Development Finance
PERSPECTIVES
Issue 3 ■ 2011

EMERGING
Development Finance Models

IN THIS ISSUE:

- Tax Increment Finance Best Practices
- Maximizing Your Revolving Loan Fund
- Federal Innovation Finance
- Preserving Tax-Exempt Bonds
- Emerging State & Local Energy Financing Models

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- Tax Credit Finance
- Revolving Loan Funds
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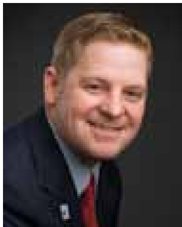
Time for Federal Economic Development Policy



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For 30 years, CDFA has worked closely with federal, state, and local government leaders to craft economic development policy and programming that catalyzes investment, creates jobs, and rewards innovation. As our country continues to struggle through an economic recession, one fact has become clear: the federal government lacks a strong and comprehensive policy for domestic economic development.

This lack of policy has resulted in a patchwork of federal offerings spread throughout agencies and institutions that have lost meaningful connections with the realities of the economy. Today, our state and local economic developers need a federal response with clear goals, tailored but flexible programs, better information sharing and networking, increased attention to education and capacity building, and greater accessibility across the board. Now is the time for a huge leap forward in federal economic development policy.

According to CDFA research, 17 federal agencies offer more than 170 federal programs to support state and local economic development efforts, or to assist with private sector capital access and business expansion. These programs provide capital, guarantees, exemptions, loans, technical assistance, market data, grants, training, and myriad resources for public and private sector participants.

Of these 170+ programs, a few have reasonable levels of both funding and participation. This is not always the case. Some programs are potentially effective but are unknown and struggle with participation. Others are, while well intended, designed or executed poorly.

In a March 2011 report, the U.S. Government Accountability Office examined 80 federal economic development programs to assess their overlap and duplicative natures. Preliminary results of the GAO's work indicate that each program appears to overlap with at least one other program. For example, 52 of the programs can fund "entrepreneurial efforts." These findings highlight the fragmented approach to federal economic development policy and programs.

Thankfully, innovation is alive in the federal government. The U.S. Department of the Treasury's new State Small Business Credit Initiative (SSBCI) is working to infuse $1.5 billion of capital access funding to the states through a groundbreaking delivery model. The overall objective of the SSBCI is for federal government investments to leverage, at a 10:1 ratio, private sector capital. However, the SSBCI allows states to craft their own capital access programs and other credit support initiatives while engaging the federal government in ongoing performance monitoring. The SSBCI is perhaps the most unique federal/state/local partnership to ever emerge within the federal economic development system and is an example of public/private partnership.

But ask yourself: did you know about the program before reading this?

My guess is that you did not, and this further underscores the need for better federal leadership and policy in the economic development industry. The 17 agencies that manage these 170+ programs are represented by numerous cabinet secretaries at the highest federal level. Throughout the federal government, various players have their hands in economic development, but nobody is leading this engagement.

So what do we need to do next? CDFA is calling on the economic development community to work with the federal government to craft an economic development policy and framework that brings federal resources in line with state and local strategies. The consolidation of redundant programs, the elimination of ineffective and obsolete offerings, and the all-around coordination of available resources needs to be assembled. Our industry needs a streamlined approach to deliver the programs in the federal economic development finance toolbox.

Crafting a new federal policy means acknowledging that economic development today is focused on innovation, entrepreneurs, technology, and small business development. Our toolbox for heavy debt financing is well established through the use of bonds, tax increment finance, and revolving loan funds. Our strategy going forward must be focused on the next 50 years of innovation and the development of our future engines of economic growth.

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Tips for Managing Your RLF Program

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Revolving loan funds (RLFs) are an essential element of the development finance toolbox and help fund entrepreneurs and growing small businesses of all kinds. RLF programs encourage investment from banks and other lending institutions while, at the same time, assisting traditionally underserved businesses.

Monitoring the performance of your RLF program has always been an important element to ongoing success, but given today's economic climate, this function is no longer just a necessity: it is vital. So, what can be done to ensure that your RLF program continues to be relevant within your region's economic development industry? Here are some ideas related to capitalization, RLF committees, marketing, and loan servicing to help you succeed.

Capitalization

Take a look at the availability of funds in your RLF program. Do you have enough to meet the needs of your local businesses? Or, have you seen an increase in certain types of businesses applying for financing? Depending on the flexibility of your program and capability of staff, it may be time to consider new sources to increase the size of your RLF.

We are all familiar with grant funding options available at the federal level to capitalize RLFs, from the USDA or EDA for instance, but there are many other options available. The St. Louis County Economic Development Corporation pooled funds from local banks to develop an innovative program; the Great Lakes Revolving Loan Fund was created with the support of a local foundation; and Winnebago County, Illinois operates a RLF that generates money from charging garbage haulers for dumping at the local landfill.

Consider some unique partners in your region to help initiate a specialized fund. For instance, you could partner with a utility company to create a fund that encourages energy efficiency upgrades in the business community or join forces with a larger regional loan fund to bring new opportunities to assist local business owners.

However, keep in mind that funding sources have finite availability. Acquiring funds that do not meet your agency's specific strategies is not only a waste of time; it may take money away from another region that could put those resources to use.

RLF Committee

The RLF Committee is an essential facet of your program. Even if you are not required to assemble a committee to approve loan decisions, it is considered a best practice and very beneficial to have a committee with diverse backgrounds to serve as a support structure. This provides well-rounded review and assistance in areas where staff may have minimal expertise.

Plus, a committee made up of leaders in your community will help legitimize your program and can be a good source of connections when you are seeking new opportunities to reach local businesses or assistance with an underperforming loan. Most RLF committees include accountants, lawyers, bankers, educators, and local business owners, but thinking outside of the box and inviting new perspectives to the committee can help broaden your reach.

