Information for:

Council of Development Finance Agencies

Inside Financing: TIF Bond Issuance & Structure

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Introduction to Tax Increment Financing

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Tax Increment Financing Issuance Overview

- TIFs are a very common financing tool for many cities throughout the Country. Total issuance from 2005 to present was in excess of $5.1 billion in par amount.

- 28 states within the US issued TIFs within that time period. California, Missouri, Minnesota, Illinois and Colorado are among the states with the highest issuance.

State	Number of Deals	Par Amount	State	Number of Deals	Par Amount
Alabama	2	18,260,000	Mississippi	3	13,200,000
Arkansas	2	10,765000	Missouri	25	321,936,000
California	133	3,314,229,000	Montana	2	2,000,000
Colorado	4	179,040,000	North Dakota	2	2,430,000
Florida	6	116,855,000	Nebraska	2	2,030,000
Georgia	5	317,560,000	Ohio	10	50,080,000
Idaho	1	5,705,000	Oklahoma	3	10,225,000
Illinois	16	218,885,000	Oregon	2	17,935,000
Indiana	23	112,265,000	Rhode Island	3	17,675,000
Iowa	6	24,800,000	South Dakota	1	28,675,000
Kansas	4	14,532,000	Tennessee	1	460,000
Louisiana	1	5,000,000	Texas	7	14,945,000
Michigan	9	57,695,000	Utah	4	133,825,000
Minnesota	47	145,500,000	West Virginia	1	9,300,000

- Cities such as San Francisco, Atlanta, Miami, St. Paul, Kansas City, St. Louis and Providence are frequent issuers of TIFs.

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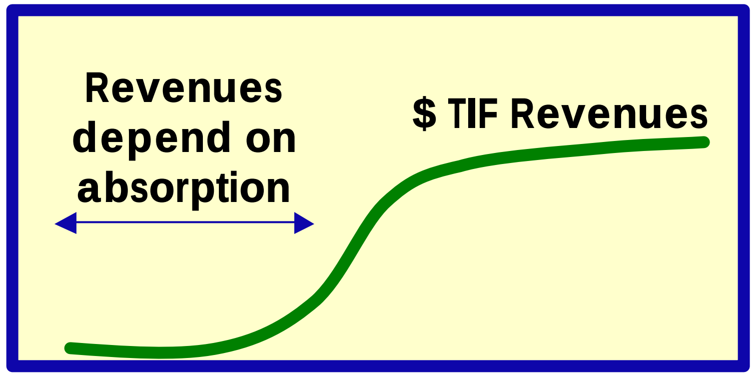
Tax Increment Financing Structure

- TIF Revenue is generated from absorption
  - Investors willing to take some calculated development risk
  - Development / Absorption / Stabilization risk has to be mitigated to optimize financing
- Methods of Mitigating Development Risk
  - ***"Double-Barreled" with Back-up Special Tax/ Minimum Tax***
  - Debt Service Coverage
  - Escrow proceeds or wait to finance until absorption occurs
- Maryland has become a frequent issuer of TIF Bonds over the last 10 years.

Traditional Tax Increment Financing



Project Absorption (time)

