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September 24, 2009

NAHB®
NATIONAL ASSOCIATION OF HOME BUILDERS

Participants

- Toby Rittner, EDFP
  - *President & CEO – Council of Development Finance Agencies*
    - Mr. Rittner runs the CDFA including management of its Board and various educational, advocacy and research initiatives. He is a frequent speaker at local, state and national conferences and events focused on economic development finance. He is a Certified Economic Development Finance Professional and has conducted dozens of economic developmetn courses/seminars in his career. He has also advised state and federal government leaders on economic development finance policy and focus.

Participants

- <u>Kenneth E. Powell</u>
  - *Managing Director – Stone & Youngberg LLC*
    - Ken Powell has pioneered the establishment of Community Development Authorities (tax districts) in the State of Virginia and is involved in the expansion of TIF usage in a number of other States, helping to make his firm a leader in TIFs. He currently serves as Co-Chairman of the TIF Coalition and on the Boards of the Virginia Economic Developers Association and the CDFA. His varied experiences range from building feeding centers for orphans in Malawi to advising the government of the Republic of Georgia on infrastructure development.

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Webinar Agenda

- Development Finance overview and various tools.
- Case Studies
- Q&A

Q & A Session

- Submit questions via the Q & A section of the webinar module
- Question will be read (anonymously as to person asking question) and answered at the end of the presentation
- Any questions not answered in the time allotted will be addressed via email or by phone

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NAHB & CDFA Webinar

Understanding Infrastructure Finance Tools that are Successful Alternatives to Impact Fees

September 24, 2009

Toby Rittner
CDFA

Ken Powell
Stone & Youngberg, LLC

cdfa Council of Development Finance Agencies

www.cdfa.net

About CDFA

- National non-profit association representing the development finance industry.
- Provide education, advocacy, research, networking and leadership.
- Seven training courses – Bond Finance (2), Tax Increment Finance (2), Tax Credit, Revolving Loan Fund and Fundamentals of ED Finance Course.

About CDFA

- Research – Produce annual State-By-State studies for Bond Volume Cap and Tax Increment Finance Statute changes.
- Resources – Over 5000 resources online through our Bond, TIF, Tax Credit and RLF libraries.
- Advocacy – Active partner with Congress and Administration and had 3 items in the recently passed stimulus bill.

Understanding Development Finance & the Toolbox Approach

What is Development Finance?

- Development finance is the efforts of local communities to support, encourage and catalyze economic growth through public/private investment in physical development, redevelopment, business and 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.
- Regional advantages can enhance development finance efforts through partnership, cooperation and mutually advantageous programming.

What Does DF Include?