Most importantly, remember that the members of your RLF committee are volunteers. Take the time to train them on the specifics of the various programs that your agency manages. Help them understand your mission, the basic terminology of commercial transactions, and the essential components of risk so that they can help successfully lead the program.

Marketing

Hundreds of RLF programs across the country are underutilized and, in many cases, unknown to business and industry. Marketing your RLF is a critical component of operating a successful program, but it can present unique challenges for your agency.

Generic marketing, such as newspaper advertisements, can create an onslaught of interest and applications from less-than-qualified applicants. This can put a strain on staff to weed through the applications and field phone calls looking for "free" money. Conversely, if you fail to connect with the business community, you may not have enough deal flow to justify the program or to ensure ongoing success.

One successful approach is to enlist the aid of connections at local banks and credit unions. Many lenders have certain quotas they are tasked with attaining and putting good loans on the books can benefit all parties. Oftentimes, banks are unable to lend to non-qualifying borrowers due to collateral or credit risks. Contributing to a revolving loan fund program may be a good alternative for the bank to mitigate their risk exposure while assisting local business growth.

You may also want to reach out to local business and industry groups to inquire about upcoming networking events or speaking engagements. These opportunities can highlight your RLF program to a variety of businesses and help spread the word about your available funding options. And, always of upmost importance, make sure your website is routinely updated with the most recent application materials and success stories of businesses you have assisted.

Loan Servicing

The loan has been approved and funds distributed, but that is only part of your role within the fund. Ongoing monitoring and servicing of the loan is critical and easily overlooked as new demands and transactions present themselves. Routine management of each loan–and the overall fund portfolio–often means the difference between a marginally performing fund and a successful one.

Payment monitoring should be routine and followed on a weekly basis. Identifying a troubled loan before it becomes past due will increase the opportunity to begin remediation, whether in the form of additional assistance or increased monitoring. Loans that become past due face a difficult hurdle returning to current status. Being aware of problems and reporting them promptly demonstrates your understanding of the RLF's value and its importance to your funders and the greater community.

Put Your Plan into Action

Now that you have some ideas of how to reinvigorate your RLF program, it is time to identify areas for improvement. No matter the size of your agency or the total number of loans in the fund's portfolio, reevaluating management practices can take your program from functional to highly performing.

Once you have targeted objectives, seek out help to put your plan into action. CDFA's *Revolving Loan Fund Reference Guide* offers more in-depth explanation and analysis of program management to give you further direction. Or, better yet, join CDFA for the Intro Revolving Loan Fund WebCourse this December 13-14 to learn the essential elements of operating a successful RLF program. This course qualifies for the CDFA Training Institute's Development Finance Certified Professional (DFCP) Program, so you will be one step closer to earning your certification while learning how to make your RLF program an important resource for your region's economic engine.

The Fight to Preserve Tax-Exempt Bonds

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The development finance industry has been tested this year, and CDFA is working hard to demonstrate the resiliency of this industry. Tax-exempt bonds are facing market and investment challenges and Congressional attacks. Congress and the White House are actively considering alternative and largely unproven bond finance structures, and one think tank recently suggested that tax-exempt bonds were inefficient, despite a 30-year record of investment and job creation.

We have heard rumblings of tax reform and calls for the elimination of tax-exempt bonds. In August, the debt ceiling and deficit reduction deal called for the creation of a bipartisan, 12-person panel tasked with finding an extra $1.2 trillion in spending cuts, and CDFA sources indicated that the panel would consider the elimination of tax-exempt bonds. In September, the President proposed a jobs bill placing limits on tax-exempt bond interest exemptions, virtually eliminating one-third of the investor pool for tax-exempt bonds and affecting state and local government considerably.

These events have made CDFA stand taller and fight harder. CDFA began its tax-exempt bond preservation campaign in June and has continued to rally the development finance community behind preserving tax-exempt bonds. See the sidebar for more on CDFA's campaign to preserve tax-exempt bonds.

CDFA *Built by Bonds* Publication

CDFA's campaign to preserve tax-exempt bonds is highlighted by a special publication titled, *Built by Bonds*. This publication provides the definitive defense of tax-exempts and profiles three projects from all 50 states. The 150 project snapshots emphasize investment and job creation. We have reached over 15,000 finance professionals with the publication and have hand-delivered copies to members of Congress with the help of dedicated CDFA members.

It is true that over the past three years, during the economic recession, tax-exempt bonds have faced challenges. Volume for tax-exempt bonds is at a decade low for reasons including the uncertainty of the national economic outlook and pressures on state and local budgets. Bond volume is tied to overall market health, and it makes sense that volume in the current bond market is diminished as uncertainties are affecting issuer, underwriter, and investor decision making.

Nonetheless, the value of tax-exempt bonds cannot be underscored enough. Interest rates for tax-exempts are at an all-time low, making tax-exempt borrowing extremely attractive to state and local governments with pent-up capital needs. The rate environment also provides options for private borrowers, including greater flexibility compared to conventional lending. In addition, the appetite for tax-exempt bonds remains strong from investors.

If eliminated, the interest rates on what would now amount to taxable bonds would rise dramatically, almost certainly resulting in a period of stagnation within state and local governments. Important infrastructure, education, health care, and community amenity projects would be delayed, scaled back, or eliminated.

