Georgia Tech – BEDC

Unlocking the Development Finance Toolbox

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Session Overview

- What is Development Finance?
- Trends in Development Finance Tool Use
- Introduction to the Development Finance Toolbox
- The Finance Agency Infrastructure
- Case Study: Atlanta Development Authority
- Questions & Answers

What is Development Finance?

- Development finance, in the simplest terms, is the efforts by local communities to support, encourage and catalyze expansion through public/private investment in physical development/redevelopment and/or business/industry.
- It is the act of contributing to a project/deal that causes that project/deal to materialize in a manner that benefits the long term health of the community.

What is Development Finance?

- Development finance requires programs and solutions to challenges that the local environment creates.
- Economic developers are the bridge between government and business and often direct the vision of a sound financing toolbox.

What is Development Finance?

- What does this include?
  - Debt, equity, credits, liabilities, remediation, guarantees, collateral, credit enhancement, venture/seed capital, early stage, workforce, technical assistance, planning, short-term, long-term, incentives, gap, etc.
  - Proactive approaches that leverage public resources to solve the needs of business, industry, developers and investors

What is Development Finance?

- What does it not include?
  - Free handouts
  - Unabashed subsidies
  - Duplicative assistance
  - Lack of due diligence and transparency
  - Lack of oversight and performance measures
  - Irrational responses to immediate challenges

What is Development Finance?

- Why is development finance important?
  - Businesses need working capital and the ability to invest in themselves
  - Developers need assistance to achieve an acceptable ROI
  - Communities need infrastructure and amenities
  - Citizens need opportunities for advancement – jobs, small business, education, etc.

What is Development Finance?

- In the end..
  - All economic development comes down to the access to financial resources for completing a given project or deal.
  - From site acquisition to façade loans for small businesses, nearly all projects/deals hinge on the ability to leverage inexpensive sources of financing.
  - As they say, cash is king, money makes the world go around and show me the money!

Trends in Development Finance Tool Use

- According to new CDFA data:
  - 50% of finance agencies issue bonds
  - 41% act as conduit bond issuers
  - 50% provide direct loans
  - 27% provide loan guarantees (collateral support)
  - 39% provide grants
  - 62% provide technical assistance

Trends in Development Finance Tool Use

- Despite all of this…

  50% of all finance agencies allocate less than 20% of their actual budget to directly financing development?

- A few reason why?
  - Complexity of programs
  - Lack of staff education
  - Lack of staff resources
  - Lack of political support or agency structure

Trends in Development Finance Tool Use

- Public or Public/Private?
  - Public – 81% of public agencies allocated less than 20% of their budget directly towards financing development
  - Public/Private – 33% of public/private agencies allocate over 50% of their budget directly towards financing development
- Consider your structure closely

2006 Tool Use Trends

- Industrial Development Bonds (IDBs, IDRBs, IRBs, etc.)
  - Only 27% of agencies frequently use with 50% rarely or never using
- 501(C)(3) Bonds
  - 40% of agencies do not use this tool
- Why are agencies ignoring these tools for addressing manufacturing & non-profit development?

2006 Tool Use Trends

- Tax Increment Finance (TAD in Georgia)
  - Nearly 40% of finance agencies do not use TIF (49 states have TIF capabilities)
- SIDs & BIDs
  - 65% of agencies do not use these tools
- Why are economic developers ignoring these tools for addressing redevelopment, business district and revitalization?

2006 Tool Use Trends

- Tax Credits
  - Less than 5% of finance agencies frequently employ the use of state & federal tax credit programs
- Venture Capital & Alternative Equity
  - Only 9% of agencies are active in the venture capital finance industry (5% of agencies use alternative equity)
- Tax credits abound – NMTC, brownfields, historic, LIHTC, hundreds of replicable state program.
- Nearly 30 states have state sponsored venture funds?

2006 Tool Use Trends

- Abatements
  - Nearly 50% of agencies are actively using tax abatements (this is a declining trend)
- Clawbacks and greater scrutiny is finally emerging
- The competitive “arms race” atmosphere is slowing down (but far from gone)

2006 Tool Use Trends

- Revolving Loan Funds
  - Over 43% of agencies use frequently
- RLFs represent the single most used finance concept nationally yet these tend to be largely overlooked and underutilized (and under appreciated)
- 26% of agencies have an RLF dedicated strictly to small business loans

2006 Tool Use Trends

- Federal Funding
  - CDBG – 40% frequently use
  - EDA – 18% frequently use
- Reliance on federal funding remains strong yet this source is the most volatile and less reliable from year to year
- A note on grants – over 25% of agencies are actively providing grants to finance development

Introduction to the Development Finance Toolbox

- Full scale approach – in the end, most economic development comes down to financing
- Investment in programs and resources that harness the full spectrum of a community's financial resources
- Dedication to public/private partnerships
- Development niche programs that address industries of all sizes and impact
- Variety and depth of services & capacity to assist

Why the Toolbox Approach?

- Wide variety of programs already exist to help with both general and targeted financing needs (yet we continue to seek new programs and struggle to gain access to scarce sources of funding)
- Different instruments for different users – debt, equity, short-term, long-term, low interest, tax-exempt, credits, etc.
- Sources: federal, state, local…but don't forget the private sector

Why the Toolbox Approach?