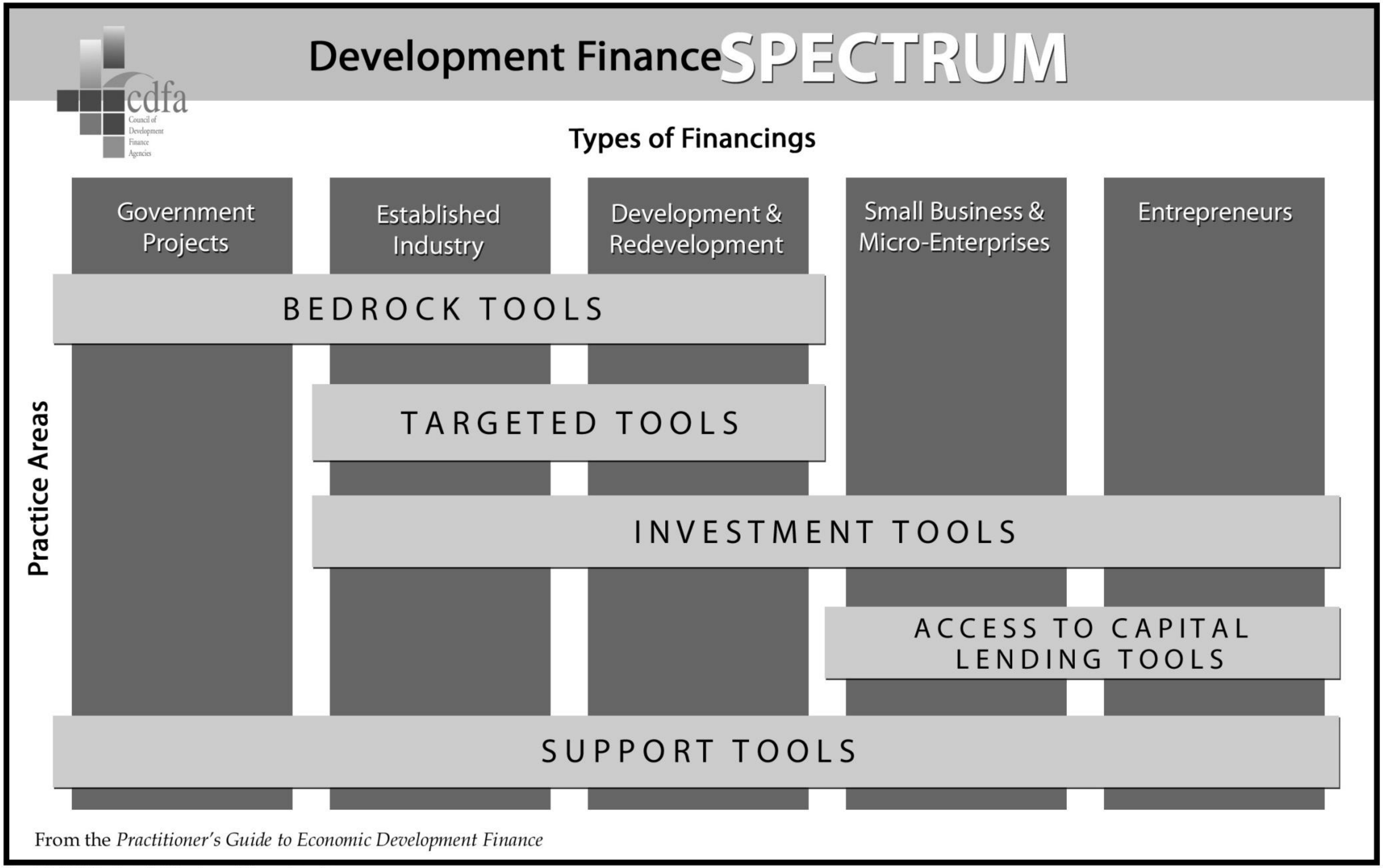
- Debt, equity, credits, liabilities, remediation, guarantees, collateral, credit enhancement, venture/seed capital, early stage, workforce, technical assistance, planning, short-term, long-term, incentives, gap, etc.

- Proactive approaches that leverage public resources to solve the needs of business, industry, developers and investors.

Development Finance Spectrum

- Every project presents a different financing challenge or opportunity.
- Large scale industrial development requires a different financing approach when compared to small business development.
- Some financing options (such as RLFs) may address a wide range of financing needs.
- Understanding the development finance spectrum is critical to employing the toolbox approach.

Development Finance Spectrum



Practice Area:

Targeted Tools

Targeted Tools

- Represent fastest growing area of development finance.
- Goal of targeted tools is to catalyze investment and transform the real estate values of a geographic area.
- Two general categories:

  1. Special assessment district financing
  2. Tax increment financing

- These two categories often overlap and work in conjunction with each other as a layered financing mechanisms.

Special Assessment District Financing

- Mechanism by which business, industry, commercial districts and governments generate funds by applying special tax assessments on geographic areas.

- Two general structures:

  1. Business and Neighborhood Districts
     - Self assessment
     - BID, SID, NID, etc.

  2. Government Districts
     - Sometimes self-assessed, often govt. created
     - SSD, SAD, CFD, CDD, TID

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Special Assessment District Financing

- Business and Neighborhood Districts help to support a variety of services:

  - security and safety patrols
  - snow removal
  - promotions, marketing and events
  - graffiti removal
  - beautification and cleanliness programs
  - economic development

Special Assessment District Financing

- Government Districts target very specific projects and services:

  - infrastructure such as roads, sewers, tolls
  - transit development
  - community amenities such as schools and public facilities
  - used in conjunction with tif often

Tax Increment Financing

- Second and most common targeted form of financing.
- 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.
- Referred to by a variety of names:
  - TIF - Tax increment financing (most states)
  - TAD - Tax allocation district financing (GA)
  - RAD - Revenue allocation district financing (NJ)
  - TIRZ - Tax increment reinvestment zones (TX)

Tax Increment Financing

- Tool that captures the future tax benefits of real estate improvements to pay for the present cost of those improvements.

- Used to channel investment for improvements to distressed or undeveloped areas where development would not otherwise occur.

- Used to address blight, promote neighborhoods, inspire transit oriented development and transform the build community.

Who Controls TIF?

- States authorize enabling legislation.
- Local governmental jurisdictions (city or county) designate districts or project areas.
- Development agencies or other entities implement the program.
- 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 only for that project – usually backed by bond issuance or loan mechanisms.
- District Based – Large area of land is targeted and identified for redevelopment. Projects that develop within the district may be eligible to use TIF as source of financing or as property values increase, increment can be used for loan programs.

