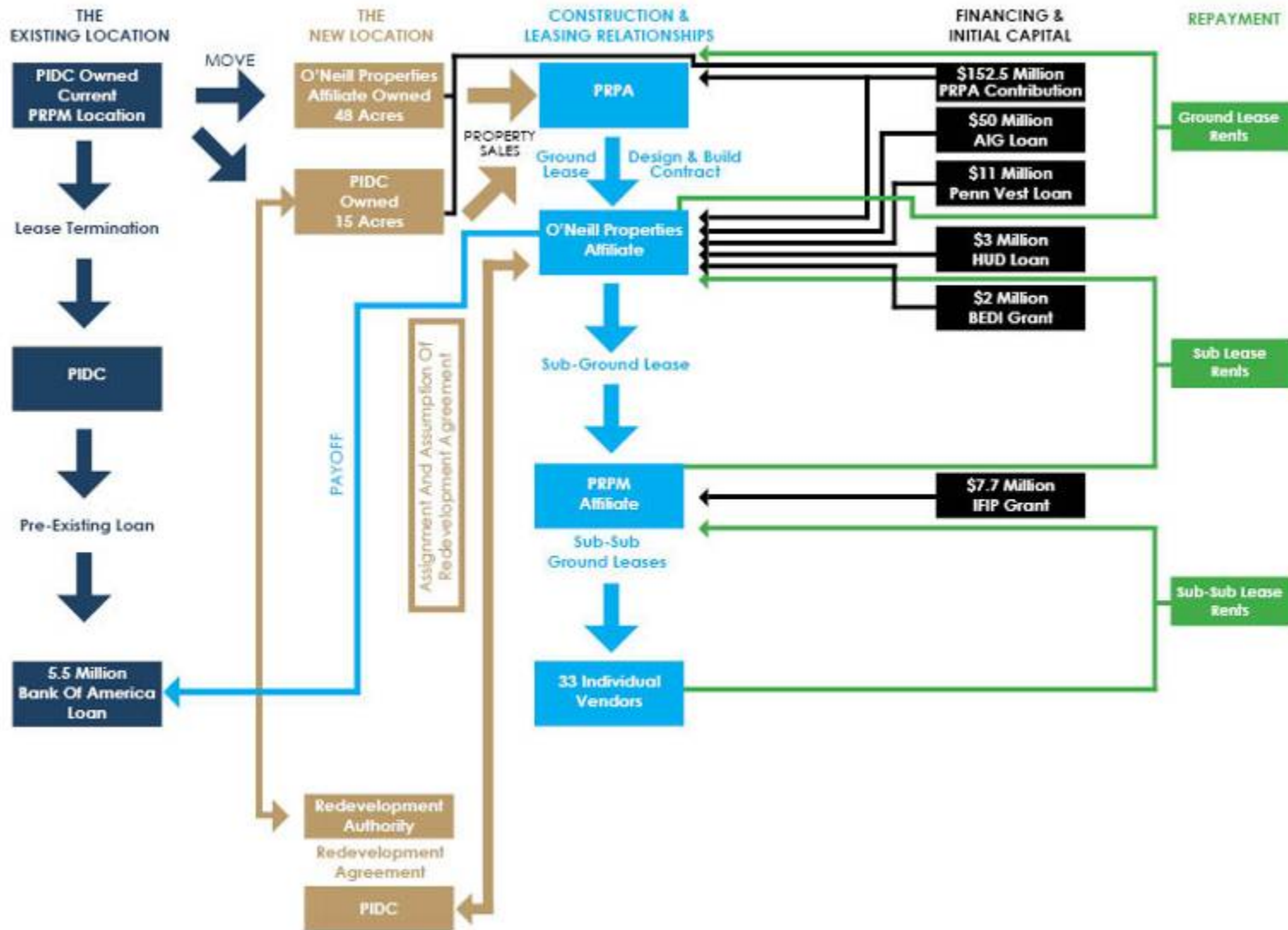
## **AIG Counsel**

- Andy Jagoda, Katten Muchin Rosenman LLP
- Adam Engel, Katten Muchin Rosenman LLP
- Adam Sanders, Katten Muchin Rosenman LLP
- Victoria Shusterman, Katten Muchin Rosenman LLP

## **HUD/PIDC**

- Andrea Edwards-Spence, HUD
- John Bravacos, HUD
- Mary Anne Bellacima, HUD
- Nadab Bynum, HUD
- John Grady, PIDC
- Liz Gabo , PIDC
- Paul Deegan, PIDC
- Peter Longstreth, PIDC
- Susan Casey Lowry, PIDC
- Wendy Weiss, PIDC
- Thomas Dalfo, PIDC
- Sam Rhoads , PIDC
- Jennifer Rodriguez, PIDC

# The Final Deal





# O'Neill Properties: Brownfield Experts

- Thousands of automobile carcasses, bus carcasses, domestic debris, auto parts
- Over 500,000 surface and subsurface tires removed from the property
- Environmental cleanup
- Grade improvements