- Dollars driving policy and policy driving dollars
- Financial capacity for supporting sustainable development, smart growth and resource use
- More parties can be involved – banks, thrifts, educational providers, investors, angels, developers, etc.
- Diversity is very important in development finance

What is inside the Toolbox?

- The Bedrock Tools – Tax-Exempt Bonds
- Targeted Tools – TIF, SID, BID, etc.
- Investment Tools – Tax Credits, Seed & Venture
- Attraction Tools – Incentives (tax abatements)
- Niche Tools – RLFs, Mezzanine & Risk
- Support Tools – Federal & State Funding (grants)

The Bedrock Tools

- Bond use dates back over 90 years
- Tax reform act of 1986 shaped bond use today
- Communities pledge tax revenues to back “loans” basically
- Government (GO) & Private Activity (PAB)
- GOs are tax-exempt and largely used for public projects
- PABs can be tax-exempt, depending on use and are utilized for economic development

PABs

- Variety of PABs – to be tax-exempt they must be qualified
  - **Exempt Facility Bonds** – Can be used for airports, docks, wharves, mass-community facilities, etc.
  - **Qualified Redevelopment Bonds** – Infrastructure projects that do not meet the requirements of Governmental Bonds may qualify for tax-exemption if they meet several tests of "qualified redevelopment bonds; " e.g., proceeds used for redevelopment purposes in designated blighted areas, etc.
  - **Qualified 501(c)(3) Bonds** – Bonds used to finance projects owned and used by 501(c)(3) organizations. Two types - hospital bonds and nonhospital bonds

PABs

- Variety of PABs – to be tax-exempt they must be qualified
  - **Qualified Exempt Small Issues** –Industrial Revenue Bonds (IRBs) for qualified manufacturing projects including purchase, construction, extension and improvement of warehouses, distribution facilities, industrial plants, buildings, fixtures and machinery.
  - **Aggie Bonds** - Support beginning farmers and ranchers with eligible purchases of farmland, equipment, buildings and livestock.
  - **Other Revenue Bonds** – These bonds allow revenue-generating entities to finance a project and then repay debt with the revenues generated from the project. Can include toll roads and bridges, airports, seaports and other transportation hubs, power plants and electrical generation facilities, water and wastewater (sewer).

PABs

- Variety of PABs – to be tax-exempt they must be qualified
  - **Enterprise Zone Bonds** – EZ bonds may be issued for projects in designated enterprise or empowerment zone communities. If certain tests are met, bond proceeds may be used to finance projects for commercial facilities as well as manufacturing.
  - **Mini Bonds** – Can provide significantly lower the upfront and annual fees on tax-exempt loans by providing a streamlines application process, standardizing documents, reducing the number of industry professionals involved and negotiating lower feeds.
  - Others include CREBs, Green & GO Zone bonds

Why PABs?

- For communities:
  - Opportunity to invest in projects and businesses
  - Ability to influence ROI in development projects
  - Easy to promote and monitor with performance measures
  - Low cost and secure source of support to industry
  - Can issue on conduit basis without backing (IDBs)

Why PABs?

- For industry:
  - Lower interest rates (conventional vs. tax-exempt)
  - Tax-exempt status to buyers of bonds – attractive
  - Lower cost to borrower
  - Cheaper money (but not free)

PAB Notes

- Market forces at play – when traditional interest rates are low IDBs tail off, when traditional interest rates go up, IDBs go up
- Need good bond counsel on transactions – don't risk an issuance going taxable if it is not a qualified PAB
- Many rules and regulations – learn the programs before making any determinations

Targeted Tools

- Includes a variety of geographically targeted tools:
  - Tax increment finance
  - Special improvement districts
  - Business improvement districts
  - Community development districts
  - Community facilities districts
  - Community redevelopment areas
  - Special assessment or services areas
  - Enterprise Zones, etc.

Talking TIF

- First created in 1952 in California to act as a catalyst for redevelopment areas
- Quickly spread across the country – 49 states and District of Columbia have enabling legislation (Which state does not?)
- Referred to by a variety of names:
  - TIF - Tax increment financing (most states)
  - TAD - Tax allocation district financing (Georgia)
  - RAD - Revenue allocation district financing (New Jersey)
  - TIRZ - Tax increment reinvestment zones (Texas)

What is TIF?

- Special authority provided to a local governmental jurisdiction which allows them to allocate specific tax revenues towards the redevelopment, development or renovation of the built environment

- A mechanism used to capture the future tax benefits of real estate improvements to pay the present cost of those improvements

What is TIF?

- TIF can be used to channel incremental taxes toward improvements in distressed or underdeveloped areas where development would not otherwise occur.
- TIF uses the increased property or sales taxes that new development generates to finance costs related to development.
  - Public infrastructure, land acquisition, relocation, demolition, utilities, debt service and planning costs

What else can TIF be use for?

- Sewer expansion and repair
- Storm drainage
- Street construction & expansion
- Water supply
- Park improvements
- Bridge construction & repair
- Curb & sidewalk work
- Environmental remediation
- Traffic control
- Street lighting
- Landscaping
- Property acquisition
- Building acquisition
- Demolition & clearance work
- Parking structures

Who Controls TIF?