Two Common Types of Financing

- Up Front – Paying for improvements through bonding and lending directly to project once vertical development is complete.

- Pay-As-You-Go – Creating district, collecting increment and paying for improvements as the increment accrues.

Simple Project Based Example

Using Up-Front Method of Financing:

- 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.

Simple Project Based Example

- New project is proposed for the site and will in effect raise overall tax base generated to $1,500 (and rising) a year once completed.
- Developer agrees to make significant investment and seeks TIF funds from govt. for eligible public improvements.

Simple Project Based Example

- 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 the project (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).

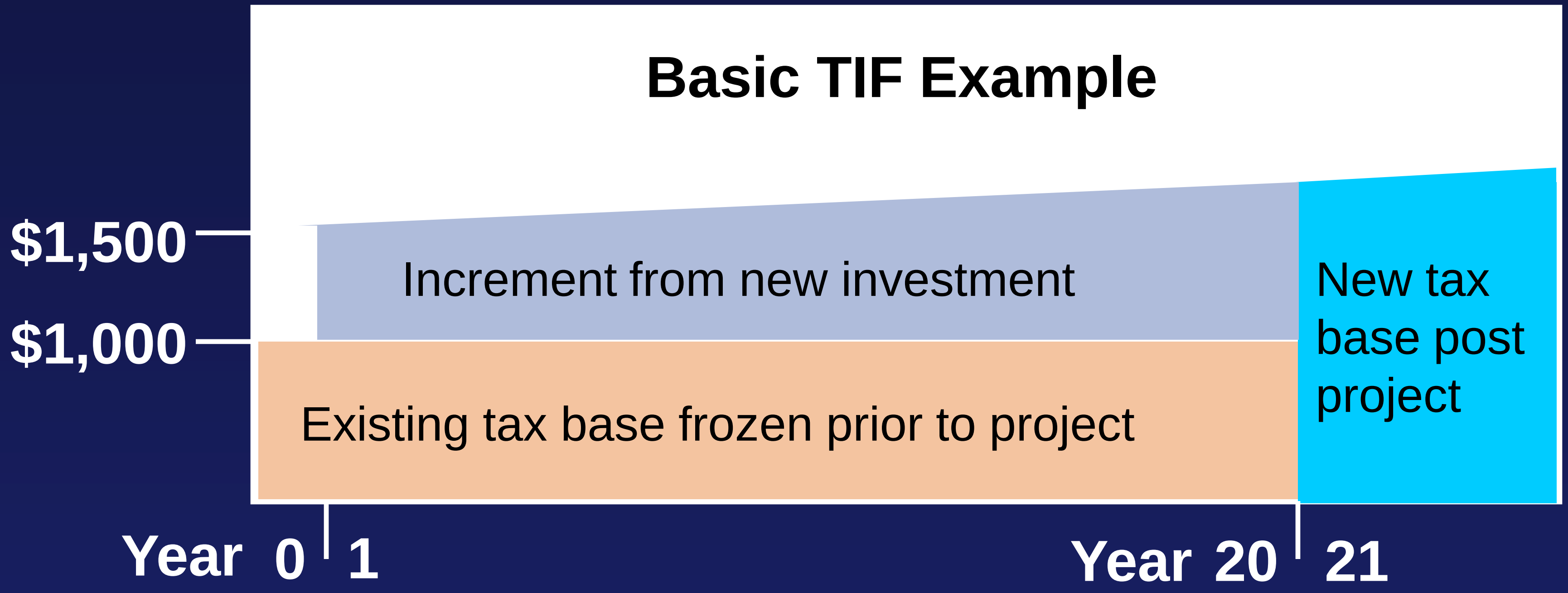
Simple Project Based Example

- Frozen base ($1,000) continues to flow to pre-existing coffers (city, county, schools, state, etc.).
- Increment (additional $500 plus) goes towards debt service on the bonds that were issued for the project.

Simple Project Based Example

- 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 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



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Why TIF?

- The original intent of TIF was to provide an adequate tool for the reuse and redevelopment of the nation's urban center and to eliminate blight.
- TIF generally has focused on industrial development, commercial/office development and in some states retail development. Mixed-use projects have become particularly popular.

Why TIF?

- 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).
- However, TIF has been used properly in most cases.

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.
  - 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
  - Focus TIF on areas of decline rather than building new facilities that 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 Policy & Practices

- 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.