Hundreds of organizations, issuers, underwriters, bankers, bond counsels, and other advocates have assisted CDFA in our efforts to preserve tax-exempt bonds. To learn more about CDFA's legislative efforts visit www.cdfa.net

The CDFA campaign to preserve tax-exempt bonds has included the following activities:

June
- Letter sent to each member of Congress supporting tax-exempt bonds
- Call to Action: CDFA began collecting case studies from all 50 states

July
- CDFA continued collecting tax-exempt bond case studies
- Research efforts began for CDFA's new *Built by Bonds* publication
- Call for support of new publication

August
- CDFA continued collecting tax-exempt bond case studies
- Research and writing of new *Built by Bonds* publication
- Letters sent to each member of the Super Committee supporting the preservation of tax-exempt bonds
- Early mobilization efforts among 22 national organization to preserve tax-exempt bonds
- Announced Capitol Hill Day

September
- Signed on to letter sent to Super Committee with 22 organizations supporting the preservation of tax-exempt bonds
- Continued drafting *Built by Bonds* articles and case studies
- Completed numerous meetings on the Hill with Super Committee members
- Continued meetings with other public finance agencies on efforts
- Sent letters to all members of Congress supporting tax-exempt bonds
- Briefed attendees at conferences in California and Washington, DC on threat to tax-exempt bonds

October
- Completed *Built by Bonds* publication
- Sent publication to over 15,000 bond finance industry stakeholders including members of Congress and the administration

November
- Released *Built by Bonds* publication on Capitol Hill
- Completed Capitol Hill Day with numerous constituents
- Held briefing with Congressional staffers about the importance and preservation of tax-exempt bonds

Federal Innovation Finance Programs

Innovation finance is one of the fastest growing areas of economic development finance nationwide. Cities, counties, and states throughout the country are implementing successful innovation finance strategies every day. Innovation finance, which encompasses angel, seed, and venture capital, is a critical component of the development finance toolbox, providing capital access for entrepreneurs, new technologies, emerging businesses, and more.

The federal government offers a number of programs supporting innovation finance. Four programs are highlighted below. To find out more about the dozens of other federal financing programs supporting innovation, or any of the over 170 development finance programs offered by the federal government, visit www.cdfa.net and access the CDFA Federal Financing Clearinghouse.

State Small Business Credit Initiative (SSBCI)

U.S. Department of the Treasury

Under the U.S. Treasury's State Small Business Credit Initiative (SSBCI), participating states will use $1.5 billion in federal funds for programs that leverage private lending to help finance creditworthy small businesses and manufacturers that are not getting the loans they need to expand and create jobs. The SSBCI will allow states to build on successful models for state small business programs, including collateral support programs, Capital Access Programs (CAPs), and loan guarantee programs. Existing and new state programs are eligible for support under the Initiative.

Eligible Users:
Funding has been allocated, but qualifying small businesses may use approved programs. Contact your state's development agency for more information.

Financing Type:
Access to Capital | Innovation Finance

Small Business Innovation Research (SBIR) Program

U.S. Small Business Administration (SBA)

SBIR targets the entrepreneurial sector, because that is where most innovation and innovators thrive. However, the risk and expense of conducting serious R&D efforts are often beyond the means of many small businesses. By reserving a specific percentage of federal R&D funds for small business, SBIR protects the small business and enables it to compete on the same level as larger businesses. SBIR funds the critical startup and development stages, and SBIR encourages the commercialization of the technology, product, or service, which, in turn, stimulates the U.S. economy.

Eligible Users:
Small businesses meeting certain eligibility criteria.

Financing Type:
Access to Capital | Innovation Finance

Economic Adjustment Assistance Program

U.S. Economic Development Administration (EDA)

Through the Economic Adjustment Assistance (EAA) program, EDA provides a wide range of construction and non-construction assistance, including public works, technical assistance, strategies, and revolving loan fund (RLF) projects, in regions experiencing severe economic dislocations that may occur suddenly or over time. The EAA program is designed to respond flexibly to pressing economic recovery issues and is well-suited to help address challenges faced by U.S. communities and regions.

Eligible Users:
State, county, city governments, institutions of higher education, nonprofits, and others.

Financing Type:
Access to Capital | Infrastructure Finance | Revolving Loan Funds (RLFs) | Innovation Finance

Office of Energy Efficiency and Renewable Energy Grants

U.S. Department of Energy (DOE)

The DOE's Office of Energy Efficiency and Renewable Energy (EERE) grants program is a funding vehicle for businesses, industries, universities, and others. EERE works with industries and outside agencies to provide funding for renewable energy and energy efficiency research and development. Financial assistance awards transfer money, property, or services to a recipient to accomplish a public purpose authorized by federal statute.

Eligible Users:
Grants are awarded on DOE criteria for merit, detailed in an online Merit Review Guide for Financial Assistance.

Financing Type:
Energy Finance | Access to Capital | Innovation Finance

Emerging State & Local Energy Financing Models

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Renewable energy, energy efficiency, clean energy technology, green development, and the new energy economy have become catch phrases for boosting economic development throughout the country. Nearly every federal official and politician, scientist, policy advocate, corporation, utility company, military representative, environmental advocate, housing developer, technology lab, manufacturer, and small business owner is now engaged in the practice of reducing energy costs and consumption through advancements in the energy sector.

Energy development, however, is incredibly complex, and state and local officials work to build place-based renewable and clean tech energy models to power communities, create green/clean jobs, reinvigorate Main Street, and rebuild large scale industry. The scope of projects can be overwhelming, the changing pace of technology unpredictable, and the simple act of financing daunting.

There is no doubt that energy development is the fastest growing sector of the U.S. economy. According to Lewis Milford of the Clean Energy Group, there are now more jobs in wind and solar than coal mining by about 150,000 to 80,000.[1] Milford notes that states provide a number of incentives to encourage the clean energy sector, including rebates, grants, performance-based incentives, feed-in tariffs, and direct loan programs. There are a variety of emerging financing tools, such as credit enhancements, interest-rate buydowns, property assessed clean energy bonds, and on-bill financing structures.