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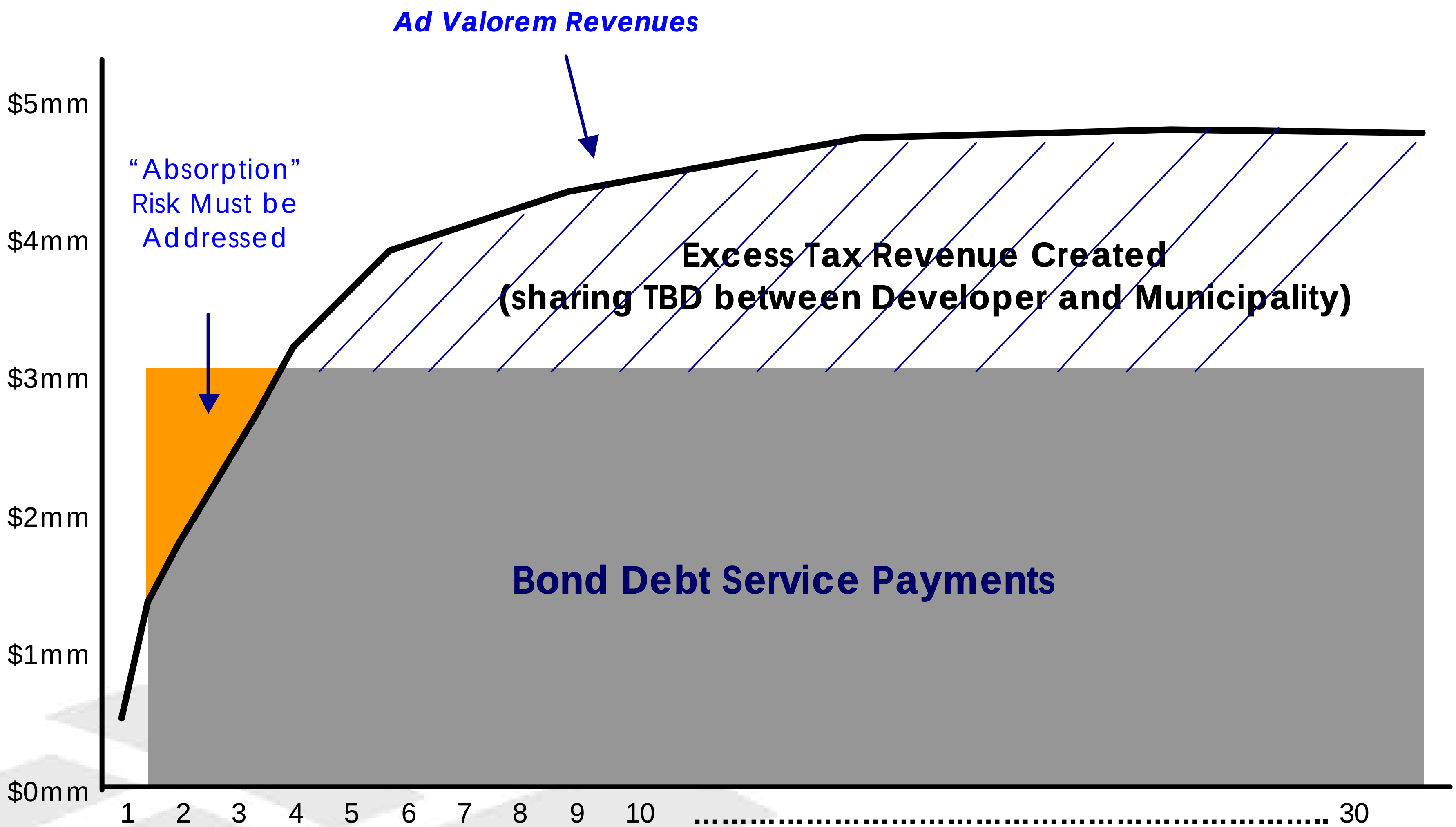
Tax Increment Financing Illustration



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Tax Increment Financing Non-Rated Issues

Why do local governments opt to issue non-rated TIF Bonds?

- Many issuers opt to offer TIF financings on a non-rated basis. Keep in mind that it is virtually impossible to secure a rating on a TIF project upfront without recourse to the local governments credit. Non-rated TIF financings provide a means of ***risk management*** for balancing competing public policy concerns. Sophisticated municipal issuers perceive non-rated TIF bonds as an appropriate way to manage risk in certain circumstances.

  - This approach provides upfront financial incentives to the desired project.
  - Allows for strong capitalization via TIF bonds at the initial stage of development, when the project requires assistance.
  - "Fire-wall of Risk": since the bonds are non-recourse, a local government's general credit and tax payers are not placed at risk for payment of debt service.
  - Rather, institutional bond purchasers shoulder this risk, and are compensated for doing so in the form of yield.
  - Some local governments re-finance (i.e. take out) the non-rated TIF bonds with their rated GO bonds, once the project has stabilized and have advanced beyond the early years' real estate development risk.
  - At this point, the higher coupon, non-rated TIF bonds are replaced with lower interest rate, investment grade bonds. At this point, the local government perceives the project risk level has reached an acceptable level and is appropriate to "fold into" its general obligation base.

Tax Increment Financing Non-Rated Issues

How long does it take to issue non-rated TIF Bonds?

- It is difficult to estimate the "political" side of the process, which often requires significant information sharing between local government and developer. Local governments are making a significant financial commitment and usually require education and dialogue prior.

- All investors/lenders (i.e. bonds, private lenders, equity investors) will want to make sure that the overall plan of finance "hangs together". Quite often, the bonds and loans close simultaneously. This "parallel track" can also affect the schedule.

- Setting aside these two variables, the bond sale/underwriting process is approximately 3-5 months.

- While offered publicly, the sales process is closer to a private placement, involving considerable analyst review including site visits.

Tax Increment Financing Non-Rated Issues

What are the typical features of a non-rated TIF Bond issue?

- Long term, fixed rate bonds. Generally, term bond structure with sinking fund amortization of principal.
- Large denominations (usually $100,000), but no transfer restrictions or investor letters.
- Non-recourse to either the issuer or to the developer.
- Pledged revenues vary but a typical pledge is a security interest in the TIF revenues and any “back up” special assessment or special tax. Back up special assessment is levied to extent necessary to fund any “gaps” in TIF revenues.
- Publicly offered to institutions via limited public offering. Sold to institutions. Prospectus is a limited offering memorandum.
- Funds and accounts are trustee-held.
- Costs of trustee, continuing disclosure, and annual preparation of cashflows/assessment roll is imputed into annual cost. No additional cost to the municipal issuer.
- 2-3 years capitalized interest reserve funded from bond proceeds.
- Debt service reserve fund.
- Quarterly continuing disclosure is the industry standard for non-rated TIF bonds.
- Debt service coverage varies based on type of TIF revenue and other security features.