Targeted Tool Resources

- CDFA Resources:

  - Tax Increment Finance Resource Library
  - TIF State-by-State Resource Center
  - Tax Increment Finance Training Course
  - Tax Increment Finance Best Practices Reference Guide (free online download)
  - Advanced TIF Course (coming in November)
  - Advanced TIF Reference Guide (coming in November)

The Farms of New Kent CDA (New Kent County, Virginia), September 2006

Bond Issue: $85,666,000 The Farms of New Kent Community Development Authority Special Assessment Bonds, Series 2006A, B, & C

Location: New Kent County, VA - Approximately 30 miles east of Richmond on I-64

Development:

- 1,450 age-restricted units
- 300 estate lots
- 450 single family homes
- 100 resort cottages
- 830,000 sq. ft. of commercial space
- 18-hole Rees Jones Golf Course
- Winery, vineyards, polo complex, farmer's market

Developers: Boddie-Noell Enterprises, Republic Land and K. Hovnanian

Use of Proceeds: Public infrastructure improvements including road, water and wastewater improvements.

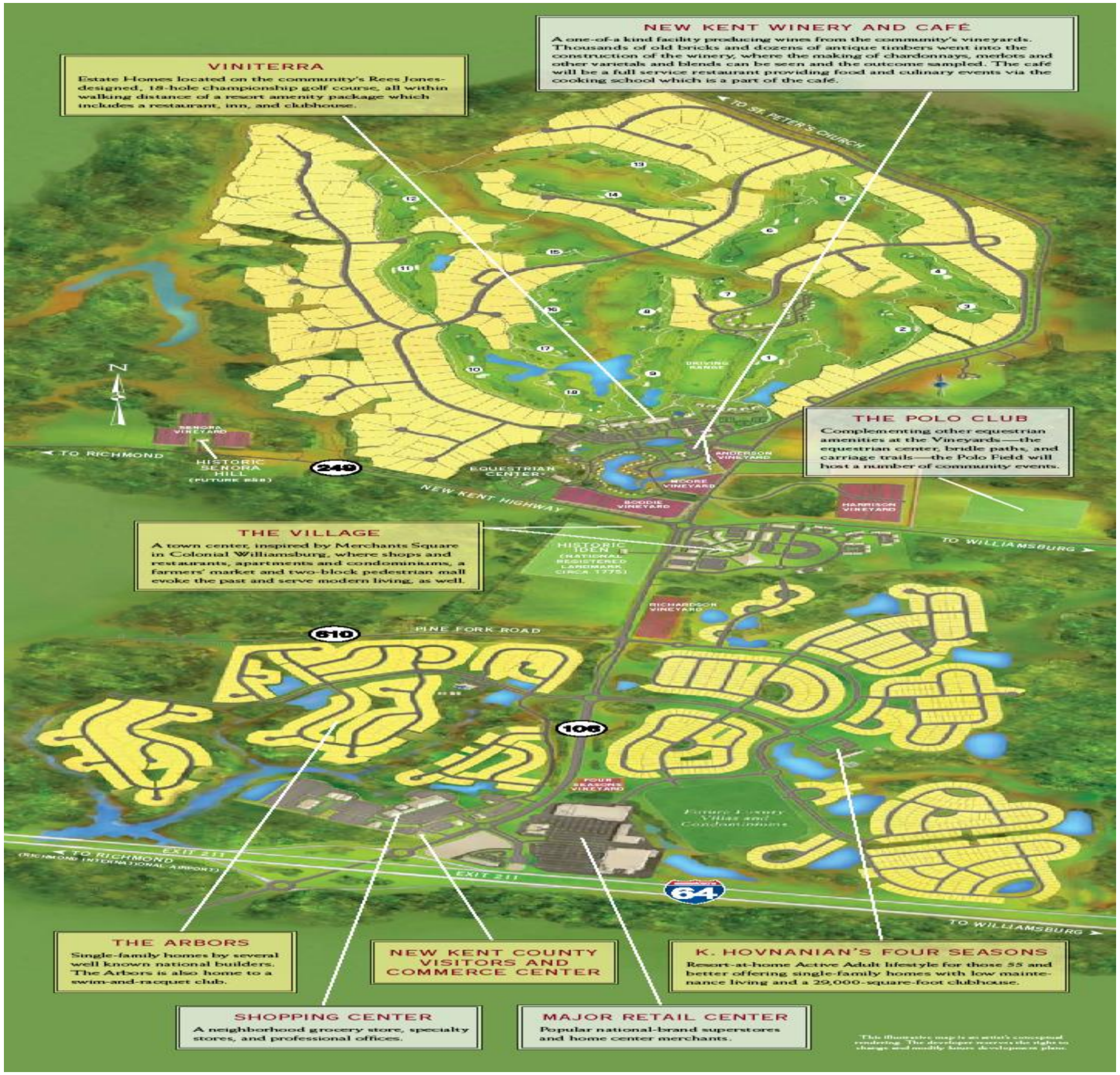
Primary Security: Special Assessment Revenues