- States authorize enabling legislation
- Local government jurisdictions (city or county) designate districts or project areas
- Development agencies or non-profits implement programs
- Private developers, real estate and financial institutions partner with development agencies

Two Types of TIF

- Project Based – single project on one or more pieces of land that uses TIF designation only for that project – usually backed by bond issuance or loan mechanisms.
- District Based – large area of land (district) is targeted and identified for redevelopment. Projects that develop within the district may be eligible to use TIF as source of financing or as incremental property values increase, new increment can be used to create loan programs.

Simple Project Based Example

- Existing property generates $1,000 a year in real estate taxes
- Government designates the property as a “TIF” district
- Tax base is frozen at $1,000 level
- New project is proposed for site and will in effect raise overall tax base generated to $1,500 a year once completed
- Developer agrees to make significant investment and seeks TIF funds from govt. for eligible improvements

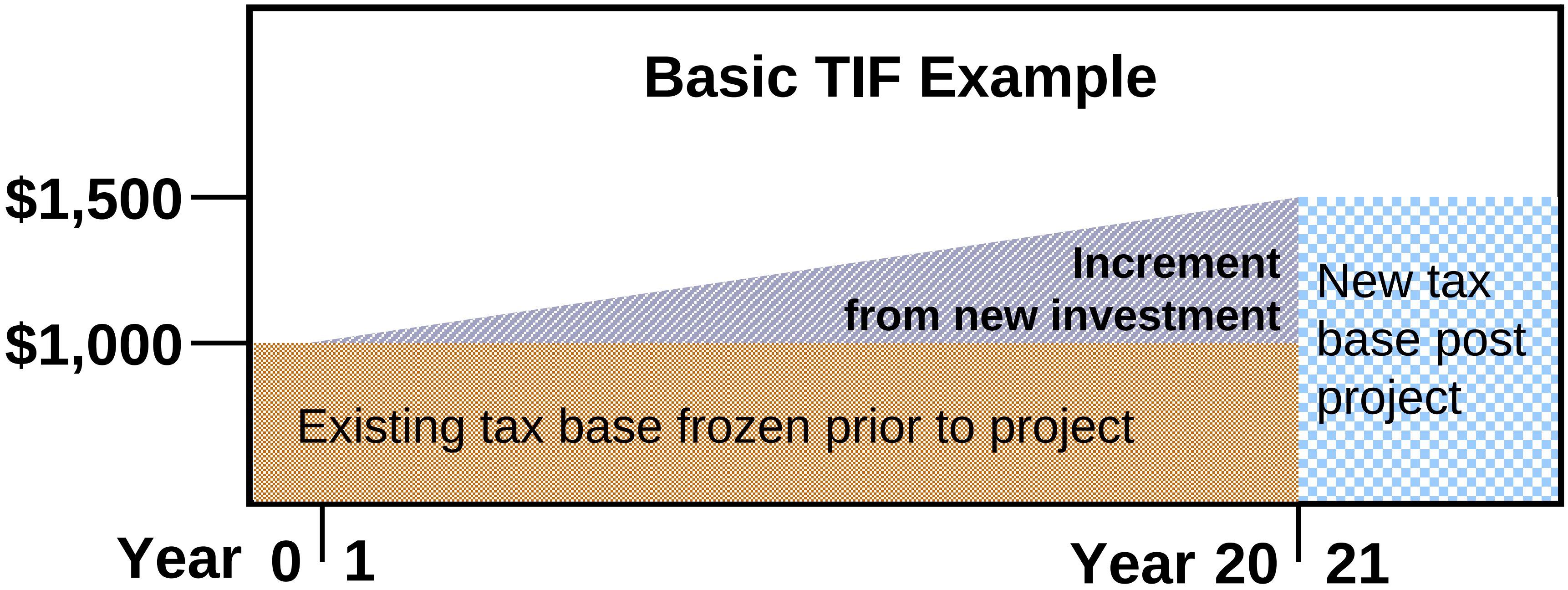
Simple Project Based Example cont.

- Government conducts “but for” test and agrees to TIF deal and issues tax-exempt bonds to finance proposed improvements
- Bonds are sold generating cash for project construction (several options on actual financing mechanism)
- Once project is complete, new assessment is completed on property ($1,500 in taxes a year as indicated before)
- Frozen base ($1,000) continues to flow to pre-existing government coffers (city, county, schools, states, etc.)
- Increment (additional $500) goes towards debt service on the bonds that were issued for the project

Simple Project Based Example cont.

- Increment is used to pay back bonds over time, anywhere from 10-40 years
- Once bonds are paid off, the property taxes are “unfrozen” and the full tax base generated goes to existing government coffers (city, county, schools, state, etc.)
- THE KEY - No new taxes are requested and no existing taxes are used in the financing of the project

In Other Words…



Why TIF?