# Before & After Cleanup



**Ballard Spahr**

Helps build the nation

# The Groundbreaking Celebration



# The New Site-Exterior



**Ballard Spahr**

Helps build the nation

# The New Site-Exterior



# The New Site-Entrance



Ballard Spahr

Helps build the nation

# The New Site-Interior



Ballard Spahr

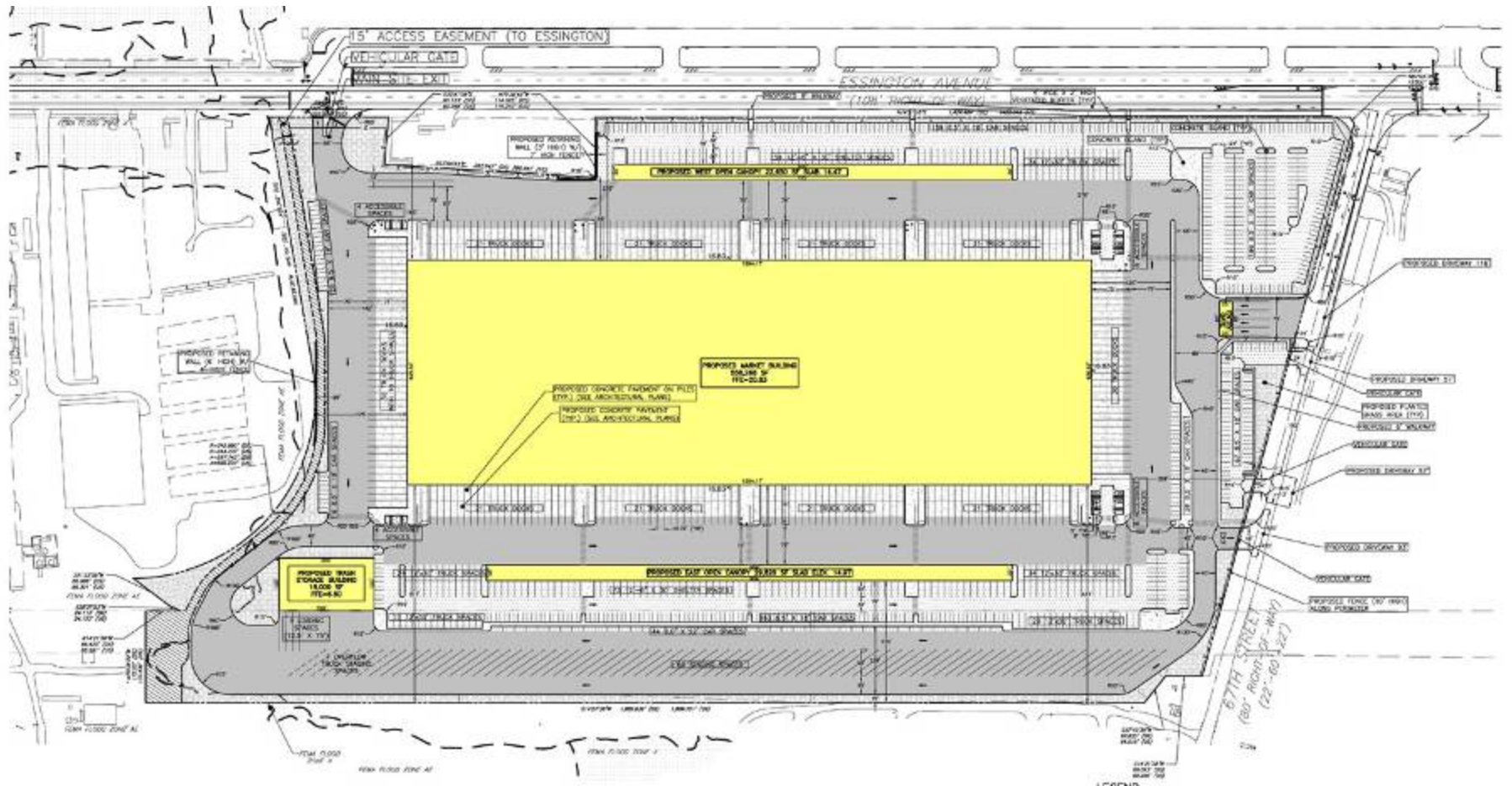
Helps build the nation

# The Cold Chain – From The Field To Your Plate

- Farmer → Refrigerated Truck → Terminal Market → Customer
- Goal is to keep constant refrigeration from harvest to distribution
- Usually refrigeration (cold chain) is broken at docks of MOST terminal markets – NOT PRPM!
- New PRPM building has enclosed docks, keeps truck completely enclosed in 55 degree temperature, keeping the cold chain preserved
- Keeps produce fresh, provides longer shelf life and keeps food free of bacteria/contamination