Special Features:

- Second largest non-rated special district financing in Virginia.
- Unique bond structure in which prepayments used first to call Series A Bonds, then the Series B Bonds and finally the Series C Bonds.
- Alleviated County's problem of limited existing wastewater treatment capacity restraining development in County

S&Y

The Farms of New Kent CDA (New Kent County, Virginia), September 2006



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Broad Street CDA (Richmond, Virginia), May 2003

Bond Issue: $66,740,000 Broad Street Community Development Authority Revenue Bonds, Series 2003

Location: Richmond, VA - Central Virginia's "Central Business District"

Development: 5 city blocks of mixed-use commercial and retail properties in the center of a planned revitalization of the former retail center of downtown Richmond
- 630,000 sq. ft. Richmond Convention Center
- Miller & Rhoades Hotel
- 290,000 sq. ft. new Federal Courthouse
- Performing Arts Center Complex
- Over $600M invested in surrounding area

Developers: ECI Investment Advisors, Inc.

Use of Proceeds: Public infrastructure improvements including the acquisition, construction and improvement of certain parking, streetscape, public utility and other improvements.

Primary Security: Special Assessment Revenues

Special Features:
- Bonds secured by parking revenues special assessments, per ticket surcharges from Performing Arts Center Complex, and annual contribution from City.
- Multiple land owners subject to numerous agreements.

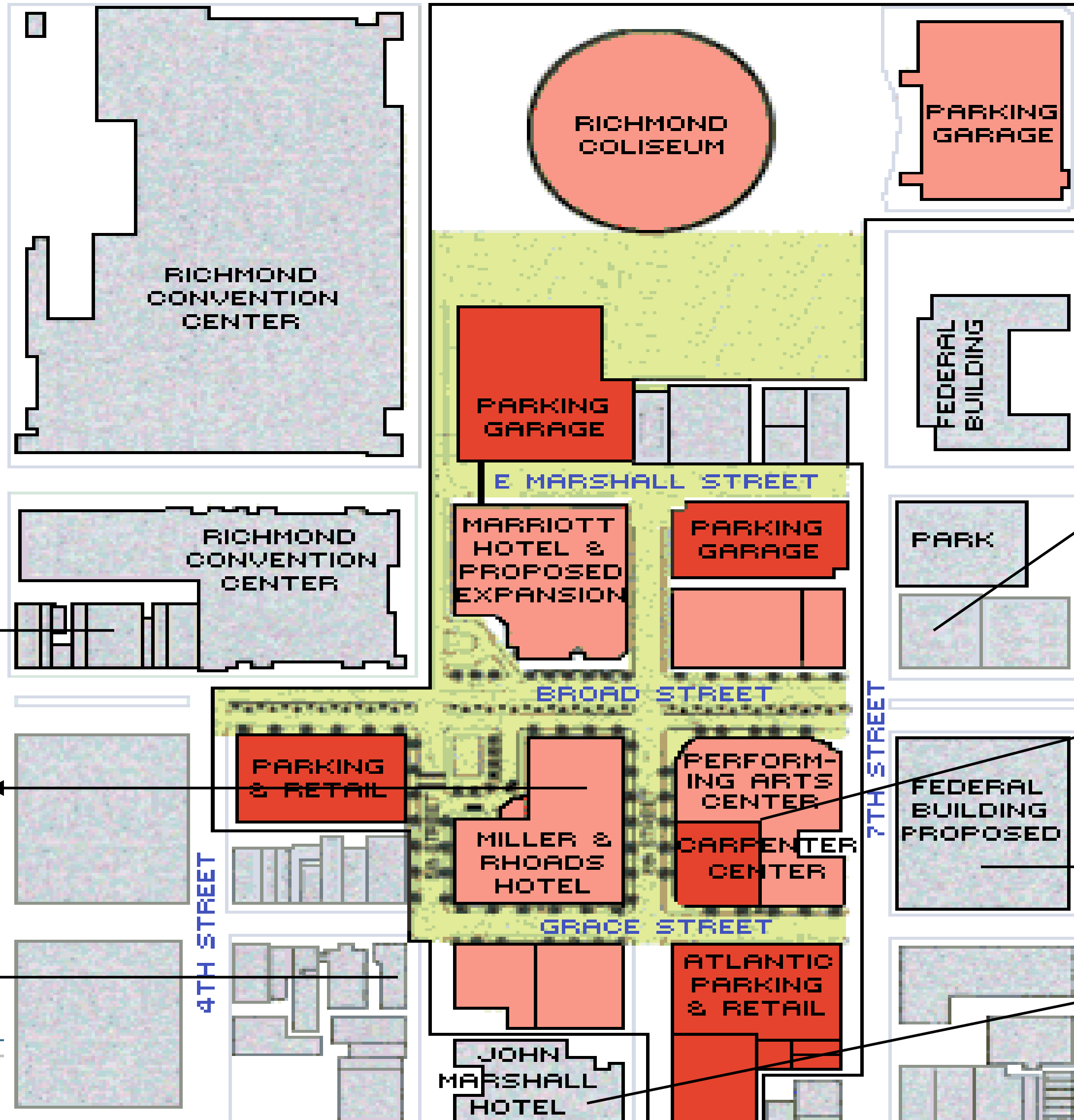
Broad Street CDA (Richmond, Virginia), May 2003