- TIF was designed to help distressed and blighted areas of the community
- The original intent of TIF was to provide an adequate tool for the reuse and redevelopment of the nation's urban center
- Like many economic development tools, there have been abuses in the TIF industry (urban and suburban TIFs that contribute to sprawl and inner city decline)
- TIF has been used properly in most cases and the redevelopment spirit of TIF is very much alive in most states and communities

TIF for Urban Revitalization

- Used effectively, many urban cities are benefiting from the implementation of TIF to revitalize urban centers and encourage investment in blighted areas
  - Drive city-supported investment towards the reuse of existing infrastructure
  - Focus on large-scale projects that encourage transit oriented development and draw people into the urban core
  - Reduce pollution and urban decay by supporting green development and brownfield redevelopment using TIF

TIF for Suburban Revitalization

- TIF can be an effective tool for suburban communities that are struggling to curb land consumption but want to remain attractive to business and residents
- Suburbs
  - Invest in what they already have by developing newer, more livable downtowns and multiuse destinations (one stop shopping, getting the most out of the local highway interchange)
  - Target transit oriented developments that link people to places without using cars; also decrease commuter levels
  - Focus TIF on areas of decline rather than building new facilities that simply ignore existing deterioration issues

TIF for Rural Revitalization

- How can rural communities benefit from TIF?
  - Encourage TIF programs that reinvigorate the small town charm and true downtown (façade and streetscape programs)
  - Focus on improving old housing and make it affordable through TIF revenues
  - Turn existing, abandoned industrial sites into useable space – think outside the box

TIF in Practice

Thousands of examples of TIF being used across the country

Examples

- USADC, Washington, DC – District wide TIF that has attracted the first major "big box" investment inside the district ever. Home Depot, Target, movie theatres, housing, office space, etc. all locating in a traditionally underserved market. Major community revitalization effort that has worked due to the attractiveness of TIF financing.

TIF in Practice

- **Stapleton, Denver** – Major urban renewal project turning old airport into mixed-use development. Conceived from the start as a sustainable community, project embraces the ideal of city life: an urban tapestry of diverse and distinctive homes, walkable, tree-lined streets, neighborhood stores, nearby offices, schools and parks everywhere. Technology and public transit connecting residents and workers to downtown and airport. A new generation of neighborhoods where 30,000 residents and 35,000 workers can call home.

TIF in Practice

- **Creekside, Gahanna, Ohio** – Project focused on revitalizing the suburban downtown by creating a destination point for residents and businesses and on reuse of existing infrastructure and natural resources. Resulted in multi-million dollar project that has enhanced the suburban community, built a true downtown, reinvigorated a blighted area and did not develop a single new project outside of the suburban center.
- http://www.gahanna.org/departments/development/creekside_home.asp
- http://www.creeksidegahanna.com/index.html

TIF Policy & Practice

- The use of TIF ultimately comes down to sound policy and practice at the state and local levels
- States can alter TIF policy through legislative improvements
  - Combining TIF with urban investment programs is a non-aggressive policy consideration
  - Reducing TIF allowances or percentages for certain types of development: less TIF available to new greenfield development, more available for urban redevelopment projects
  - Considering projects where the major focus is transit-oriented; build communities that rely less on auto commuting and more on mass transit

TIF Policy & Practice cont.

- Locals can alter TIF use through guidelines and use requirements
  - Create strong job creation, housing creation or investment commitment criteria
  - Encourage urban infill, no new surface parking lots and alternatives to addressing congestion, poor housing, improved schools
  - Provide education to the urban development community, city leaders, financial institutions that government sponsored financing is available for sound urban redevelopment

TIF Policy & Practice cont.

- “But for”…What does this mean? The “but for” test is a public policy test for measuring the appropriate need for TIF financing.
- Major part of the community buy-in process
- TIF authorizing agencies should be conducting this test for each project, however, some do not.
- A financial process

TIF Policy & Practice cont.

- Why is this test important?
  - Provides a rational and justification for approving TIF funding
  - Eliminates the argument that the funding is “corporate welfare”
  - Sets the appropriate amount of TIF funding for the project
    - The project may not require 100% of the TIF funds for debt service and this test will help establish the necessary financing.
  - Allows communities to set public policy goals, program guidelines and establish community buy-in throughout the entire process

Community Buy-In

- Most important element in the effective use of TIF
- 3 Critical Elements
  - *Transparency* – open meetings, open records, all laws followed, sound boards, community events, web/newsletters, single point of contact, etc.
  - *Due Diligence* – go through all the step necessary, crunch all the numbers, request more data, do the math, be thorough
  - *Accountability* – be accountable to stakeholders, report success/failure, draft policies that meet goals/objectives

Investment Tools

- Investment tools, such as tax credits play a major role in local economic development efforts. These are one of the most actively used local financing tools
- States have created hundreds of programs with both targeted and broad based functions
- Federal government has numerous programs which are proving to be very successful

Tax Credit History

- Response to dwindling federal resources for financing development over the past 15 years
- Both federal and state govt. recognize power of credits
- Programs have emerged based on need for niche financing
- Can help capitalize new business ventures or solidify project financing for real estate projects
- Hundreds of programs now exist nationwide

Benefits

- Fill variety of roles as niche financing tool
- Increase an investors rate of return
- Reduce interest rates on financing package
- Provide repayment method for investors
- Can often be sold in secondary markets

Benefits cont.

- Can be used in urban, suburban, rural and regional settings
- Can be administered locally or as a statewide effort
- Provide targeted assistance – low income, environmental, emerging markets, real estate, innovation, etc.

Benefits cont.

