

Virginia Community Development Authorities / Tax Increment Financing Webinar

Session #1

April 6, 2010



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Stone & Youngberg CDA/TIF Webinar Series Schedule

Session 1: Organization and Operation of CDA / TIFs in Virginia Tuesday, April 6, 2010, 2 – 3:15 p.m. EDT

Session 1 will focus on the organization and operation of CDA / TIFs in Virginia, including appropriate usage, a review of the CDA statute, TIF by agreement, back-up special assessment and basic bond issuance process. The format will consist of presentations illustrated by a basic Virginia case study.

Session 2: Current Issues with Virginia CDA / TIFs Tuesday, April 27, 2010, 2 – 3:15 p.m. EDT

Session 2 will focus on the twenty Virginia CDAs or CDA / TIFs that have issued bonds. This discussion will include government policy issues, bond structuring, community buy-in, financial analysis and modeling and feasibility study. The format will include brief presentations followed by case studies of more complex Virginia CDA transactions.

Session 3: Advanced Usage and Future Utilization of CDA / TIFs Tuesday, May 18, 2010, 2 – 3:15 p.m. EDT

Session 3 will focus on the more advanced usage of CDA / TIFs and their future utilization. In view of the economic recession, the discussion will focus on how localities and developers can work together to meet each other's needs and finance necessary infrastructure. Topics covered will include an analysis of the Methodology for Apportioning Assessments, bond ratings, liability and a discussion of lessons learned (both positive and not so positive) from the twenty Virginia CDAs.



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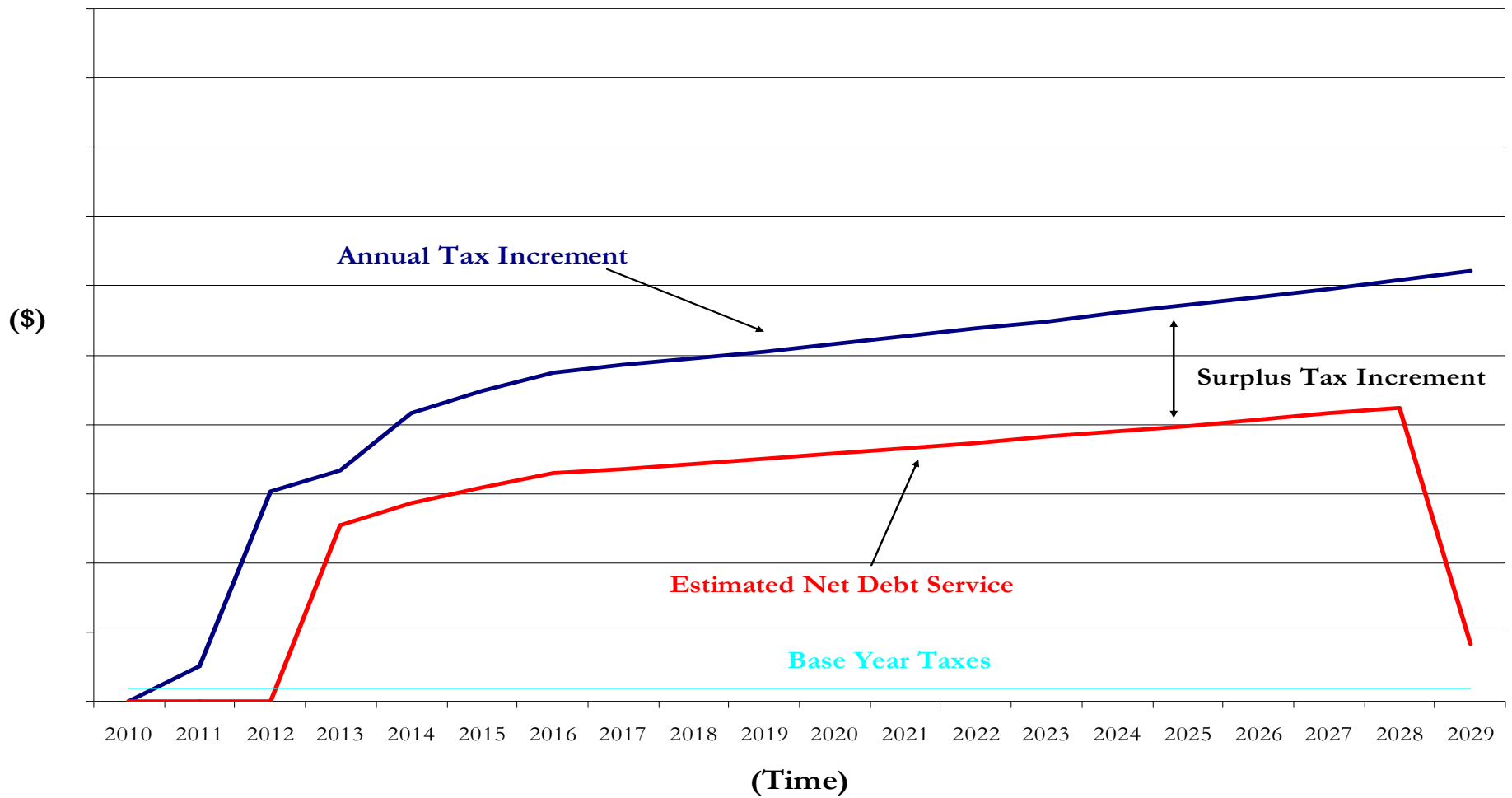
Introduction - What is a CDA?