Philip Morris USA Center for Research and Technology (2007)

Broadway Apartments and Retail (Already Open)

Hilton Gardens Hotel (January 2009)

Berry Burk Building Apts. and Retail (2009)



National Theatre (February 2008)

Richmond CenterStage (September 2009)

Federal Courthouse (September 2008)

Luxury Apartments and Retail Under Development (2-3 yrs)

Prairie Ridge (Hampshire, IL)

Bond Issues: $75,000,000 in seven concurrent series
Village of Hampshire, IL
Prairie Ridge East, Series 2007A & B
Prairie Ridge West, Series 2007A & B
Tamms Farm, Series 2007A
Oakstead, Series 2007A & B

Location: Kane County, IL, on the Western edge of the Chicago metropolitan area

Development: 2,800 residential units on 1,850 acres

Developer: Crown Community Development

Use of Proceeds: Wastewater treatment plant, water facilities and roads

Security: Special Taxes

Special Features:

Largest special tax district bond issue in Illinois.

- 10 year build-out period.
- Series A Bonds (nearly 40 year maturity) to be paid by long-term special taxes.
- Series B Bonds (15 year maturity) to be paid by prepayment of special tax by homebuilders.

Watkins Centre CDA (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 (opened March 2008)
- SunTrust Bank
- BB&T

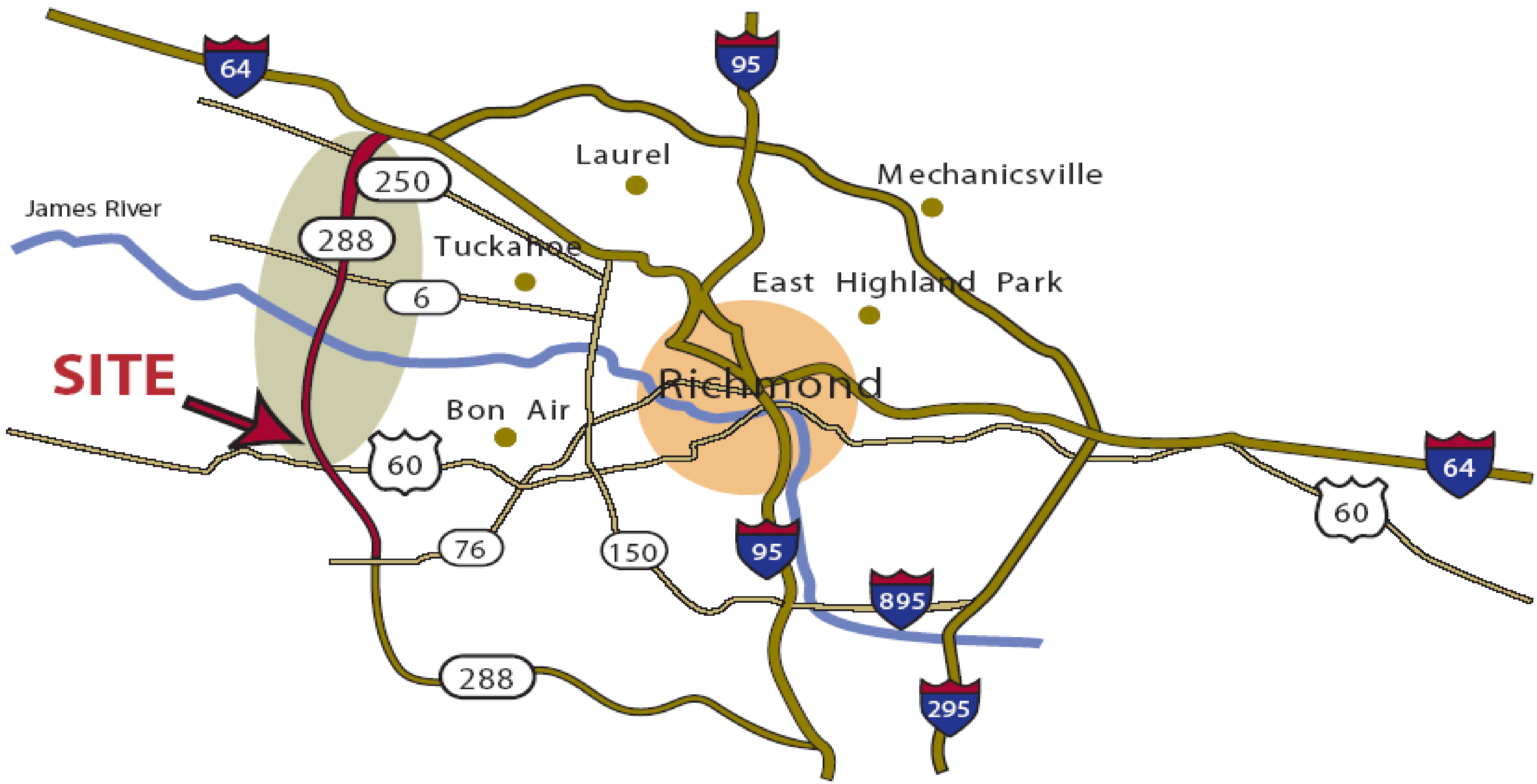
Developers: Zaremba Metropolitan Midlothian, LLC, Watkins Land, LLC, Westchester Office Partners, LLC, Gray Land and Development Company, LLC, BEP LP, and Village Bank & Trust Financial Company, LLC