Examples of innovative financing solutions are emerging throughout the country with models demonstrating that regardless of size or proximity, state and local government can have a profound impact on energy development.

Exploring Energy Efficiency Financing

Energy efficiency programs are generally geared towards financing efforts that improve the energy consumption of existing buildings, homes, and infrastructure.

Many energy efficiency or renewable energy programs are funded through System Benefit Charges (SBCs), which are surcharges (¢/kWh) on a ratepayers' utility bill. According to Milford, 18 states and the District of Columbia have state- or third-party-administered Public Benefit Funds, which are funded with the SBCs, for renewable energy (RE), and 19 states have them for energy efficiency (EE). Many utilities also offer EE/RE programs within their service territories, usually funded through cost recovery or SBCs. In 2009, these stakeholders spent $5.3 billion for EE programs and $550 million for RE programs.[2]

State and local development finance agencies throughout the country have been implementing Energy Efficiency Loan Programs (EELPs). A recent report by the American Council for an Energy-Efficient Economy (ACEEE) found that EELPs typically finance building upgrades by providing funding directly to building owners for projects that lower energy bills and reduce annual energy costs by an average of 12-17%. The benefits of an EELP are numerous, including stable and low risk investment options and the potential to support large scale projects.

The ACEEE report reviewed 24 EELPs and found the default rates for these programs to be extremely low, with a range of 0-3% throughout the life of the average financing program.[3] In fact, default rates for EELPs have remained relatively unchanged during the economic downturn. The near mitigation of risk has allowed the traditional EELPs interest rate environment to remain, on average, 3-5%. In an economic recession, the availability of low-cost and reliable capital at attractive rates is a considerable

competitive advantage that encourages economic development and industry investment.

Unfortunately, EELPs have been hampered by low participation rates. Most programs have less than one percent of their targeted borrower engaged as the tool as been slow to develop. One cause for concern with EELPs is the lack of investment from major banks, as smaller commercial banks and credit unions have been the chief partners in these funds. With small loan sizes, typically around $9,000, the large financial institutions have been reluctant to engage.

Clean Energy Works Oregon

ACEEE's report highlights a handful of successful and highly replicable programs, including Oregon's Clean Energy Works program, which was a featured financing model at CDFA's 2010 Annual Summit.[4] This highly successful program, thriving now in Portland, has become a model for building participation amongst home owners while simultaneously reducing energy costs for consumers.

The program was launched in 2009 to provide long-term, low-interest financing to homeowners for whole-home energy upgrades. An energy advocate performs an audit to tailor the work to each home. Within just a few years, the program has reached its participation goal of 500 loans and offers loans with rates from 3.99% to 5.99%, with a term of up to 20 years. The average loan size is $12,500, with monthly payments of approximately $70. A key component of the program is that the city takes a subordinate position on the property as collateral and collection is made through the primary heat source utility bill. A 10% loan loss reserve has been funded to handle defaults.

Management of the fund is under a community development financial institution, and contractors selected for the program must agree to hire workers from a pool specifically trained for the program. As an additional economic development opportunity, local companies that can provide component products, such as windows, insulation, or gaskets, are utilized. The approximate annual energy savings has been estimated at $500 for each home, and this innovative, flexible, and affordable program has thrived while building a more environmentally friendly housing stock. For more information on this program, view three presentations online at www.cdfa.net.

Clean Energy Financing Programs

Throughout the country, clean energy financing programs are also taking shape to help transform outdated and struggling economies. This movement, driven by an investment in clean energy technology and development, is taking root through the northeast with innovative programming in Connecticut and Massachusetts.

In Connecticut, the new Clean Energy Finance and Investment Authority (CEFIA) is the nation's first full-scale clean energy finance authority. This innovative entity has merged the clean tech industry with the public finance sector to create a strategic approach for addressing growth. The result of this initiative is a creative partnership between finance and technology that–while speculative and risky–is highly rewarding and focused on job creation. The ultimate goal of CEFIA is to leverage public and private funds to drive investment and clean energy deployment in the state.

In Massachusetts, the Massachusetts Clean Energy Center (MassCEC) is a creative initiative aimed at accelerating the success of clean energy development. MassCEC is the first state agency in the nation dedicated solely to facilitating the development of the clean energy industry with a focus on creating high-quality jobs and long-term economic growth. MassCEC makes direct investments in what they term "game-changing" clean energy technologies that help high-potential companies establish themselves in Massachusetts. The Center awards grants up to $40,000 to support efforts leading to the demonstration of the commercial viability of clean energy technologies and will make growth capital investments that support the expansion of a clean energy company's operations and employment in the state. MassCEC also makes venture capital equity investments, of up to $500,000, in promising early-stage clean energy companies that are contributing to the advancement of 20 different clean energy sectors.

Moving Forward on Energy Finance

Perhaps the most intriguing energy finance activity is actually rooted in a popular innovation finance model. The New York State Energy Research and Development Authority (NYSERDA) has funded six business incubation programs, which have raised $26 million in private investment and $10 million in federal funding, assisted client companies in raising $16.5 million in private capital, and created 217 jobs at client companies within the incubators. This example of innovation and creative thinking is driving a new energy economy in New York and creating a potential model of best practices replicable throughout the country.

For decades, the U.S. energy sector has been moving forward with renewable and energy efficiency technology advancement. Until recently, the development finance industry has been slow to keep pace. This is starting to change however, as more states become engaged in the development finance side of energy advancement and take steps towards providing capital access to the emerging clean, renewable, and energy efficiency industries.