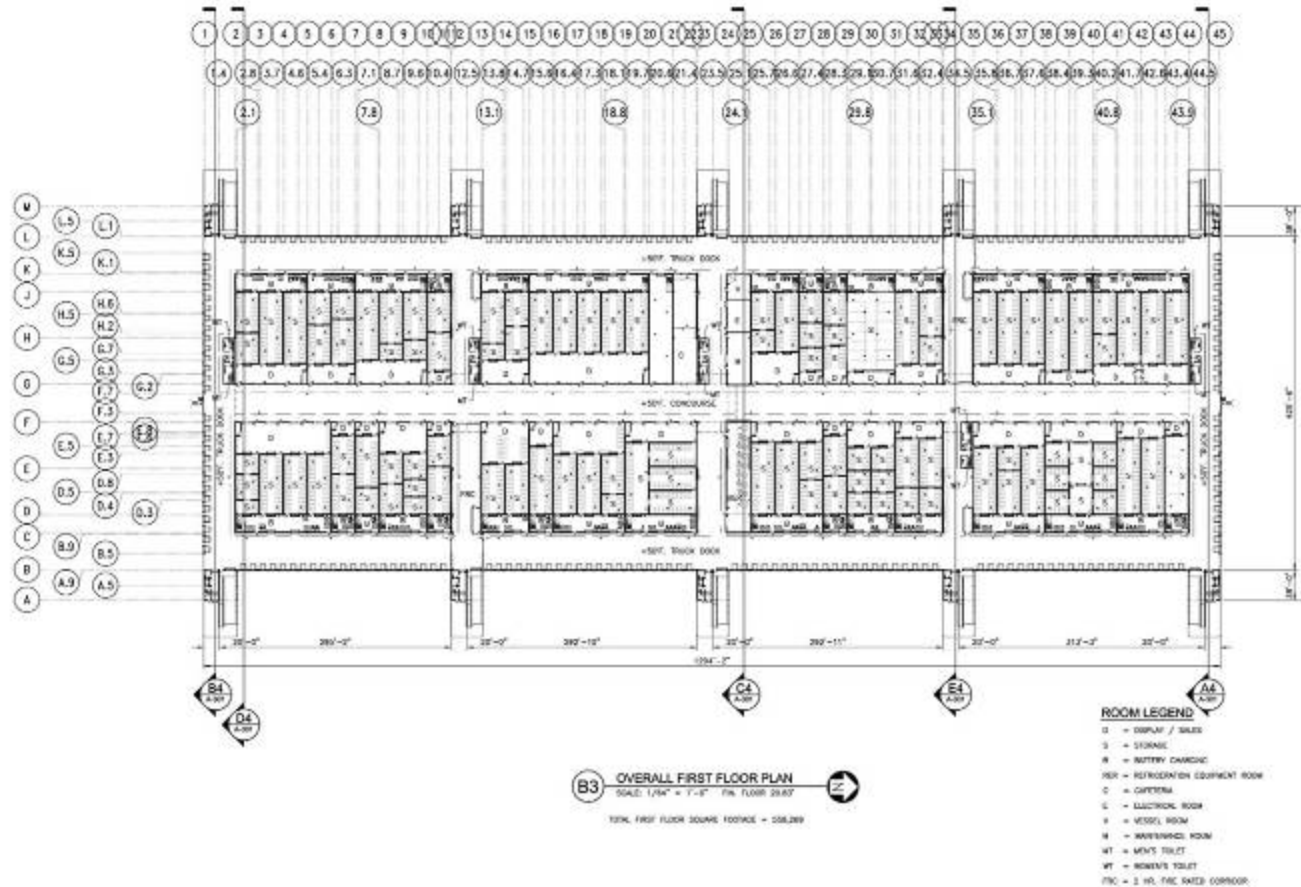
# Siteplan



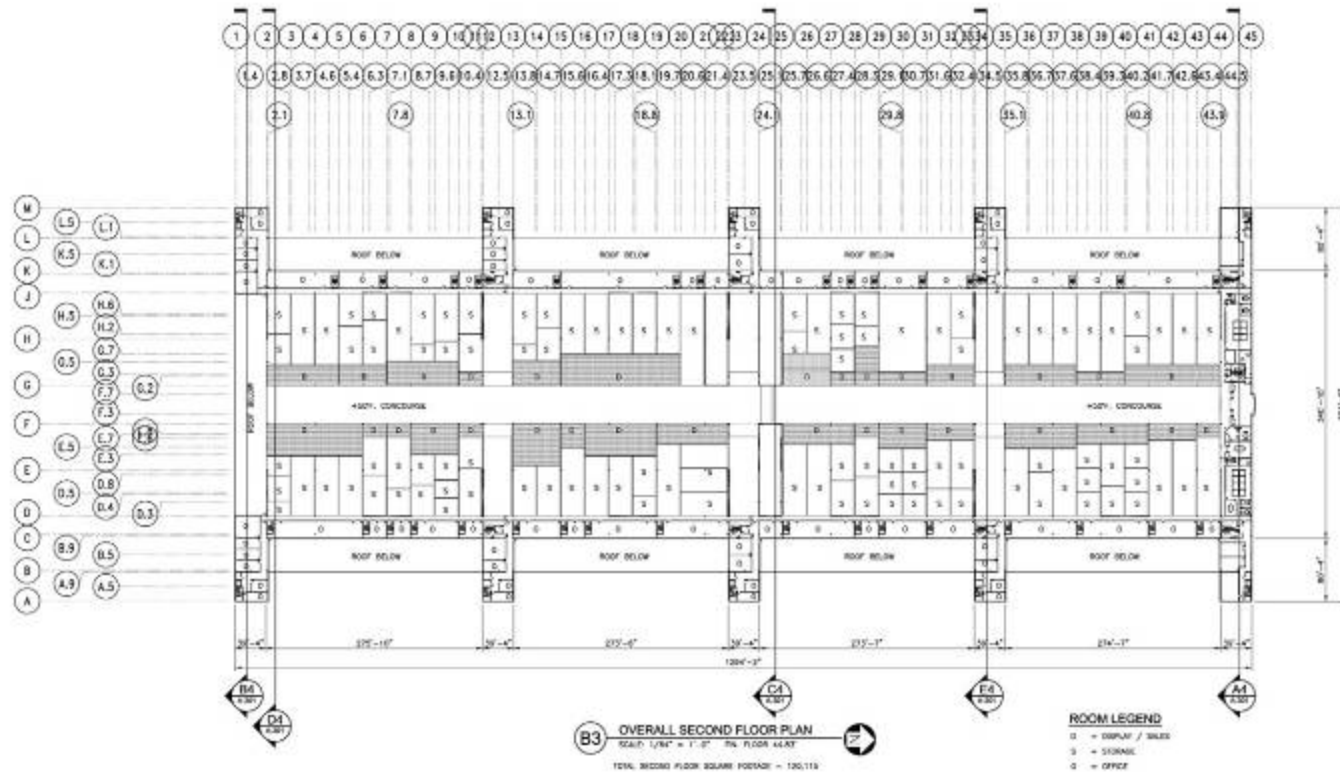
Ballard Spahr

Helps build the nation

# First Floor Plan



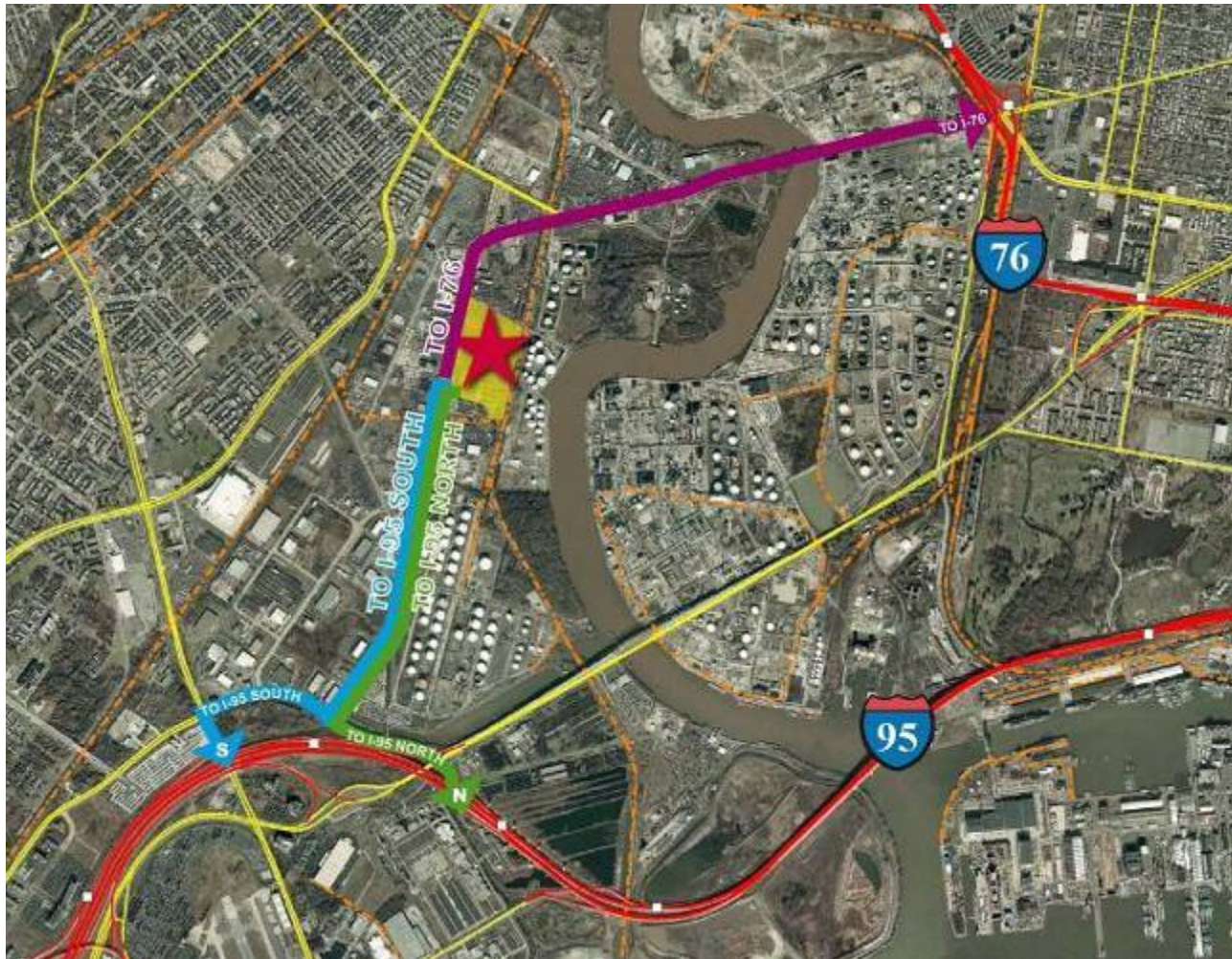
# Second Floor Plan



# A Great Location-Access

- Tremendous Access to I-95 and I-76
- Minutes from Philadelphia International Airport
- R1 & R2 Regional Rail stops just minutes away
- #36 Trolley & #37 Bus are only a few blocks away

# A Great Location: Highways



Ballard Spahr

Helps build the nation

# A Great Location: Rail System

**Norfolk Southern  
Rail Spur runs  
directly to  
6700 Essington**



**Ballard Spahr**

Helps build the nation

# The New Facility

- 686,000 Square Foot Distribution Center
  - 550,000 SF Refrigerated First Floor Distribution
  - 116,000 SF Second Floor Mezzanine (85,000 SF office)
  - 20,000 SF Recycling and Maintenance Building
- 2 Shelter Bays for 133 single unit trucks
- 89 Truck Staging Spaces
- 228 dock spaces wrapping perimeter of building
- 584 employee car parking spaces
- 182 customer car parking spaces
- Iconic Presence – 2,044 Feet of Visibility