- Community Development Authorities are Virginia's version of tax districts.
- Have been effectively used in Virginia to fund public infrastructure for economic development or transformational projects.
- Can be combined with Tax Increment Financing (TIF) to effectively allow new (incremental) tax revenues from the project to fund infrastructure.

Introduction - Assessment vs. TIF

- Assessments levied upon the property owners within the boundaries of the CDA district. Can be levied as Ad Valorem Assessments or Special Assessments based on use and benefit from the improvements.
- “TIF by Agreement” allows the use of various taxes and/or fees including, but not limited to:
 - Real Estate Taxes
 - Personal Property Tax
 - BPOL Tax
 - Sales Tax (Local Portion)
 - Transient Occupancy Tax
 - Meals Tax
 - Special Fees and Charges
- Most effective when TIF combined with CDA. TIF revenue is backed up by back-up Special Assessment.

Introduction - Basic TIF Model





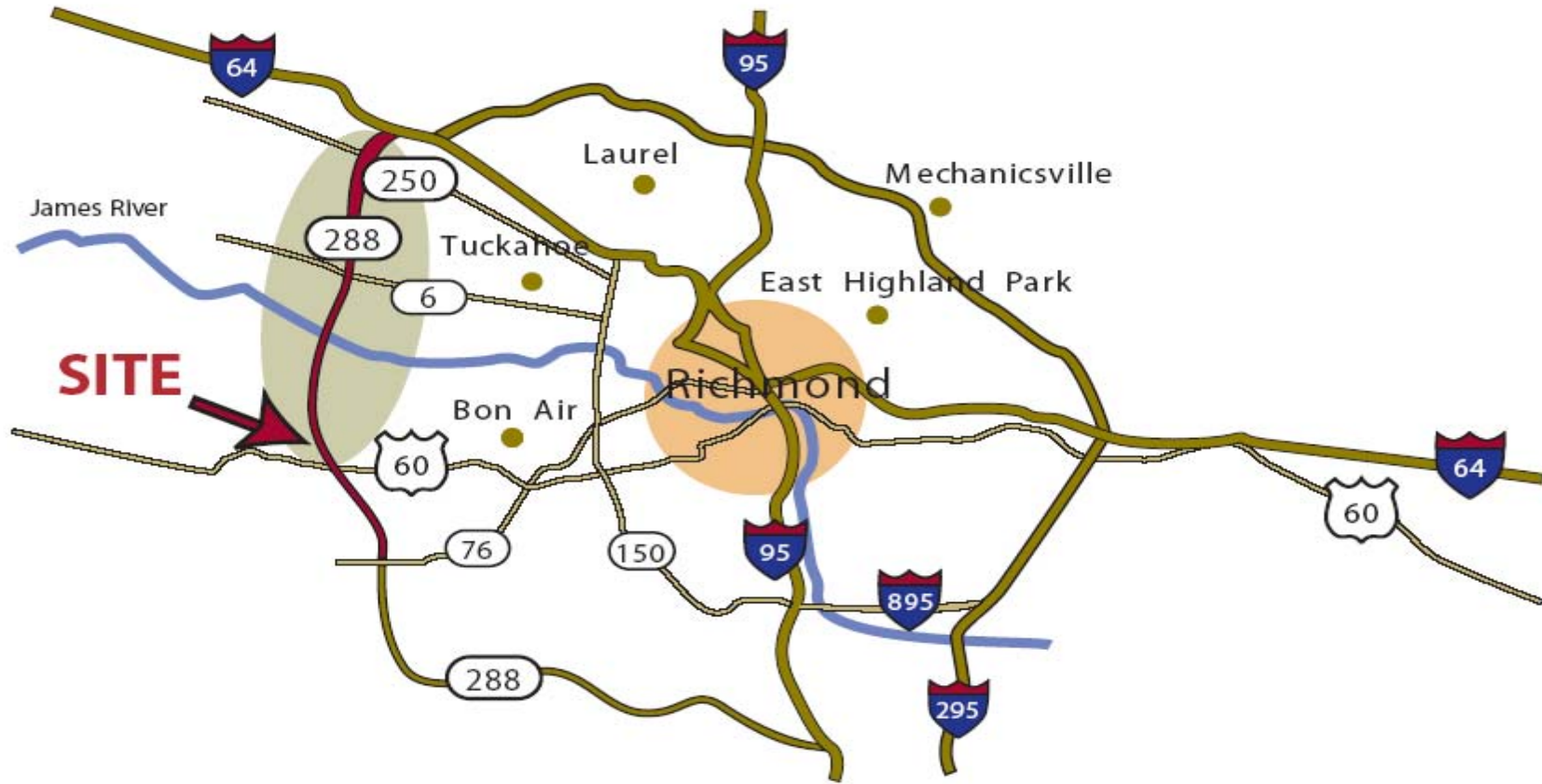
Case Study - Watkins Centre (Chesterfield County, Virginia), November 2007

- Bond Issue:** \$20,000,000 Watkins Centre Community Development Authority Revenue Bonds, Series 2007
- Location:** Chesterfield County, VA - Intersection of State Route 288 and State Route 60. 20 miles southwest of the City of Richmond's downtown business district.
- Development:** 504 acre mixed-use development
Retail, commercial, office, and hotel components
Target
SunTrust Bank, BB&T, Village Bank
- Developers:** Zaremba Metropolitan Midlothian, LLC, Watkins Land, LLC, Westchester Office Partners, LLC, Gray Land and Development Company, LLC, BEP LP, and Village Bank & Trust Financial Company, LLC
- Use of Proceeds:** Public infrastructure improvements including a portion of the transportation infrastructure necessary to meet the increased demands placed upon Chesterfield County as a result of the development.
- Primary Security:** Incremental real property and sales tax revenues with back-up special assessment
- Special Features:**
- Alleviates growing and previously underserved retail market in Western Chesterfield County.
 - Allows County to fund needed public infrastructure that it otherwise could not finance (infrastructure not part of previously proffered improvements)
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Case Study - Watkins Centre (Chesterfield County, Virginia), November 2007