[1] CDFA-BNY Mellon Development Finance Webcast, Lewis Milford, Clean Energy Group, October 18, 2011

[2] CDFA-BNY Mellon Development Finance Webcast, Lewis Milford, Clean Energy Group, October 18, 2011

[3] What Have We Learned from Energy Efficiency Financing Programs?, ACEEE Research Report, September 2011

[4] CDFA Spotlight: Renewable Energy Finance Solutions, CDFA, Jerry Arkebauer, May 2011, www.cdfa.net

Getting the Most Out of Tax Increment Finance

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In the wake of an economic downturn, many cities are left with sites, projects, districts, or entire urban cores requiring redevelopment. A targeted tool, such as tax increment finance, can focus attention on a problematic area and catalyze development.

Tax increment finance (TIF) can be effective for addressing such problems, but this is not a given fact. The nation's newspapers are filled with stories about both successful and unsuccessful uses of TIF. Unfortunately, these articles rarely indicate (at least, not explicitly) what separates the good districts from the bad.

Much of the time, the separation between good and bad districts is caused by insufficient awareness or transparency. In other cases, the project needed additional support or planning on the financial side of the equation. The bottom line is that the successful operation of TIF requires attention to both project financing and best practices.

What is Tax Increment Finance?

TIF is a development finance tool that captures the future value of an improved property to pay for the current costs of those improvements. This mechanism can be used to finance a number of costs, typically pertaining to public infrastructure, land acquisition, demolition, utilities, planning, and more.

The TIF process helps to further clarify the financing model. First, the TIF district's geographic boundaries are established. Second, the initial value of all land within the district is assessed. Third, the current value of property (or other) tax revenue is established as a baseline and is frozen.

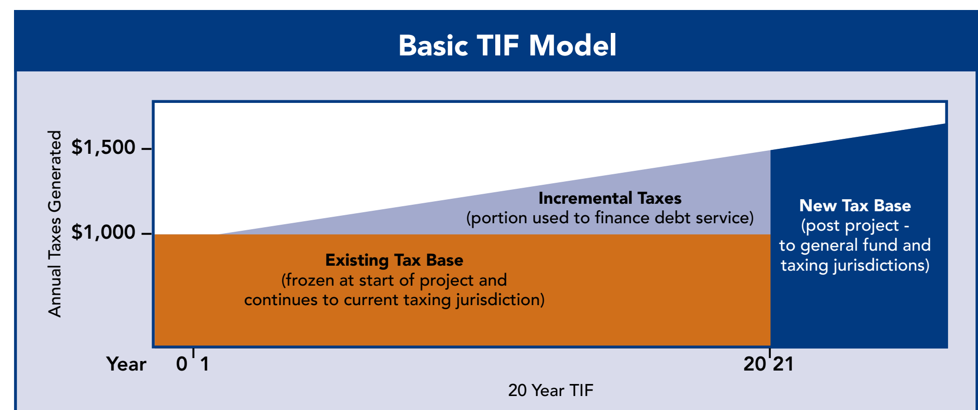
As development occurs and revenue from property taxes rise, this increase—or increment—above the baseline is used to pay debt service for the improvements made to the district. In this way, municipalities are able to build infrastructure and incentivize development without raising taxes.

The benefits of this model have made TIF a popular development finance tool, particularly for addressing blight and promoting district-oriented development. TIF is currently authorized in 49 states and the District of Columbia and is employed by cities of all sizes.

Best Practices in Tax Increment Finance

Best practices are important to the use of any development finance tool, but this may be particularly true for tax increment finance. Once property (or other) taxes have been frozen and any TIF bonds have been issued, revenue collected from the TIF district has the potential to become a sore point among community stakeholders, including area residents, school districts, and others. Following best practices in creating and operating the TIF district can help ensure that the community remains committed to the project.

The first area of TIF best practices to consider is related to public policy and statutes. For example, a TIF project should be clearly eligible according to the state's authorizing statute. In most cases, the project should not be viable



From the CDFA *Tax Increment Finance Best Practices Reference Guide* © 2007. For illustrative purposes only.

“but for” any TIF assistance, in order to ensure appropriate use of tax revenue. The project should yield a positive net gain for the community.

The second area of TIF best practices is focused on the mechanics of the project. Identifying the experience and financial history of the developer is a crucial early step. The municipality and developer should determine up front when TIF funds will be needed and whether the project will require TIF bonds. In assessing the financial viability of the project, consideration should be given to whether the (re)development has a high likelihood of maintaining an enduring presence in the community.

The third—and often forgotten—area of TIF best practices is community support and buy-in. The municipality should make an effort to identify the project's broader stakeholders, which include neighborhood groups, business leaders, school districts, and elected officials. A plan for communicating the importance of the project, as well as information on how the project will be financed, should be developed and executed.

By following the best practices recommended by CDFA and working openly with community stakeholders, a TIF district or project will position itself for success.

Pairing TIF and Other Development Finance Tools

Unfortunately, a strict adherence to best practices does not always determine the financial viability of a project, and incremental finance alone may be insufficient or inappropriate for some or all of a project. This may be the case when some particular problem with the area—such as environmental damage or acute poverty—causes a project to have particularly high initial costs or long-term risk. In such a case, an additional development finance tool may be necessary to attract investors, complete a project, or lower the cost of the TIF bonds.

For example, consider a property that is considered blighted because of environmental damage caused by a previous owner. The high initial costs and risks of redeveloping this property may make TIF bonds less than ideal for at least the first phase of redevelopment. Brownfield finance programs may finance the site's cleanup costs to a sufficient level to make a later bond issuance on the property viable.

Brownfields programs, which are another form of targeted development finance tools, often pair well with TIF districts and projects. The U.S. Environmental Protection Agency offers several brownfields programs, including a tax incentive and assessment grants. State and local development agencies also frequently offer support for brownfields cleanup. Payment-in-lieu-of-taxes (PILOTs), tax abatements, and grants are common forms of financing.