# State-Of-the-Art

- 1st of its kind in the world - cold chain is never broken
- 100% fully refrigerated facility – entire building
- 228 50-foot wide enclosed and fully refrigerated docks
- 5 inch thick insulated metal panels, steel, and concrete
- Independent refrigeration adjustments for each vendor's unit
- 40-foot ceiling heights
- Skylight running length and width of building
- Central concourse open to the public



# Traditional Economic Development Programs

- Gregory V. Iannarelli

# Traditional Economic Development Programs

## Performance and Compliance

- Requirements and compliance issues for projects that participate in economic development programs
- Privileges of the Commonwealth when it contracts



# Traditional Economic Development Programs

## Program - Agency - Pot of Money

- Primary source of the strings attached:
  - Funding Mechanism
    - Grant
    - Public Works Project
    - Local Sponsor
- Legal
- Bureaucracy



# Traditional Economic Development Programs

## Administration

- Compliance
  - Prevailing Wages
  - Steel Products Procurement Act
  - Separations Act
  - MBE/DBE
- Reporting
- Oversight



# Traditional Economic Development Programs

## Commonwealth Privileges

- Documents
- Indemnification
- Liens – Mortgage
- Board of Claims
- Signature Process
- Payment
- Governing Law



# Commonwealth's New Program: Water & Sewer

- Debra G. Coy

# Commonwealth's New Program: Water & Sewer

## The National Context

- Development of water and sewer infrastructure in the national context
- The Pennsylvania perspective
- Direction for PA: potential impacts from federal stimulus on PA's water and sewer infrastructure

# Commonwealth's New Program: Water & Sewer

## 2009 America's Infrastructure Report Card American Society of Civil Engineers

Drinking Water	Wastewater
D-	D-



# Commonwealth's New Program: Water & Sewer

- **Assessment by American Society of Civil Engineers, status of 15 categories of the nations infrastructure gave an average grade of D**
- **Infrastructure poorly maintained, unable to meet current & future demands**
- **Deteriorating conditions and inflation have added hundreds of billions to the total costs of repairs**
- **Total Cost of Repairs and needed upgrades \$2.2 Trillion**
- **Shortfall of \$11 billion for Water annually to replace aging water facilities and comply with the SDWA**

# Commonwealth's New Program: Water & Sewer

- Karl M. Kyriss
- Diana Swisher



# H2O PA Program Overview

**Ballard Spahr**

Helps build the nation



## Background

- **Established by the General Assembly in July 2008**
- **Leverages funds from the Pennsylvania Gaming Economic Development and Tourism Fund**
  - Capitalize up to \$800 million in grant funding
- **Administered by the Commonwealth Financing Authority (CFA)**
- **Single or multi-year grants are awarded for:**
  - Water or sewer projects (up to \$665 million)
  - Flood control projects (at least \$100 million)
  - High hazard or unsafe dam rehabilitation or repair (at least \$35 million)





## Program Eligibility

- **Eligible applicants include:**
  - Municipalities
  - The Commonwealth
  - Municipal authorities
  - Commonwealth Agencies
- **The project must be *owned* by the applicant**
- **Local Participation**
  - *Water and Sewer Projects = 50% match*
  - *High Hazard and Unsafe Dam Projects = 25% match*
  - *Flood Control Projects = Applicant provides easements, rights of way, etc.*





## Program Limitations

- **Total cost of at least \$500,000**
- **Privately owned water and sewer systems are ineligible**
- **A minimum 50% of water/sewer grants are allocated for regional systems or consolidation**
- **Priority is given to eligible applicants subject to:**
  - a federal or state court or agency order;
  - consent decree; or
  - new permit discharge requirements
- **Regional limitations**



## Current Status

- **Program guidelines were issued in December 2008**
- **Applications are being accepted**
- **Bonds are not being issued**
  - **Gaming revenue not considered “consistent source of funding”**
  - **Legislation is being re-introduced to include Commonwealth guarantee of bonds.**
    - **Will pass this session**
    - **No firm date regarding when awards will be made**





## H2O Program and PENNVEST

- **H2O Program is a PENNVEST alternative for municipalities**
- **PENNVEST will assist the CFA in the review of applications**
- **Receipt of a PENNVEST loan does not disqualify an applicant from H2O eligibility**
- **PENNVEST funds may be used as match**







## **PENNVEST Loans**

- **Pennsylvania Infrastructure Investment Authority (PENNVEST), the commonwealth's State Revolving Loan funding program for sewer, storm water and drinking water projects**
- **Aqua, one of the largest water and wastewater utilities in Pa, one of the largest users of PENNVEST Low interest funds**





## Aqua and PennVest

- **Low Interest loans allow Aqua to continue investing in infrastructure improvements providing safe water**
- **Funding assists creation of jobs**
- **Savings in interest expense benefits our rate payers in the PUC-approved rate structure**
- **Aqua began an aggressive program to secure low-interest financing in 1999, system wide long term interest rate has been reduced from 7.4% to 5.35 % on \$1.255 billion of outstanding debt as of December 31, 2008**



## Aqua and PennVest Loans

Year	Amount	Weighted Average Interest
2007	\$1.4MM	1.47%
2008	\$6.67MM	2.01%

## Location:

Lackawaxen Twp., Pike County

**Construction Cost:** \$423,000

**Completion Date:** 2007

**Designer:** CET Engineering

**Contractor:** PSI Pumping

## Project Highlights

✓ *PennVest funded*

✓ *Alleviate inadequate storage, fire flow and pressure capabilities*

✓ *Install new 125,000 gallon tank*

✓ *Install new 65 gpm well*

✓ *Installed 1 hydrant*

**AQUA**<sup>SM</sup>

## Replace Oneida Tank



Aqua purchased the water systems that service the Eagle Rock development and the village of Oneida in 2004. The village of Oneida had inadequate water storage, pressure and fire flow issues. The existing tank was in very poor condition. This new tank provides the service area with reliable potable water.

