

THE BOND BUYER

Ohio city paper mill redevelopment features PACE bonds

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Local authorities are aiming to breathe new life into a former paper mill in Hamilton, Ohio, with a partially bond-financed 235-room hotel, convention center and indoor sports complex redevelopment project.

The economic development project is a public-private partnership between Spooky Nook Sports Ohio LLC and Hamilton that backers say will bring a \$175 million investment to the city in Butler County, about 20 miles north of Cincinnati. The project will develop roughly one million square feet of space of the now vacant and dilapidated Champion Paper Mill structure.



"It's been four years of planning. That in itself means this isn't something that the city rushed into," said Jody Gunderson, Hamilton's director of economic development. **City of Hamilton**

To help fund the project, the Hamilton Community Authority is selling \$19.4 million of tax-exempt tax-increment financing revenue bonds, \$16 million of taxable community charge bonds, and \$50.2 million of taxable property assessed clean energy bonds. The bonds are scheduled to price on Thursday.

It's the city's first time issuing Property Assessed Clean Energy bonds. The energy efficiency benefits are a plus for the project that allow for PACE financing, said Richard Hatton, a managing director of public Finance at Piper Sandler, the lead underwriter on the deal

"This is a major commitment to sustainability," Hatton said. "In addition to the integration of energy efficient improvements the project will secure its power from the City of Hamilton utility."

The project is the first for the city to use the special assessment, but Jody Gunderson, Hamilton's director of economic development, said that there are several others that are waiting in the wings.

"What I would say about this particular project is that it's been four years of planning. That in itself means this isn't something that the city rushed into," Gunderson said. "We are reusing and repurposing a building that was one housed by a paper mill company and that was near and dear to the community for over 100 years. To be able to use that building is really very important to a lot of people that have lived here for quite a long time."

Gunderson said that from an economic development perspective the project is a way for the city to further diversify its economy. The mill redevelopment has already brought restaurants and small businesses to the city's entertainment corridors "specifically because they know this project is coming along so it's already helping us grow our economy outside of the project itself."

According to the executive director of Infrastructure for the city, Hamilton has an environmentally conscious energy portfolio. On average, 45% of the electricity generated is supplied by clean, renewable hydroelectric (run of the river) generation.

PACE bonds are payable from special assessments on the property and the assessments are added to the property tax bill and collected like regular property taxes.

"Much like other forms of TIF or special assessment bonds, PACE bonds are appealing to investors because they are payable from property taxes and have a first lien equal to all other property taxes," Hatton said. "Compare this to a mortgage or any obligation that is subordinate to a tax lien, where the creditor

may have to take a haircut on their investment in order to satisfy the priority of any unpaid tax lien obligations. The taxes must be paid first.”

In the Hamilton paper mill project, the property has been appraised with a stabilized value of \$163.9 million. The roughly \$50.27 million of PACE bonds expected to be issued represent roughly 30% of the anticipated stabilized value. Hatton said this leaves a healthy buffer of “equity” to ensure they are repaid.

The Hamilton city council approved legislation in May last year for an Energy Special Improvement District to allow for the clean energy improvements to be financed at the complex. Those clean-energy improvements include lighting, heating and air conditioning, windows, roofing, electrical equipment, even elevators, which will be repaid over time through the increased property tax.

“This is not on the city’s books — along with the ECID we formed the Hamilton Community Authority, which is a completely separate entity from the city of Hamilton and they are actually the ones issuing the debt,” said Dave Jones, the city’s director of finance.

The tax payments will go to the Butler County treasurer’s office. The county will forward the money to Hamilton’s city government, which in turn will make required payments on the bonds.

The money is collected by the county because it a special assessment. To help finance that equipment at the proposed Spooky Nook at Champion Mill complex, taxes on the properties at 600 North B St. and 601 N. B St. will be increased by special assessments of \$37 million, to help fund PACE improvements that can be financed for up to 30 years.

This facility is modeled after the Spooky Nook facility in Manheim, Pennsylvania, which opened in 2013 and attracted 1.4 million guests in 2019.

The Hamilton facility is anticipated to have 10 maple hardwood courts, over 100,000 square feet of sport court surface suitable for athletic events, trade shows and banquets, two full-size turf fields, a 40,000 square foot orthopedic center, a 60,000 square feet of fitness and sports performance center, a 5,000-square-foot climbing gym, restaurants, and a childhood care center. The complex is scheduled to open in mid-2021 and projected attract 1.25 million visitors in its first 12 months.

Piper Sandler is the underwriter with Keating Muething & Klekamp as underwriter’s counsel. Bradley Payne is municipal advisor. Squire Patton Boggs is issuer counsel and bond counsel for the TIF and charge bonds. Frost Brown Todd is bond counsel for the PACE Bonds.

Hatton said that bonds are the first publicly offered municipal PACE bonds that carry a public rating from Morningstar DBRS. The bonds carry a provisional non-investment grade rating of BB. The other pieces of the bond offering are unrated.

Hatton said that the benefit of the rating is that investors receive a municipal revenue bond that has a transparent credit assessment with continuing disclosure. "It is very common for project-based financings with construction risk to wind up in the 'BB' category," Hatton said. "There is a fairly common pattern of project-based financings moving into the investment grade category once operational."

Morningstar DBRS has created a methodology entitled "Rating US Property Assessed Clean Energy (PACE) Securitizations" dated July 2019. This is the first time that the methodology has been directly applied to a publicly offered municipal revenue bond, the rating agency said.

Kevin Augustyn, a vice president of DBRS's North American CMBS said the rating was assigned to the commercial PACE loan under Hamilton's PACE program, adopted for this particular project and not a general public program available to multiple parties. Some PACE programs are established for multiple projects, but Hamilton's program was created specifically for the Champion Mill redevelopment project.

"The ratings for these types of transactions rely heavily on loan to value," Augustyn said. "Our credit rating reflects DBRS Morningstar's analysis of the revenue stream expected from a to-be-built sports complex and hotel in Hamilton. Although the project is expected to benefit from several local economic development subsidies provided by local governments and local government affiliated agencies, the rating is not on the municipality itself."

Hatton said that to date, most PACE transactions have occurred through private lenders. "These entities originate the loan directly to the private enterprise, not as a municipal security," he said. "The lenders have bulked the loans up and then bundled the loans into securitizations that are rated and sold to investors."