CDFA's Tax Increment Finance Resources

CDFA is the national leader in supporting TIF. Further information on any of the financing programs or recommended practices discussed in the article can be found in CDFA's numerous TIF resources, including:

CDFA Reference Guides
- *Tax Increment Finance Best Practices Reference Guide*
- *Advanced Tax Increment Finance Reference Guide*

Tax Increment Finance Resource Center
- TIF State-by-State Map & Report
- Daily TIF Headlines

CDFA Training Institute
- Intro Tax Increment Finance Course
- Advanced Tax Increment Finance Course

CDFA Tax Increment Finance Coalition Webcast Series

Visit www.cdfa.net for more information.

Regardless of the financing type, brownfields programs help reduce the costs and risks of redeveloping properties blighted by environmental damage. Depending on the needs and wants of the community, the TIF district can be put in place before the cleanup or after. This decision will have a significant effect on the district's frozen value—and therefore on the district's potential to generate TIF revenues. In either case, issuing TIF bonds after the cleanup risks have been borne out will likely result in a more favorable financing structure.

Other examples of TIF projects that may require additional financing are districts that encompass low-income census tracks. These projects may be considered particularly risky, as a financial analysis could well indicate that businesses will be reluctant to invest in such areas. In these cases, an investment tool, such as New Markets Tax Credits, could be paired with TIF redevelopment to make low-income areas attractive to a number of stakeholders, including investors, businesses, developers, and non-profits.

New Markets Tax Credits (NMTC) are designed to incentivize investment in businesses located in low-income census tracts. Receiving financing for a qualified project also requires working with a Community Development Entity that has received a tax credits allocation. A TIF district covering a blighted area may well meet NMTC requirements.

The benefit of the NMTC program for a TIF district is that the tax credits can provide an additional source of equity for a project that costs more than TIF bonds alone can bear. TIF revenues can be put towards the relative public costs of infrastructure, while developer and tax credit equity can go into the bricks and mortar development to be located within the district. These two programs may work particularly well in states that strictly limit the use of TIF revenue to infrastructure costs alone.

Getting the Most out of TIF

The bottom line is that TIF, although complicated and occasionally challenging, has much to offer communities and businesses looking to redevelop sites neglected or otherwise blighted by the recession. Economic development finance agencies should utilize TIF as part of their development finance toolbox and promote the benefits of this tool to their constituents. By following best practices and creatively pairing district revenue with other financing tools, TIF can effectively provide targeted redevelopment. ■

CDFA Training Institute

Upcoming Educational Opportunities

Winter 2011 – Spring 2012

Intro Revolving Loan Fund WebCourse

December 13-14, 2011
Daily: 12-5pm (EST)

The **Intro Revolving Loan Fund WebCourse** offers an in-depth look at RLF program development, implementation, and management. This course will demonstrate how a RLF program can complement your economic development strategy, encourage investment, and assist traditionally underserved businesses. During this WebCourse, you will learn the essential elements needed to operate a successful RLF program and discuss programs making a difference in communities throughout the country.

Early Bird Registration Deadline: November 18, 2011

Fundamentals of Economic Development Finance WebCourse

January 24-25, 2012
Daily: 12-5pm (EST)

The **Fundamentals of Economic Development Finance WebCourse** is the foundation for all of CDFA's educational offerings. This WebCourse will help you understand the variety of development finance tools available, from bonds, tax credits, and TIF, to federal financing programs, RLFs, and access to capital lending resources. The Fundamentals WebCourse is based on CDFA's *Practitioner's Guide to Economic Development Finance*, the only comprehensive reference guide dedicated to building and utilizing the development finance toolbox.

Early Bird Registration Deadline: January 6, 2012

Intro Bond Finance Course

March 15-16, 2012
Washington, DC

The **Intro Bond Finance Course** provides an in-depth look at tax-exempt financing with an emphasis on industrial development bonds (IDBs), 501(c)(3) non-profit bonds, new clean renewable energy bonds (NCREBs), and other special bond programs authorized by the federal government. This course is essential for public leaders, economic development professionals, financial experts, and anyone working to address local economic challenges.

Early Bird Registration Deadline: February 17, 2012

Innovation Finance WebCourse

May 8-9, 2012
Daily: 12-5pm (EDT)

The **Innovation Finance WebCourse** explores the growing seed, venture capital, and angel investment industry and provides clear direction for designing and implementing capital formation models at the local, regional, and state levels. This WebCourse differs from other capital formation curriculums in that it focuses more concretely on designing a program that uses public-sector connections, resources, and coordination to drive long-term and sustainable private-sector investment.

Early Bird Registration Deadline: April 13, 2012

Summer – Fall 2012

Tentative course offerings for Summer – Fall 2012 include:

Intro Energy Finance Course • Intro Tax Credit Finance WebCourse • Intro Tax Increment Finance WebCourse
Advanced Tax Increment Finance WebCourse

All of these courses qualify for the CDFA Training Institute's Development Finance Certified Professional (DFCP) Program.
Start down the road to personal and professional advancement today.

Register online today at www.cdfa.net

Leadership in Development Finance

Caren Franzini,
CDFA Board of Directors, CEO, New Jersey Economic Development Authority

Leadership is an important component in economic development finance. At the local, state, and national level, development finance projects and programs require the guidance, oversight, and dedication that accompany effective leadership in order to be successful.