# Commonwealth's New Program: Water & Sewer

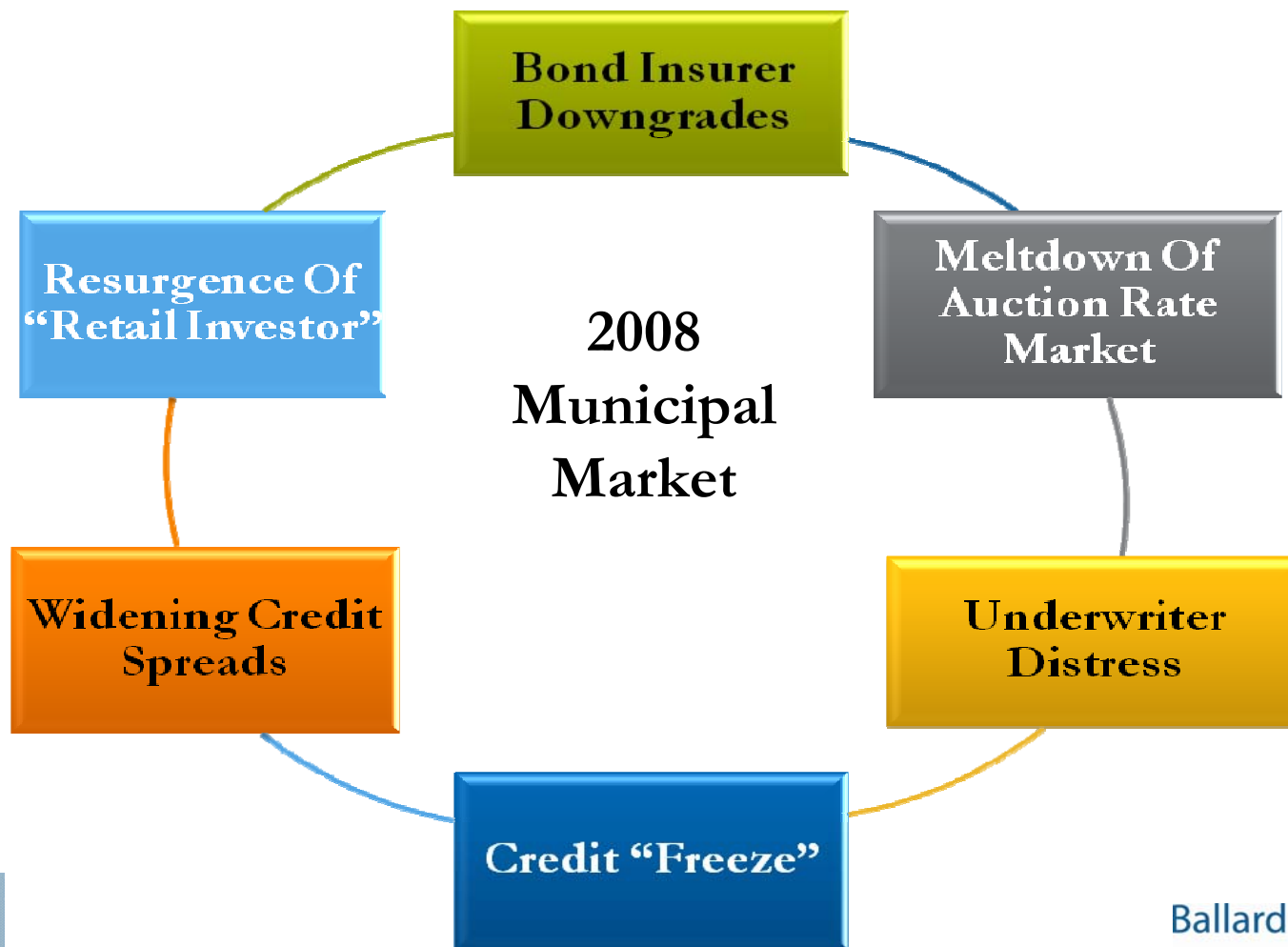
- Steven C. Genyk

# Market Overview

- Economic fallout spread to the municipal market in 2008
- Monoline insurance companies' demise has resulted in a different market with a greater focus on credit quality
- Market experiencing significant widening of credit spreads over the last 12-15 months due to domino-effect of sub-prime mortgage crisis
- In addition, the municipal/treasury relationship has changed. Today, the 30-year Treasury yield is a 3.55% and the 30-year MMD yield is a 4.72% (133% ratio)
- High grade general obligation sector (rated AA- or better) is functioning well, lower-rated general obligation credits and revenue-backed issues are more difficult
- Retail investors playing a significant role

# 2008 Municipal Market

*The Municipal Market experienced numerous changes throughout 2008*



# Bond Insurer Downgrades

- Monoline bond insurers were not in fact “monoline”; they insured mortgaged-backed securities
- Beginning in January 2008, the ratings agencies began to lower the ratings on the monoline insurers because of losses on mortgage-backed securities
  - By June 2008 only Assured, FSA and Berkshire Hathaway (BHAC) were still rated Aaa/AAA
    - BHAC entered into market in April 2008
  - In November 2008, Moody’s lowered its rating on Assured and FSA to Aa2 and Aa3 respectively; still retained S&P AAA-rating
  - Today, BHAC is the only remaining Aaa/AAA bond insurer
    - Only insured \$3.2B out of \$72B of new deals (.045%) in 2008
- Cost of bond insurance from the AAA/Aaa-rated insurers skyrocketed due to oligopoly of remaining AAA-rated insurers (FSA, Assured & BHAC)
- Municipalities that paid 15 to 25 bps for insurance in the past were now seeing premiums of over 100 bps
- Amount of municipal debt backed by bond insurance in 2008 tumbled 64% from 2007
- Non-tax-backed credits became even more expensive



# Widening of Credit Spreads

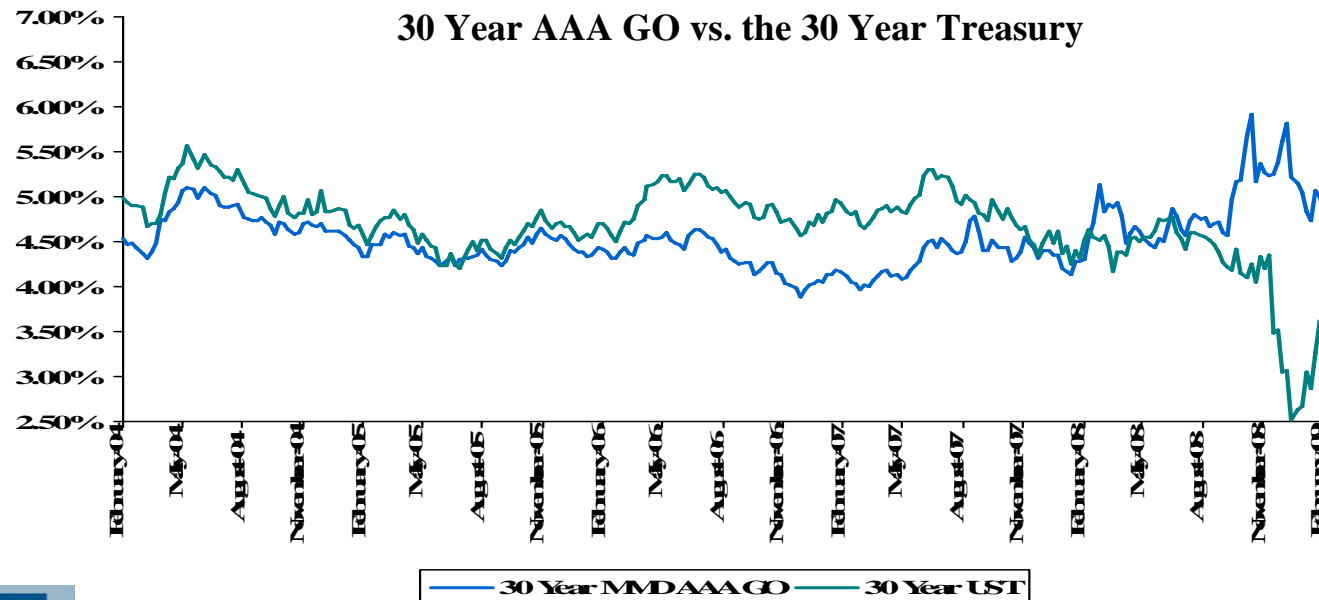
Historical Comparison of Municipal Credit Spreads<sup>(1)</sup>

	Current	10-Year Average	High	Low
AAA- vs. A-Rated Spreads	<b>0.83%</b>	<b>0.29%</b>	<b>1.26%</b> (12/22/08)	<b>0.17%</b> (01/08/99)
AAA- vs. BBB-Rated Spreads	<b>2.28%</b>	<b>0.68%</b>	<b>2.60%</b> (1/05/09)	<b>0.33%</b> (12/08/03)
AAA- vs. A-Rated AMT Spreads	<b>1.93%</b>	<b>0.52%</b>	<b>2.36%</b> (12/26/08)	<b>0.31%</b> (2/26/99)