- Bring variety of players to the table
  - Attract investors, businesses, government entities, non-profits, community development entities, industrial development authorities, economic development corporations, financial institutions, legal entities, and the federal/state government

Distinctions

- Require a considerable amount of scrutiny
- Require high level of disclosure and information
- Performance based measures – must be proved
- "But for" test often applied in rationale for use. But for the tax credits, the project would not attract the necessary private involvement/investment
- Communities often build rationale into program development and use, as does most legislation

Key Strength

- Most importantly, tax credits will not be eliminated or be displaced during economic downturns
- Very dependable and politically popular
- Supported more than traditional incentive programs by political leaders

Strengths (not just incentives)

- Set up such that businesses/investors get a credit for actually committing resources to a project/business (bricks and mortar or pure cash investments)

- Investors must demonstrate, with written proof, that the resource commitment has been made and in turn the distributor of the tax credit is only authorized to issue credit based on actual outlays of these resources

Bottom Line!

- Encourage private sector leveraging of resources
- Act as a catalyst for public/private partnerships
- Create ‘secondary financial markets’ for sellers and buyers of credits
- Bottom line…tax credits provide both primary (projects), secondary (quality of life improvements) and third tier (sellers market) benefits

Challenges

- Easier financing such as loans, grants, bonds, etc., reduce the interest in credits
- Require considerable paperwork and certain amount of complexity involved in each deal
- Misconceptions – often cited as corporate welfare
- General lack of application and understanding across the board – little marketing, few concrete training options, projects hard to define, lack of federal oversight

4 Main Federal Programs

▪ Historic Preservation Tax Incentives

- Rehabilitation tax credits were established to discourage unnecessary demolition of older buildings and to slow capital flight from older urban areas. This incentive offers a credit against total federal taxes owed, which is taken for the year in which the renovated building is put into service. The qualified rehabilitation credit is equal to 20% of renovation or construction costs, with pre-1936 buildings in non-residential income-producing use qualifying for a 10% credit. The credit is well suited to complement brownfield developments, and property tax abatements and low interest loans are the most commonly used companion incentives.

4 Main Federal Programs

- **Federal Brownfield Expensing Tax Incentive**
  - This cost deduction provides a business incentive to clean up sites contaminated with hazardous substances, and is intended to offset the costs of cleanup.

- **New Markets Tax Credits**
  - The New Markets Tax Credit (NMTC) was created to address the lack of capital available to business and economic development ventures in low-income communities. The NMTC provides the incentive of a federal tax credit to individuals or corporations that invest in Community Development Entities (CDEs) working in targeted low-income communities.

4 Main Federal Programs

▪ Low-Income Housing Tax Credits

- Congress created the Low Income Housing Tax Credit (LIHTC) in 1986 to promote the construction and rehabilitation of housing for low-income persons. The tax credit provides a means by which developers may raise capital for the construction or acquisition and substantial rehabilitation of housing for low-income persons. Each State received an annual inflation adjusted per person allocation for issuance of tax credits for qualified housing development projects. These tax credits are then used to leverage private capital into new construction or acquisition and rehabilitation of affordable housing.

Other Federal Resources

- Empowerment Zones – Approximately $5.3 billion in incentives available to small and large businesses in EZs
  - EZ employment credit – Businesses can take an annual tax credit of up to $3,000 for each employee who lives and works for the employer in an EZ
  - Worker opportunity credit – Businesses can take a tax credit of up to $2,400 for each 18-to-39 year-old new employee who lives in an EZ.

Other Federal Resources

- Renewal Communities – Approximately $5.6 billion in incentives available to small and large businesses in RCs
  - RC employment credit – Businesses can take an annual tax credit of up to $1,500 for each employee who lives and works for the business in a RC
  - Worker opportunity credit – Businesses can take a tax credit of up to $2,400 for each 18-to-39 year-old new employee who lives in an RC.

Other Federal Resources

- Go Zones - employee retention credits
- Wind Energy Credits – 1.5 cents per kilowatt-hour for power produced by wind turbines
- Renewable Electricity Credits - kilowatt-hour tax credit for electricity generated by qualified energy resources
- Business Energy Tax Credit – 10% tax credit for the purchase of or investment in solar or geothermal energy equipment
- Random – earned income, ethanol plant, etc.

State Activity

- Every single state and the District of Columbia have tax credit programs that address a number of different investment areas including:
  - Venture capital investment
  - Low-income housing
  - Job creation
  - Machinery and equipment
  - Targeted area redevelopment
  - Brownfield cleanup
  - Wage rebates
  - Industry specific credits

State Activity

- Variety of approaches
- Maryland/Arizona – fewer offerings, but targeted programs
- Missouri – wide selection, addressing variety of industries
- Commonality: all programs tied to job creation and/or investment requirements
- State programs often are designed to supplement federal offerings

State Activity

- State programs are typically administered at the state level and do not involve direct management by local jurisdictions

- Typically born out of necessity rather than concrete planning – reaction to a specific users need by a legislature or governor

- Variety and flexibility across the board

Unique Examples

- Arizona - Moderately active tax credit state with specific programs targeted at core industry niches.

- **Healthy Forest Enterprise Incentives Program** - offers incentives for use fuel reduction, use tax exemptions, new job income tax credits and other benefits for incentives forest products.
- **Motion Picture Production Tax Incentives** - transferable income tax credit equal to 10%, 15% or 20% of the company's investment in eligible production costs.
- **Research & Development Income Tax Credit** - qualified research and development including research conducted at a state university and funded by the company.
- **Small Business Capital Investment Tax Incentive Program** - provides tax credits to investors who make capital investment in certified small businesses.