Case Study - Watkins Centre (Chesterfield County, Virginia), November 2007



Implementation – Creation of a CDA

- Preliminary ordinance assuming the power to create – required in counties and towns
- Petition submitted by owners of at least 51% of land area or assessed value in CDA district
- Public hearing with 3 weeks notice held by locality's governing body
- Governing body adopts ordinance creating CDA
- Governing body appoints 5 member CDA board
- Petition and ordinance need only specify boundaries of district and proposed financing plan in general terms



Implementation - Public Infrastructure

- Roads and bridges; water and sewer facilities; parks, recreational, educational or cultural facilities; landscaping; curb and gutter; street lights; storm water management; fire prevention systems; parking facilities; school buildings and related structures
- On-site or off-site improvements as long as CDA property is "abutting" and benefited
- CDA allows enhanced level of infrastructure
- CDA infrastructure can be completed more quickly



Implementation - Services

- Trash Removal
- Street Cleaning
- Snow Removal
- Recreational Management
- Security
- Operation and Maintenance of Infrastructure



Implementation – Special Assessment

- Not an ad valorem tax; levied one time in a fixed maximum amount
- Allocated among parcels based on use and benefit
- Reallocated annually by CDA based on subdivisions
- No limit on amount, but cannot exceed the benefit to property
- Assessment may be paid over time (40 year maximum)



Implementation - Special Tax

- Levied as an ad valorem real estate tax
- Levied annually by locality
- Limited to 25 cents per \$100 of assessed value unless a greater tax is requested by all landowners
- Not limited to abutting property

Implementation – Incremental Taxes

- Does not require the levy of any new taxes or assessments
- Locality and CDA may enter into an agreement in which the locality agrees to pay the CDA all or a portion of the incremental increase in tax revenue generated within a district
- TIF district may be the same or different from CDA district
- Sources and amount of taxes to be contributed is negotiated with locality
- Incremental tax contribution may include all or some of the following taxes: sales, real estate, personal property, BPOL, transient occupancy, meals



Implementation - Growth / Redevelopment

- Growth – Enhanced infrastructure through CDA/TIF financing can be used to encourage higher quality developments, whether residential or commercial
- Redevelopment – CDA/TIF financing may be used to enhance feasibility of redevelopment projects
- Both "new" growth and redevelopment projects generate increased general tax revenues that support TIF contribution plans



Implementation - CDA / TIF Process

- Project conception
- Preparation of financial plan
- Governmental review and approval
- Issuance of bonds
- Monitoring implementation

Implementation - Preparation of Financial Plan

- Financial plan is the framework for efforts that follow

- Four sets of issues/constraints to financial plan
 - **Development project**
 - **Legal**
 - **Financial markets**
 - **Public policy**

- Major public policy issues
 - **Project of strategic importance**
 - **Public participation necessary for success**
 - **Public sector investment leveraging private sector investment**
 - **Risks identified and addressed**



Assessment Methodology – Purpose of Assessments

- Security of the bonds
- Form of minimum tax agreement for TIFs (security for agreement)
- Creates security interest in the property



Assessment Methodology - Key Financial Aspects of Assessments

- First lien (same as property taxes)
- Bankruptcy protected (secured creditor, first lien)
- No acceleration
- No cross collateralization



Assessment Methodology - Why Assessments Instead of Special Taxes?

- Revenues must equal debt service on bonds
- If form of revenue is based on value, the first development will represent a very high percentage of the obligation to produce revenues
- This obligation may make private financing and marketing infeasible

Assessment Methodology - Important Issues

- Developer
 - **Assessment levels must be reasonable for the market (not too high and no cross-collateralization)**
 - **Carrying costs must be manageable**
 - **Assessments must be compatible with private financing (no acceleration or cross-collateralization)**

- Legal
 - **Reasonably represents benefit**
 - **Typically four issues**
 - **Improvements provide particular benefit**
 - **Benefit exceeds assessments**
 - **Assessments imposed in amount equal to improvements (that is, bonds, including debt service)**
 - **Assessments allocated to properties to reflect relative benefit**

- Financial
 - **Adequate value to lien**
 - **Allocation to properties reasonably proportional to contribution to value**



Questions?

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