<sup>(1)</sup> 30-Year Spot analysis

# Municipal/Treasury Relationship

- Historically, municipals and treasuries have maintained a stable correlation reflecting the pristine credit quality of treasuries and tax-exempt interest of municipals
- The credit crisis in 2008 sent a flood of cash into the treasury market while municipals experienced a drastic sell off causing the Treasury/Municipal relationship to dislocate



# Municipal/Treasury Relationship

## Taxable Rates

<b>1 Month LIBOR</b>	0.47%
<b>1 Year Treasury</b>	0.63%
<b>3 Year Treasury</b>	1.33%
<b>5 Year Treasury</b>	1.79%
<b>10 Year Treasury</b>	2.75%
<b>30 Year Treasury</b>	3.55%

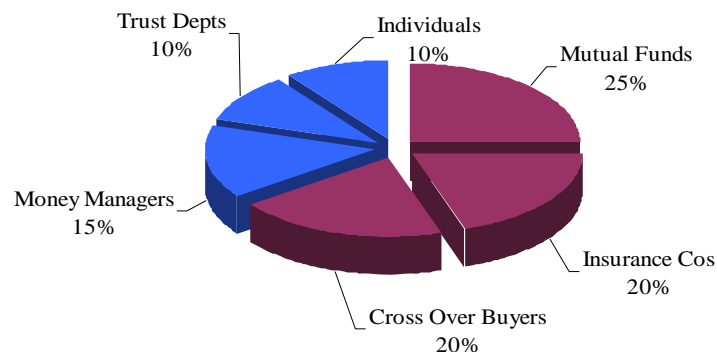
## Tax-Exempt Rates

<b>1 Week SIFMA</b>	0.66%
<b>1 Year</b>	0.55%
<b>3 Year</b>	1.34%
<b>5 Year</b>	1.85%
<b>10 Year</b>	2.90%
<b>30 Year</b>	4.72%

# Resurgence of Retail Investor

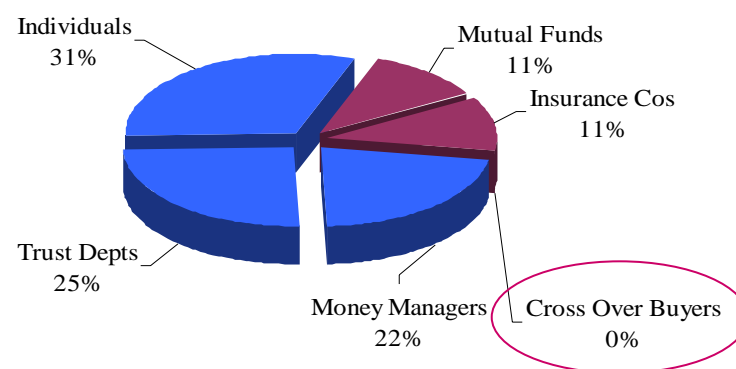
- By the end of 2008, the retail investors became the backbone of the municipal market
- Underwriters began structuring deals to appeal to retail audience
  - Retail-friendly maturities and coupons
  - Higher sales commissions to entice retail brokers
  - Recent retail participation
    - \$400 million of retail orders for \$200 million of NYC GO bonds
    - \$3.9 billion of retail orders for \$5 billion of CA GO notes

Investor base for municipal bonds in December 2007



■ Institutional Buyers – 65%  
■ Retail Buyers – 35%

Investor base for municipal bonds in December 2008



■ Institutional Buyers - 22%  
■ Retail Buyers – 78%

# Federal Stimulus and Municipal Bonds

## •Bank Deductibility (Bank Qualified Status)

- New Legislation
  - The qualified small issuer limit would be increased from \$10 million to \$30 million annually in 2009 and 2010 and also apply to borrowers in conduit financings
- Market Reaction
  - Will probably only benefit investors as well as larger issuers
  - Small issuers will be penalized with higher rates as recent deals suggest

## •Alternative Minimum Tax (AMT)

- Current Law
  - Individual AMT applies to non-housing and non-501c3 private activity bonds
  - Corporate AMT applies to all tax exempt securities except housing bonds
- New Legislation
  - Individual and corporate AMT will be repealed for all tax-exempt bonds issues in 2009 and 2010
  - AMT also removed from refunding bonds that refund bonds issued during the last five years
- Market Reaction
  - Will narrow AMT spreads but credit spreads will remain a hurdle for private activity issuers

# Outlook

- What is in store for 2009?

- Investors will continue to be risk averse and will stress safety of principal and liquidity
  - Highly-rated borrowers will find fixed rates to be relatively low and stable with insurance premiums back to acceptable levels
  - Less highly-rated credits will find it more costly to fund projects as credit spreads remain wider than norms
- Although some liquidity has returned to the municipal bond market in the first few weeks of 2009, the lingering concern about the credit quality still looms
  - 30 states are facing budget shortfalls totaling \$30 billion in FY2009 and \$60 billion in FY2010
  - IL downgraded; FL, OH and CA on negative watch
- Cities, counties and other municipal issuers are facing similar pressures

# What Should Issuers/Borrowers Do?

- Proactively communicate with the financial community (bankers, rating agencies and investors) throughout year; even when financing is not imminent
  - Non-Deal road shows
  - Obtain two credit ratings
  - Keep rating agencies up-to-date
- Tap different market segments
  - Fixed Rate (Bonds, Notes)
  - Variable (Floating, Multimodal)
- Financing schedule needs to allow for sufficient time for investors to perform credit analysis - 2 week minimum
- Increased need for aggressive and focused pre-marketing plan
  - Larger syndicates
  - Multiple day retail order period
  - Institutional investor conference call
  - Targeted print advertising in advance of sale
  - Evaluate other media forms to gain investor attention

# New Commonwealth's New Program: Energy

- Jeanne J. Dworetzky



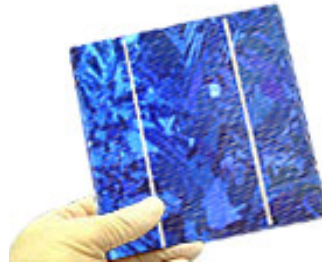
# The Alternative Energy Investment Act of 2008

## Special Session Act 1



**Ballard Spahr**  
Helps build the nation

# Solar Power Industries, Inc.



Ballard Spahr

Helps build the nation

# Solar Power Industries, Inc.

- **Company**
  - Manufacturer of multicrystalline solar ingots, wafers and cells
  - Established in 2003 in the Pittsburgh area
  - Major markets in Asia
- **Current Expansion Project**
  - Construction of 2 new buildings
  - Increase of 396 jobs over 3 years

# Solar Power Industries, Inc.

- **2005**
  - \$302,676 PEDA grant for cost-effective utilization of non-traditional silicon for solar cells
- **2006**
  - \$500,000 PEDA grant for expansion of wafering operations
- **2008**
  - \$2 million PA Industrial Development Authority Loan
  - \$2 million Infrastructure and Facilities Improvement Grant
  - \$600,000 Opportunity Grant
  - \$130,000 in customized job training
  - \$396,000 in job creation tax credits
  - Leveraging \$145 million company investment