Unique Examples

- Ohio – Variety of programs with excellent, succinct online marketing

- Technology Investment Tax Credit Program – very unique program that provides a tax credit for Ohio taxpayers that invest in small, Ohio-based technology companies. The amount of the tax credit is 25% of the amount invested by the taxpayer. The maximum investment to which this credit may be applied is $250,000. The credit may be claimed against personal income tax, corporate franchise tax, public utility excise tax or the dealers intangibles tax.

Unique Examples

- Maine – Maine Seed Capital Tax Credit Program is designed to encourage equity and near equity investments in young business ventures, directly and through private venture capital funds. The tax credits can be equal to 40% of the investment or 60% for investments made in businesses located in high unemployment areas

Unique Examples

- Connecticut – two unique tax credit programs targeting urban development and direct business investment
  - Urban and Industrial Site Tax Credit Program – dollar-for-dollar corporate tax credit of up to 100% of an investment up to a maximum of $100,000,000. This is a significant credit that directly encourages urban and industrial site development and/or investment
  - Corporate Business Tax Credit Program – encompasses 11 credits that provide resources to business who make significant investment in that state. Range from tangible personal property investment credits, R&D credits and grant credits

Unique Examples

- Missouri – comprehensive tax credit package that is very diverse and provides resources across the state
  - Loan Guarantee Fee Tax Credit Program reduces the costs to small businesses in financing projects by providing tax credits for certain federal loan guarantee programs fees.
  - Film Production Tax Credit program issues a film production company state income tax credits equaling up to 50% of the company's expenditures in Missouri for the making of film
  - Small Business Incubator Tax Credit Program allows for a 50% state tax credit to a taxpayer who makes a contribution to an approved incubator sponsor in Missouri.

Unique Examples

- Missouri – more options
  - Rebuilding Communities Tax Credit Program provides tax credits to eligible businesses that locate, relocate or expand their business within a distressed community including a 40% income tax credit, 40% equipment tax credit, 1.5% employee tax credit and 25% equipment tax credit for varying degrees of investment and job creation
  - Wine and Grape Tax Credit Program issues a state tax credit to an individual, partnership or corporation in an amount equal to 25% of the purchase price of new equipment and materials used directly in the growing of grapes or the production of wine

Lessons Learned

- Program at the state level can be tailored to meet any financing void in your community
- Mirroring state tax credits is the next new wave – historic, nmtc, brownfields, etc.(double dipping is considered okay in this industry)
- State tax credits are readily available across the board
- Local economic developers are the key to marketing and informing business and industry on availability

Strategies for Success

- Invest in understanding all available credits at both federal and state level
- Prepare fact sheets on available credits and market availability
- Promote business credits heavily through chambers, business associations, etc.
- Categorize available credits for real estate property for potential investors, developers – they often do not know if a site is historic, brownfield or eligible for NMTCs (or state credits)
- Engage your financial community – many banks want deal flow and will buy and sell credits, get them active in available projects
- Promote success stories

Attraction Tools

- Tax abatements are a very popular attraction tool - over subscribed
- Basic abatement is the elimination of a businesses corporate tax liability for a given period (10 years)
- In return, the business agrees to a set of performance measures such as new jobs, investment, building, etc.
- Studies have proven that communities get short changed

Attraction Tools

- How to approach tax abatements:
  - Adopt a TIRC – tax incentive review council
  - Implement policies for administering and awarding abatements
  - Map it out – identify geographically the location of abatements, ensue that jobs are not being shifted
  - Institute legal and enforceable clawbacks and be prepared to use them

Niche Tools

- Niche tools cover a wide variety of programs that are tailored to address specific industry needs, largely at the local level. They can include:
    - Small business/entrepreneurial lending
    - Revolving loan funds
    - Mezzanine funds
    - Seed, venture & angel capital

Niche Tools – Small Business & Entrepreneurs

- Microloans – Provides very small loans to start-up, newly established, or growing small businesses. Under this program, SBA makes funds available to nonprofit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to $35,000. The average loan size is about $13,000. Applications are submitted to the local intermediary and all credit decisions are made on the local level.
- Microenterprise Program – Microenterprise address the finance needs of the smallest of the small businesses. Usually less than 5 employees. Cannot gain conventional loans due to credit worthiness.

Niche Tools – Revolving Loan Funds

- Gap financing measure primarily used for development and expansion of small businesses. Uses both public and private sector funds.
- Self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones.
- RLFs don't compete with convention funding sources. Capital access to business unable to obtain financing through traditional sources.