As a key component of New Jersey's Partnership for Action team, the New Jersey Economic Development Authority (NJ EDA) prides itself on serving as the state's "bank for business" to catalyze job retention and creation and promote economic development across the state. Under the leadership of Governor Chris Christie and Lieutenant Governor Kim Guadagno, and in conjunction with our Partnership for Action collaborators, the Business Action Center and Choose New Jersey, EDA administers a number of successful programs. These include state incentive programs such as the Business Employment Incentive Program and the Business Retention and Relocation Assistance Grant, as well as tax-exempt bond financing and additional lending programs that target small and mid-sized businesses and the growth of the clean energy and greater technology industries. Through these programs, New Jersey has supported numerous businesses and countless jobs throughout the state.

Whether the challenge is monitoring new programs, identifying best practices, or responding to proposed federal regulations, it helps to be part of an organization that is dedicated to monitoring such developments on a national basis. For the NJ EDA, the Council of Development Finance Agencies is, of course, that organization.

The value we see in CDFA is particularly evident through the recent—and ongoing—federal challenges to the tax-exempt bond program. These threats have come from all sides. Senators have called for tax credit bonds to not just supplement, but to replace, tax-exempt bonds. Proponents of tax reform have been willing to entirely eliminate the tax exemption.

> CDFA has been a leader for the development finance industry at a crucial time.

Through all of these threats, CDFA has been an early and clear voice for the critical importance of tax-exempt bond finance. As part of the CDFA–BNY Mellon Development Finance Webcast Series, the Council has held several national webcasts on the importance of tax-exempt bonds, spreading the message to thousands of webcast attendees throughout the country. CDFA's Legislative Committee and staff have organized letter-writing campaigns, meetings with Congressional offices, and the *Built by Bonds* publication, which provides a clear, economic development-based rationale for preserving these financing tools.

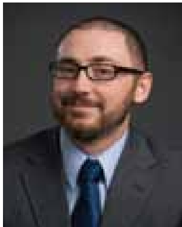
In short, CDFA has been a leader for the development finance industry at a crucial time.

Even when the bedrock financing mechanism of our industry is not being threatened, CDFA provides leadership. When the U.S. Dept. of the Treasury's State Small Business Credit Initiative was announced, for example, the Council jumped at the opportunity to assist states with the innovative, but complex, program. From holding educational webcasts to connecting program leaders to posting successful applications, CDFA's support to applying states was invaluable.

A sometimes overlooked form of leadership provided by CDFA is in the area of best practices. Keeping an eye on the programs and projects being developed throughout the country is an enormous task. By providing outstanding development finance training and regularly adding new documents, case studies, and reports to the Online Resource Database, CDFA is a key source for best practices guidance on development finance tools.

At the NJ EDA, we are happy to know that CDFA is ready and willing to be at the forefront of our industry.

Original Research Focus



Jason Rittenberg,
Research & Resources Coordinator
jrittenberg@cdfa.net

Tax Credit Finance

Tax credits are development finance tools that incentivize certain investments or activities by offering a dollar for dollar reduction in a taxpayer's liability. In addition to numerous state programs, CDFA follows the six main federal tax credit programs: New Markets, Low Income Housing, Brownfields, Historic Rehabilitation, Energy Investment, and Energy Production (for details on each program, visit the CDFA Federal Financing Clearinghouse).

In many ways, 2011 has been a challenging year for tax credit finance. Several states have reviewed or streamlined incentive programs in recent months. Similar steps are being considered as part of the ongoing deficit and tax reform reviews in Washington, DC.

Public funds require judicious use, and governments should certainly eliminate ineffective programs. However, legislatures should be equally cautious to not eliminate the good with the bad. As part of an ongoing research project, CDFA has collected information on dozens of tax credit-financed projects from around the country. These projects clearly indicate that effective tax credit programs can catalyze millions of dollars in economic development and yield thousands of jobs.

Snapshots for a few of these projects are below. To submit your tax credit project to CDFA, visit www.cdfa.net

Access to Capital Research

If you follow CDFA's development finance headlines, then you have likely noticed a Holmesian-quality mystery playing out across the business sections of newspapers throughout the country. Namely, journalists have been struggling to identify what is behind businesses' access to capital problems.

Project Name	Capitol Theatre Rehabilitation	King Edward & Standard Life Redevelopment	Coastal Community Action Program
Project State & Year	Ohio, 2007	Mississippi, 2006	Washington, 2009
Federal Tax Credit 1	$4.5M New Markets	$28.7M New Markets	$15M New Markets
Federal Tax Credit 2	$1.1M Historic	$25.8M Historic	$5.2M Energy Investment
State Tax Credits	$1.4M Historic	$17.8M Historic	NA
Jobs Supported	37	300+	155
Project Provider	Ohio Dept. of Development	National New Markets Fund	United Fund Advisors

Calls for Participation

Tax Credit Finance Projects
Submit details of a project financed with federal tax credits.

Tax-Exempt Bond Finance Projects
Submit details of a project financed with tax-exempt bonds.

Tax Increment Finance Statutes
Support the CDFA TIF State-by-State Map by sharing the details of your state's statute.

To participate in any CDFA project, contact Jason Rittenberg or visit the Original Research Focus page at www.cdfa.net.

The reason for the mystery surrounding this issue is that there are a number of competing explanations for the apparent lack of capital access.

Some articles suggest that banks are not lending because the profit margin is too small compared to the associated risks. Others contend that new regulations restrict the lending environment, while another perspective argues that creditworthy businesses are not applying.

Perhaps supporting this position, some journalists report that business owners are too afraid of a double-dip recession to be willing to take on additional debt in the short term.

Despite the capital access challenges on the private side, there has also been plenty of news of late about public-side access to capital programs. The U.S. Dept. of the Treasury's Small Business Loan Fund and State Small Business Credit Initiative were designed to enable banks and state programs, respectively, to leverage billions of dollars in capital

access. CDFA posted articles on a half-dozen new state and local programs in September alone, and the CDFA Online Resource Database now includes over 500 "Access to Capital" fact sheets, applications, and case studies.