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 and back-up special assessment

Special Features:
- Alleviates growing and previously underserved retail market in Western Chesterfield County.
- Strategically located at the interchange of Route 288 and Midlothian Turnpike.

Watkins Centre CDA (Chesterfield County, Virginia), November 2007



Bell Creek CDA (Hanover County, Virginia), January 2003

Bond Issue: $15,980,000 Bell Creek Community Development Authority Special Assessment Bonds, Series 2003A, B

Location: Hanover County, VA - Central Virginia, 10 miles north of City of Richmond's central business district

Development: 325 acre mixed-use development
- 535 residential units
- 200,000 square feet of commercial retail
- 157 acre light industrial development

Developers: The Shield Company

Use of Proceeds: Public infrastructure improvements including acquisition and construction of roads and road improvements, water and sanitary sewer improvements, storm water management improvements and certain other infrastructure improvements

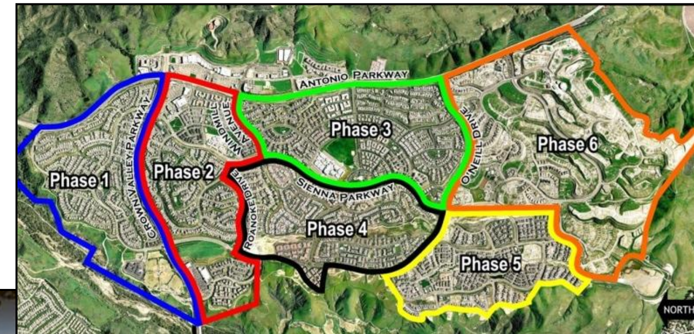
Primary Security: Special Assessment Revenues

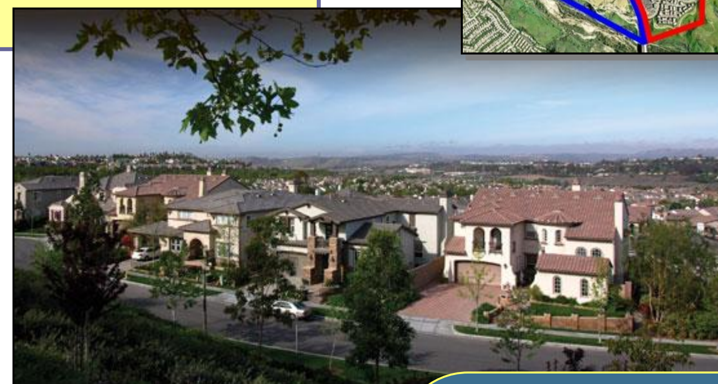
Special Features:
- Expansion of Hanover County's tax base.
- Provided utility service for 260 contiguous acres planned for business development.
- Increased employment opportunities while preserving property with unique ties to Colonial, Revolutionary, and Civil War history