Niche Tools – Mezzanine Funds

- Gap financing measure for growth-oriented small businesses that may not entirely qualify for loans or investments through traditional lending
- Mid-level Financing – Less risky than equity or venture capital but more risky than senior bank debt
- Advantage – Cheaper than equity financing and not required to give up company equity; more flexibility in meeting cash flow needs; receive long-term investment commitments; gain new business insights; and receive capital to expand
- Disadvantages – Ceding some independence to lender; companies may also be steered into spending money in certain areas according to restriction on the financing

Niche Tools – Seed, Venture & Angel

- Seed Funds – One or more parties that is connected to new enterprise invests funds to start the business
- Venture Capital – Larger at an arm's length transaction of investment money
- Angel – Affluent individual who provides capital for a business start-up, often in exchange for ownership equity

Support Tools

- Federal funding continues to play a major role in the development finance process. The feds currently operate over 30 support programs.
  - HUD
  - EDA
  - USDA
  - SBA
  - EPA
  - DOL
  - DOE
  - DOD
  - DOJ
  - Treasury
  - Interior

Support Tools – Just a Few Programs

- HUD – CDBG, 108 Loan, BEDI
- EDA – Public Works, Economic Adjustment, Planning
- EPA – Assessment Grants,Revolving Loan Fund Grants,Cleanup Grants, Job Training Grants, Brownfield tax credits
- DOL – Long-Term Care Training, Workforce Innovation in Regional Economic Development (WIRED) Initiative, High Growth Job Training Initiative

Support Tools – Just a Few Programs

- USDA - Community facilities loans, grants & guarantees, broadband development loans, business loans, grants & guarantees, intermediary relending program, etc.
- DOJ – Weed & Seed Grants
- SBA – 504 & 7(a) programs, many others

The Finance Agency Infrastructure

- Structure your public agencies like a business with divisions and experts in each area – business finance, development finance, etc.
- Seek innovative strategies – think about industries not served by existing programs
- Market, market, market and let the business community know about the services
- Consider policy closely and engage in healthy dialogue to determine appropriate use of financing tools

The Finance Agency Infrastructure

- Performance based financing – job creation, investment, taxes, blight removal, property values, population attraction, transformation, investment return, etc.
- Put performance based financing in place. Track returns closely, be accountable to tax payers, report findings and use the internet.

The Finance Agency Infrastructure

- Examples:
  - State – New Jersey Economic Development Authority
  - County – St. Louis County Economic Council
  - City – City of Minneapolis, Department of Community Planning & Economic Development

NJEDA

- Fully employ the toolbox strategy
- Wide variety of programs serving numerous users, including:
  - Low-cost bond financing for manufacturers, non-profits and cities
  - Loans & Guarantees – brownfields, small business, smart growth, high-tech, new markets, film production and energy
  - Incentive grants – tech centers and urban redevelopment
  - Tax credits – tech businesses
  - Technical assistance – real estate, small business, across the board

New Jersey Economic Development Authority

We see opportunity

GOVERNOR CORZINE UNVEILS ECONOMIC GROWTH STRATEGY FOR NEW JERSEY

Home | Who We Are | Financing Assistance | Entrepreneurial Services | Real Estate Development

Resources for:
- Small & Mid-Size Businesses
- High-Tech Businesses / Edison Innovation Fund
- Nonprofits
- Entrepreneurial Training
- Brownfields Redevelopment
- Smart Growth
- Portfields / Warehousing and Distribution
- Energy Financing

Whether you are a business in need of financing to grow in New Jersey, a nonprofit organization seeking capital to expand community services, a municipality looking to attract a major corporation within your boundaries, or a developer requiring funds for a major redevelopment project, the **New Jersey Economic Development Authority (EDA)** is ready to put its resources to work for you. The EDA is a self-supporting, independent state agency whose mission is to stimulate business development, job creation and community revitalization throughout the State. From its large portfolio of varied programs and services, the EDA can assist you in three main ways:

Financing: We arrange low-interest loans, loan guarantees, tax incentives and creative financing packages to bridge financing gaps and increase access to capital for small and mid-size businesses and nonprofit borrowers.

What's New

- EDA Board Meetings
- EDA Launches Online Application for Financial Assistance
- EDA Implements Investment Strategy Guidelines
- New Jersey Business Growth Fund Fact Sheet and Application
- Film Tax Credit Application Now Available
- UST Funding Available to Homeowners with Non-Leaking Oil Tanks

St. Louis County Economic Council

Toolbox is in full effect

- SBA 504 Loan Program
- IDBs Manufacturers
- Mini-bonds for Manufacturers
- 501(c)(3) Organizations bonds
- 501(c)(3) Organizations mini-bonds
- Bank Qualified Bonds
- Taxable Bond Program
- Venture Capital Loans
- Specialty Loans
- TIF
- Tax credits
- Technical assistance

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St. Louis County ECONOMIC COUNCIL

www.SLCEC.com

Business Development | Revitalization Projects | International Opportunities | Incubator Space | Finance Programs | Center for Business Growth

Regional
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siness
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Fixed Asset Loans

Venture Capital Loans

Specialty Loans

Staff

Resources

Contact Information

Apply for
usiness Financing

Selection Services for
ating Your Business
in St. Louis County

printer friendly version

SLCEC Business Finance Division

Financial Products and Services for Business

We Bring Big Business Financing Solutions
to Your Small Business Opportunity!

SLCEC Business Finance Division is a valuable resource center for businesses thatneed conventional, alternative or combined financing solutions. With fixed-asset loans to venture capital and specialty loans, our business finance professionals have the tools and talent to help you put together the funds and terms you need to grow your business.

Upcoming Event:

10/18/07 **Seminar on Tax-Exempt Bond Financing!**
Learn how to save tens of thousands of dollars in this two hour seminar.