For the time being, the solution to the access to capital mystery is likely a simple one: everyone needs to be better educated about available options. Loan guarantee or collateral support programs can help address creditworthiness factors. State-supported venture capital programs can assist businesses too young for bank assistance. Revolving loan funds can provide loans too small for some commercial providers. With all of these options, and more, available, it is likely that a program exists for every capital need or challenge. However, none of these programs can help unless businesses, bankers, and public employees know that they exist.

CDFA Finance Resource Centers

New CDFA finance resource centers are live for Bond Finance, Tax Increment Finance, and the State Small Business Credit Initiative. All centers provide ready access to specific resource searches, CDFA Original Research, and development finance headlines. Depending on the center, current market reports, case studies, or advisory documents receive prominent placement. Plus, users can find information on upcoming CDFA events, including training courses and webcasts.

Check www.cdfa.net for more of these centers in the coming months. We are developing centers for innovation finance, revolving loan funds, energy finance, tax credit finance, and the entire development finance toolbox.

Research Numbers

450 Number of respondents to the CDFA Industry Survey on tax-exempt bond elimination.

80 Percentage saying more than half of their projects would not have occurred.

90 Percentage of respondents whose projects would have been scaled back without tax-exempt bond finance.

CDFA Bookstore

Your development finance toolbox isn't complete without these reference guides:

Practitioner's Guide to Economic Development Finance
Development Bond Finance Reference Guide
Advanced Bond Finance Reference Guide
Tax Increment Finance Best Practices Reference Guide
Advanced Tax Increment Finance Reference Guide
Tax Credit Finance Reference Guide
Revolving Loan Fund Reference Guide
Federal Financing Reference Guide
Innovation Finance Reference Guide

CDFA publications are the most comprehensive resources available covering the full spectrum of the development finance industry.

Order Online at www.cdfa.net
Use Coupon Code: TOOLBOX

25% Off *in* November
with coupon code

Membership Corner

Stefanie Stoller,
Development Coordinator
sstoller@cdfa.net

New to the CDFA Website

There have been a number of enhancements made to the CDFA website this year, providing even more value for members. For example, you can now renew your CDFA membership online.

Members should also make sure to check out the member exclusive Federal Financing Clearinghouse, which holds over 170 development finance programs offered by the federal government.

The Online Resource Database currently has over 2,700 resources and now includes enhanced search functions and member exclusive content. Visit the website to create your username and take advantage of this outstanding new benefit.

Finally, CDFA released two new resource centers—the Bond Finance Resource Center and the Tax Increment Finance Resource Center—to better organize and display the best of the Online Resource Database.

2012 National Development Finance Summit

Planning for the 2012 CDFA National Development Finance Summit is under way. Mark your calendars with these important details:

CDFA National
Development Finance Summit
July 31 - August 3
Fairmont Hotel
Washington, DC

With an excellent program, a chance to speak with your representatives on Capitol Hill Day, and an exclusive members-only breakfast, walking tours of the Nation's Capitol and much more, you'll want to be sure to save the dates!

Check out www.cdfa.net in the coming months to learn more and register for the 2012 CDFA National Development Finance Summit.

Welcome CDFA's New Members

June, 2011

Green County Industrial Development Agency
Point C, LLC
City of Waynesboro
Public Finance Authority

July, 2011

Pullman & Comley, LLC
Greater Cincinnati Energy Alliance
Economic Development Consulting
Washington State Housing Finance Commission

August, 2011

Kean Miller LLP
Redevelopment Authority of the City of Bethlehem
Community Capital LLC

September, 2011

Growth Capital Associates, Inc.
Winstead PC

October, 2011

State of Nevada, Office of the Governor, Office of Energy

Join CDFA

The benefits of being a CDFA member are on the rise. With this year's added benefits, you can't afford to miss out:

- Log-in access to the member exclusive Federal Financing Clearinghouse
- Reduced rates to CDFA training courses and the National Development Finance Summit
- Legislative and federal representation on Capitol Hill
- Member access to the Online Resource Database, as well as access to our two new Resource Centers – Bond Finance Resource Center and Tax Increment Finance Resource Center
- Discounted publication rates in the CDFA Bookstore and special offers from industry partners

Membership Dues Visit www.cdfa.net to fill out a Membership Application.

State Issuer, Agency, Department or Division (Financing & Non-Financing)

Size	Dues	Financing Average Issuance per Year:	Non Financing: Services a Population:
Small	$750	Under $45 million	under 3 million
Medium	$2625	$45 to $199 million	between 3-8 million
Large	$4200	Over $200 million	over 8 million

Local Issuer, Agency, Department or Division (Financing & Non-Financing)

Size	Dues	Financing Average Issuance per Year:	Non Financing Services a Population:
Small	$400	Under $25 million	under 100,000
Medium	$750	$25 to $74 million	between 100,000-250,000
Large	$1575	Over $75 million	over 250,000

Financial, Investment, Legal & Private Service Providers

Size	Dues	Criteria
Local	$525	Offices in 1 state only
Regional	$1050	Offices in 2-5 states
National	$2625	Offices in 6+ states

About CDFA

The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests. CDFA represents the nation's leading and most knowledgeable members of the development finance community from the public, private and non-profit sectors.

The Council was established in 1982 to strengthen the efforts of states and local development finance agencies using development bonds and other public-private finance programs for job creation and economic growth. CDFA has since expanded its mandate to reflect the broader needs of economic development finance professionals.

Today CDFA is a leader in the development finance industry, offering nationally acclaimed training courses, legislative representation on Capitol Hill, a weekly e-newsletter, a comprehensive Online Resource Database, and the National Development Finance Summit – the premier gathering of leaders and innovators in the profession.

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