Ladera Ranch - Orange County, CA

CHALLENGE:
- **Immense backbone infrastructure needs**
- **Country just coming out of 1990s real estate recession**
- **Prospect of very lengthy build-out given unit count**

GOAL:
- **Assure funds to construct $315 MM of improvements in a timely, logical manner**





Bond Total:	$369,930,000, plus $84,015,000 Refunding
Bond Pledge:	CFD Special Taxes
CFD Boundary:	2,400 developable acres, 6 CFDs
Improvements:	Public: fire stations roadways utilities Private: 8,100 residential units, including some affordable and senior units 100 acres commercial/retail/office
Developer:	DMB Consolidated Holdings Ladera Development Company

SUCCESSES:
- **1,600 acres of preserved open space, 16 parks, 7 trail systems**
- **Added ~ $4.9B to property tax roll**
- **Improved and widened major E-W thoroughfare through County**

Belharbour Station TIF (Chesapeake, VA) In Progress

- **South Norfolk TIF District established in 2005 to preserve incremental tax revenues and spur redevelopment within high-crime area of Chesapeake, VA**
- **Overall TIF District larger than CDA District**
- **Incremental real estate tax revenues allocated to pay debt service on initial CDA debt until project within CDA generates sufficient tax revenues to pay debt service. Then, TIF revenues roll on to subsequent CDA project within TIF district.**
- **Tax Increment Revenue Bonds will finance roads, water and wastewater improvements, landscaping, parking structure, sidewalks, public park improvements.**
- **Transformation of 30 acres of urban, waterfront, industrial property with needed environmental remediation into mixed-use residential development**
- **Development to include 900 space parking garage, public marina, high-rise condominiums and apartments, townhomes, retail, restaurant and office building**

Belharbour Station TIF (Chesapeake, VA) In Progress

Harveston - Temecula, CA

CHALLENGE:
- Development had only just begun to pick-up in California's Inland Empire when construction of this 2,000 unit neighborhood commenced
- Prior developer was unsuccessful in building the project

GOAL:
- Lowest cost of funds during developer's holding period
- Protection for city should this developer abandon project

Bond Total: $17,310,000 Variable Rate
$17,545,000 Fixed Rate Ref.

Bond Pledge: CFD Special Taxes

CFD Boundary: 510 gross acres

Improvements: Public: Park and Lake
Backbone Streets

Private: 1,600 SF DUs
300 MF Apts.,
115 MF Retirement
112 acres commercial

Developer: Lennar Corporation

SUCCESSES:
- Average variable rate of 1.85% for 4 yrs
- Developer LOC could be drawn to make debt service payments if property owners become delinquent
- 83% of refunding was "AAA" keeping homeowners' taxes low

S&Y

Peninsula Town Center (Hampton, VA), September 2007

Bond Issue:	$92,850,000 Peninsula Town Center Community Development Authority Special Obligation Bonds, Series 2007
Location:	Hampton, VA - Southeast Virginia, near Norfolk, located off I-64
Development:	1,154,000 square feet mixed-use development Anchored by J.C. Penney, Macy's, and Target Also, restaurants, office, specialty stores and residential 2,250 parking spaces
Developers:	Mall Properties, Inc. and Steiner + Associates
Use of Proceeds:	Public infrastructure improvements including roads, water and wastewater improvements, landscaping, parking structure, sidewalks, parks and acquisition of land.
Primary Security:	Incremental tax revenues (including real property, sales, meals and amusement taxes), special retail assessment, special property tax and back-up special assessment
Special Features:	▪ Saved City of Hampton's largest taxpayer. ▪ Largest non-rated special district financing in Virginia. ▪ First special retail assessment (sales tax within district) in Virginia. ▪ Unique blend of pledged revenues.

S&Y

Peninsula Town Center (Hampton, VA), September 2007

LESSONS LEARNED

- **Most Important Lesson – quality people, quality projects**
- **Local governments should determine desired usage of TIF and then use TIF for that purpose**
- **The TIF process must be consistent and transparent**
- **TIFs do not make bad projects good; instead TIFs may make good projects better**

For Further Information

- Contact

  Toby Rittner
  (216) 920-3073
  trittner@cdfa.net

  Kenneth E. Powell
  (804) 727-6764
  kpowell@syllc.com

  Thais Austin
  (800) 368-5242 ext. 8343
  taustin@nahb.com
  www.nahb.org/infrastructurefinance

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