Fixed-Asset Loans & Tax-Exempt Bonds

SBA 504 Loan Program
Tax-Exempt Bond Programs for Manufacturers
Mini-bonds for Manufacturers
Tax-Exempt Bond Program for 501(c)(3) Organizations
Mini-bonds for 501(c)(3) Organizations
Bank Qualified Bonds
Taxable Bond Program

News & Events

From the CEO
Twenty Years of Success and a Clear Focus on the Future...
Read Letter

In the News
Coleman elected to IEDC committee...
Read Articles

Press Releases
International Economic Development Council elects Denny Coleman to serve as Committee Chair...
View Releases

Events
SLCEC Annual Meeting
October 24, 2007
Get the details...
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Clients In The News
Innovative Idea, Business Knowledge Spawns Entrepreneurial Company...
View Articles

Quick Links
Go Directly to any SLCEC Division

Real Estate & Community Development Division

Business Development Division

one Internet

Minneapolis, DCPE&D

- Leading city employing the toolbox
  - Business toolbox – loans, grants, technical assistance (all online)
  - Brownfield grant program
  - Empowerment zones
  - Tax credits
  - Business district programs
  - Tax increment
  - Wide variety of bond programs

CPED

Economic Policy and Development

Minneapolis Development Projects

Business Finance Programs

Living Wage and Job Linkage Programs

Business Association Assistance Program

Business Association Directory (pdf)

Starting a business in Minneapolis

Minneapolis Business Toolbox

Brownfields Program

Empowerment Zone

Employment and Training Program (METP)

Business Development Services

Great Streets –

Minneapolis Community Planning and Economic Development Department

Economic Policy & Development

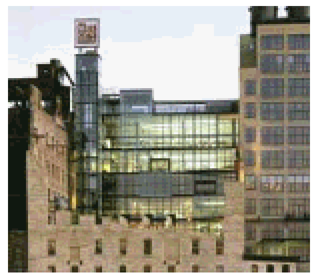


Photo credit: Mill City Museum, Minnesota Historical Society

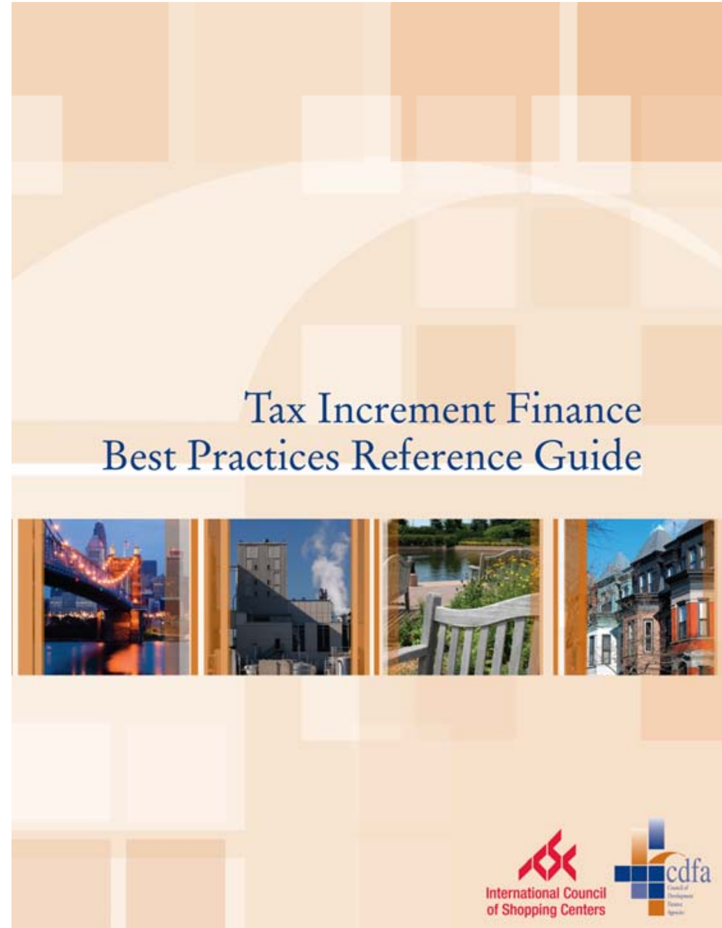
CPED's Economic Policy & Development Division focuses on business retention, expansion, creation, and attraction—both downtown and in Minneapolis' neighborhoods. CPED provides financing and tools for commercial, mixed-use and industrial development and expansion. CPED assists with building necessary physical infrastructure, community amenities and cultural resources. The division works to enhance the city's tax base, preserve and create living wage jobs, redevelop blighted and contaminated areas, provide commercial services to city residents, and promote Minneapolis as a world class business community.

The Toolbox is Catching On

- Interest in the toolbox approach is catching on nationally:
  - EDA & Federal Reserve
  - ICSC, NAHB, NABL & Social Compact
  - State & Regional ED Associations
  - Communities – Detroit/Wayne County Port Authority

CDFA Research & Resources

- CDFA website: www.cdfa.net
- *CDFA Update* monthly e-newsletter
- Online Resource Database
- Online Resource Libraries:
    - Bond Finance
    - Tax Credit Finance
    - Tax Increment Finance
    - Revolving Loan Funds



Contact Information

- Don’t be afraid to ask for assistance

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