# The Alternative Energy Investment Act

- Enacted July 9, 2008
- Provides \$650 Million in Funding and Tax Credits for Alternative Energy and Conservation
- Creates Two Funding Streams:
  - \$500 million in bond funding
  - \$20 million in annual funding and tax credits over 7 years and \$10 million in the 8<sup>th</sup> year

# \$650 Million in Funding Programs

## Administered Through:

- Commonwealth Financing Authority
- Department of Environmental Protection
- Ben Franklin Partners
- Pennsylvania Housing Finance Agency
- Department of Public Welfare
- Department of Revenue

# Programs for Consumers and Small Businesses

- \$100 Million for Solar Energy
  - May be loans, grants or rebates
  - Up to 35% of project costs
  - Administered by DEP
- \$92.5 Million for Consumer Energy Conservation Projects
  - May be loans, grants or rebates
  - Up to 25% of project costs
  - Administered by DEP
- \$25 Million for High Performance Buildings
  - May be loans or grants
  - Standards by DGS in consultation with DEP
  - Administered by CFA

# Commonwealth Financing Authority

- **\$165 Million for the following:**
  - Loans to businesses or non-profit economic development organizations for clean energy projects
  - Loans or grants to political subdivisions for clean energy projects
  - Loans and grants to businesses or nonprofit economic development organizations for alternative energy production projects
  - Loans and grants to businesses, nonprofit economic development organizations or political subdivisions for site preparation
  - Solar projects are not eligible



# Commonwealth Financing Authority

- **\$80 Million for Solar Energy Projects**
  - May be loans or grants
  - Can include incentives for manufacturers
- **\$25 Million for Geothermal and Wind**
  - May be loans or grants
  - Businesses and others

# Other Programs

- **\$40 Million to the Ben Franklin Partners** to Support Early-Stage Activities
- **\$10 Million Annually over 4 Years to DPW** to Supplement LIHEAP
- **\$5 Million to PHFA** for Home Efficiency Loan Fund for Income-Eligible Households
- **\$25 Million for Pollution Control Equipment** for Coal-fired Power Plants with Less Than 500 MW Capacity
- **\$2.5 Million for Data Center Consolidation Projects for Individuals and Small Businesses**

# Alternative Energy Production Tax Credits

- **Up to 15% of Total Costs of Development, Equipment and Construction, up to \$1 Million/Year/Taxpayer**
- **Taxpayer Includes a Person or Entity Subject to:**
  - Personal income tax
  - Corporate net income tax
  - Capital stock and franchise tax
- **Total Credits Limited to:**
  - \$5 million for each of first 4 years
  - \$8 million in 5th year
  - \$10 million in 6th and 7th years
  - \$2 million the 8th year

# National Recovery and Reinvestment Act

- State Energy Plan (SEP) Funds
  - PA's share likely \$80.6 to \$102.3 million
- Energy Efficiency Block Grants
  - PA's share likely \$8.7 to \$11 million
  - Additional funds awarded to small municipalities through PA Energy Office

# For More Information

- For Information About the Alternative Energy Investment Act, Visit the DEP Website at [www.depweb.state.pa.us](http://www.depweb.state.pa.us) and Select “Energy Independence”
- For Information on the Alternative Fuels Investment Act, Visit DEP Website at [www.depweb.state.pa.us](http://www.depweb.state.pa.us) and Enter Keyword “Alternative Fuels”
- Or Call DEP’s Office of Energy and Technology Deployment at (717) 783-8411

# Commonwealth's New Program: Energy

- R. Thomas Hoffmann



# Combining the Pennsylvania and Federal Incentives in the Energy Sector

**Ballard Spahr**

Helps build the nation

# Potentially Applicable Energy Projects

- **Utility-scale power plants**
  - Fossil Fuels (coal, natural gas)
  - Renewable Energy (solar, wind, biomass, landfill gas, geothermal, hydropower, municipal solid waste)
- **Distributed Generation Projects**
  - Cogeneration / combined heat & power
  - Renewables – solar, small wind
- **Energy Efficiency Projects**
  - Self-financed
  - Third-party financed
  - Energy Performance Contracts
- **Hybrid Projects**
  - Community solar projects, installations funded through property taxes, etc.



# Overview of Solar Power Financing Structures

1. **CREBs/Conservation Bond financing** – public ownership
2. **Tax-exempt financing** – public ownership
3. **Private Ownership** - Investment Tax Credit and Accelerated Depreciation with Market Rate Debt
  - (a) Partnership Flip (public entity – PPA)
  - (b) Sale/Leaseback or Master Lease (public entity – PPA)
4. **New Markets Tax Credit** – without Federal energy investment tax credit (public entity – PPA until ownership transfer)
5. **New Markets Tax Credit** – with Federal energy investment tax credit (public entity – PPA)

# Renewable Energy Federal Tax Provisions

- Federal tax provisions (many of these will be expanded due to recent stimulus bill)
  - **Accelerated Depreciation** – 5 years
    - Solar, Geothermal, Fuel Cell
    - 50% bonus depreciation extended 1 year in stimulus bill
  - **Investment Tax Credit (ITC)** – 30% of value placed in service in taxable year (recently extended through 2016)
  - **Production Tax Credit (PTC)**
  - **Election to claim ITC instead of PTC**
  - **Treasury Grant in lieu of ITC/PTC**
  - **Energy Efficient Commercial Property Deduction**
  - Other credits or financing possibly available:
    - **Tax-exempt financing** / CREBs / Conservation Bonds / Tax-exempt Prepaid Energy Contracts
    - **Low-income Housing Tax Credits**
    - **New Market Tax Credits**
    - **Historic Tax Credits**

# Tools Available to Communities

## Financing Options:

- **Municipal utilities** – tax-exempt pre-pays
- **Tax-exempt financing** – public ownership of renewables / energy efficiency property
- **Financing Renewables / Energy Efficient Purchases through Property Tax Assessments**
- **Leadership on Mixed Public-Private Financing Efforts**

# Financing Tool: Mixed Public-Private Finance

## Examples:

- Combining **low-income housing tax credit** with ITC/PTC through low-income redevelopment
- Combining **new markets tax credit** with ITC/PTC through community development entity (CDE) redevelopment structure
- Leading **historic redevelopment** projects incorporating renewable energy components
- Using **tax-exempt prepaid energy contracts** if municipal utility
- **Mixed-use projects** with some or all of the above

# Renewable Energy Incentives

- **State Renewable Portfolio Standards** (in 30+ states)
  - RPS require utilities to purchase a fixed percentage of their electricity from renewables
  - Many states allow for trading of Renewable Energy Credits (RECs)
- **Pennsylvania incentives**
  - Local loan programs (FirstEnergy, PPL, PECO)
  - Grants (PAEIF) and Rebates (PPL)
  - Alternative Energy Portfolio Standard (AEPS)
  - Sales of Alternative Energy Credit (AEC) sales, including solar AECs
- **Federal tax provisions**
  - Accelerated depreciation & bonus depreciation
  - Investment tax credit (ITC) – 30% of value placed in service in taxable year (recently extended through 2016)
  - ITC in lieu of production tax credit (PTC)
  - Elimination of ITC penalty for subsidized energy financing

# Specific Stimulus Provisions

- Examples of Energy Provisions in Stimulus Bill:
  - Advanced energy **manufacturing credit** (30%)
  - Extension of **50% bonus depreciation**
  - **5-year carry-back** of losses or Energy Credits for small businesses (\$15 million or less in revenues)
  - **Grants in lieu of renewable credits** (ITC/PTC)
  - Numerous renewables **grants, loans, loan guarantees** (block grants, solar demonstration projects)
  - Exemption of private activity bonds from **AMT**
  - **Elimination of reduction** in ITC for using **tax-exempt** financing
  - Dramatic expansion of **Conservation Bonds / CREBs**

# Pennsylvania Alternative Energy Legislation

## Alternative Energy Investment Act of 2008

- \$650 million in funding to increase the development of renewable energy and reduce energy consumption in the Commonwealth of Pennsylvania
- The Alternative Energy Portfolio Standards Act
  - Alternative Energy Production Project
    - projects that facilitate the development and construction of facilities that utilize waste coal, alternative fuels, biomass, solar energy, wind energy, geothermal technologies, clean coal technologies or other alternative energy sources

# Alternative Energy Production Tax Credits

- Alternative Energy Production Tax Credit Program provides \$130 million in tax credits (\$1.0M cap per project)
  - rail transportation systems that deliver alternative or renewable fuels
  - facilities that produce or distribute renewable energy
  - manufacturing products that provide renewable energy
  - manufacturing products used for alternative energy R&D



# Clean and Alternative Energy Project Finance

- \$165 million available for grants and loans:
  - Loans to businesses or nonprofit economic development organizations for clean energy projects
  - Loans or grants to political subdivisions for clean energy projects
  - Loans and grants to businesses or nonprofit economic development organizations for alternative energy production projects
  - Loans and grants to businesses, nonprofit economic development organizations or political subdivisions for site preparation
- \$25 million available for grants and loans for projects related to geothermal technologies
- \$25 million available for grants and loans to increase energy efficiency standards for small business renovation or construction projects or an individual's primary residence
- \$80 million available for grants and loans for alternative energy production projects related to solar energy

# Solar Energy Grants and Loans

- Eligibility requirements - (i) detailed description of the project, (ii) identification of the number of current employees and an estimate of future employees, (iii) cost of project, (iv) description of how the project reduces reliance on nonrenewable energy and (v) any additional required information
- Must have a useful life of 4 or more years and be located in Pennsylvania
- Maximum grant or loan amount for a project is \$30,000,000

# Geothermal Projects

- New Loan and Grant Program for wind and geothermal projects:
  - \$5 million maximum loan amount
  - \$1 million maximum grant for projects
  - Applications must estimate:
    - Number of jobs created
    - How the project will reduce the state's reliance on conventional energy sources
    - Potential environmental benefits

# Energy Efficiency for Small Businesses

- Small Business Energy Efficiency Grant Program – to improve the energy efficiency for small businesses
  - Independent, for profit small business with less than 100 employees
  - \$3 million Grant Cap
  - Improve systems such as lighting, heating, cooling, refrigeration process machinery, building insulation and weatherization
- Grants provide up to 25% of project costs (maximum grant \$25,000)
- Deadline May 1, 2009 - Grants to be deployed on a first-come, first serve basis until the \$3 million fund is depleted

# Pollution Control

- Pollution Control Technology Grant
  - \$25 million is allocated to fund grants to electric generating units or cogeneration units, which utilize coal as their primary fuel source, and that have an installed capacity of less than 500 megawatts, located in Pennsylvania

# Energy Technology Fund

- Ben Franklin Technology Partners Fund
  - \$15 million to provide energy-related investments to support early-stage activities, including incubator support services, management support, early-stage research of programs or administrative activities and other energy efficiency technologies

# Solar Energy Projects

- Consumers and Small Businesses
  - \$100 million to provide loans, grants, reimbursement or rebates to individuals residing in an owner-occupied dwelling or to small businesses for solar energy projects in Pennsylvania, which shall not exceed 35% of the purchase and installation price of the solar or solar-photovoltaic energy system

# Commonwealth's New Program: Energy

- Robert B. McKinstry, Jr.



# Financial Sustainability

State and Local Government, Hospital and University  
Financing Techniques for Energy Efficiency and  
Alternative Energy Projects

# Governments – Sustainable Energy Utility

- **Sustainable Energy Utility**
  - VT, DE, DC, and NJ models
  - Use Municipal Authority
- **SEU Functions**
  - Financing mechanisms for county, municipal, non-profit and private energy efficiency/conservation and alternative energy projects
  - Facilitate public-private partnerships to take advantage of tax credits and accelerated depreciation
  - Cumulating projects to achieve scale for development and financing
  - Provide mechanisms for exploiting new opportunities for stimulus money and tax exempt financing
  - Create center of expertise and connections for projects

# SEU Functions – Tax Exempt Financing

- **Tax Exempt ESCO**
  - Provides financing
  - Hires ESCOs as contractors
  - Contracts for repayment from energy cost savings and carbon credits (e.g. PA Act 70)
  - If energy generation - repayment from revenues, RECs and carbon credits
- **Municipal Financing Techniques**
  - Traditional tax exempt financing
  - Clean Renewable Energy Bonds (CREBs) – public
  - Economic stimulus mechanisms – make financing available for private parties, e.g. Conservation Bonds / Tax-exempt Prepaid Energy Contracts
  - State money
- **Public Private Partnerships**
  - Private ownership reaps tax benefits

# SEU Functions – Public Private Partnerships

- **Private ownership/partnerships to fund projects aggregated or otherwise facilitated by SEU**
  - **30% investment tax credit for solar and some renewable energy**
  - **Production tax credit**
  - **10% investment tax credit for energy efficiency projects**
  - **Accelerated/bonus depreciation**
  - **Other non-energy tax credits (e.g. New Market)**
  - **State tax credits**
- **Private owners get revenues from energy sales or savings, RECs, carbon credits and tax credits**

# Example – City SEU Benefits

- **Cities are creatures of state law – limited powers**
- **Aggregates properties to make attractive to developer**
- **Runs RFP or prequalifies contractors (smart purchasing)**
  - **May have more flexible procurement standards than city**
- **Contractual intermediary with city and private parties**
  - **E.g. Solar: leases roofs and subleases to developer**
  - **Can also act as long-term power purchaser**
  - **Avoids city restrictions on long term contracts**
- **Finances on a project finance basis**
  - **Avoids city debt limits**
- **Aggregates and Sells RECs and Carbon Credits**
  - **Avoids restrictions on sale of city property**

# Hospitals and Universities

- **Utilize Private ownership/partnerships to fund alternative energy and energy efficiency projects**
  - Provides alternative sources of revenue and cost saving not often considered
  - Same methods as SEU
  - Often unfamiliar to development offices
- **Opportunity for connecting to donors interested in sustainability – “green alumni” partnerships to own projects**
  - Can maintain connection with donors and request tax exempt donation of ownership interest after fully depreciated
- **Universities and colleges – opportunity to tie to research and educational goals**

# Questions and Answers



# **Economic Development Seminar**

## **“Pennsylvania: New Deals”**

### **Tuesday, February 24, 2009**

**Ballard Spahr**

Helps build the nation