Tax Increment Financing Non-Rated Issues

What are the items included in the Limited Offering Memorandum (i.e. prospectus)?

- The cover carries clear and bold disclaimers on non-rated status, limited pledge of revenues, and non-recourse nature. Also language about limited offering to institutions/accredited investors.
- Focus of prospectus is on the project and its economic viability.
- Very limited disclosure on the municipal issuer, since bonds are non-recourse.
- Bondholders Risks sections.
- Typical appendices include: engineers report, forecast of TIF revenues, bond cashflows, market study, bond documents, continuing disclosure agreements.

Tax Increment Financing Rated Issues

- Rating Agencies can, and do, assign investment grade ratings to TIF Bonds. In addition, municipal Issuers of TIF Bonds have been successful in securing municipal bond insurance commitments.

- Credit Considerations that are examined include:

  - Particular state law on assessed valuation growth
  - Project area analysis
  - Taxpayer concentration
  - Historical assessed valuation growth
  - Future assessment growth
  - Management
  - Legal Structure; security pledge, flow of funds, reserve fund, additional bonds – test
  - Tax limits
  - Coverage
  - Volatility Index
  - Construction Risk

Tax Increment Financing Rated Issues

- The Volatility Index is used by Standard & Poors to gauge the volatility of TIF revenues in instances of rapid increase of decrease in assessed valuation. A higher ratio represents more volatility.

$$\text{Volatility Index} = \frac{\text{Project Area's Base Assessment}}{\text{Project Area's Total Assessment}}$$

- Most bond insurer's require an investment grade underlying rating opinion as a condition for bond insurance.

Alternative Structures

Alternative Structures

I. Developer Note with Private Securitization

- Case Study: District of Columbia, South East Federal Center

II. Senior/Subordinate Structure

- Case Study: City of Myrtle Beach, The Market Common

III. Private Placements and Synthetic Structures

- Case Study: Glory Park

IV. Pass Through Financings/Short Term

- Case Study: Uptown

Tax Increment Financing Case Study I

Southeast Federal Center, DC

Project will re-develop federal lands into a vibrant mixed-use center with a waterfront park.

- Former General Services Administration (GSA) lands will be re-developed into an urban mixed-use center comprised of:
  - 5 million sf office
  - 2717 Residential Units
  - 3916 Structured Parking Spaces
  - Waterfront Park
- Up to $90 million in TIF Bonds to fund up to $48 million in public infrastructure.
- Developer is taking back tax-exempt bond via private placement. Developer will place bond in trust and issue trust certificates secured by PILOT bond revenues. This structure allows the developer to raise capital with PILOT privately. Initially the structure will require limited recourse to the developer for credit enhancements; however this recourse will "burn off" as PILOT revenues season.
- The master developer is a subsidiary of Forest City Enterprises, which is traded on the New York Stock Exchange (FCEA/FCEB).

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Tax Increment Financing Case Study II

Myrtle Beach, SC

Project will redevelop a former Air Force base into a urban village town center.

- Development of 103 of former Myrtle Air Force Base into urban village with retail, residential, commercial, restaurant and recreational facilities known as "Market Commons".

- Ad valorem' property taxes (primarily City of Myrtle Beach, Horry County and School Board) to facilitate development of a strategic parcel of land for a enhancement of tax base and to create jobs. The improvements include structured parking, roads, streetscaping, public parks, sidewalks, lighting and other public improvements.

- $30 million Series A Senior Lien Bonds (publicly offered to institutions) and $10 million Junior Lien Series B (private placed with developer) Bonds.
  - No pledge of local government general credit.
  - Bonds backed by TIF and Assessment Lien.
  - Junior Lien Bonds create incentive to developer for fast absorption and high valuations.

- At completion, Market Commons is expected to include 600,000 sf. retail; 198 apartments; 575 condominiums; 866 town homes and 5,994 parking spaces.

- The developer is a venture of McCaffery interests and Levcadia National Corporation entities (NYSE:LUK).

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Tax Increment Financing Case Study III

Glory Park in Arlington, TX

TIF/TIRZ Bonds will anchor a $2 billion investment to create a new sports oriented entertainment center.

- 35 acre parcel between the Ameriquest Field and the future Cowboys Stadium, situated within a larger 1800 acre TIF/TIRZ district of Arlington, Texas.
- Glory Park is conceived as destination retail/entertainment center between Dallas and Fort Worth. Phase I encompasses 1,000,000 sf retail/restaurant, 150,000 sf office, 283 residential units, and amenities in an urban village environment.
- Glory Park is being developed by Steiner + Associates, Inc. and Thomas Hicks.
- City of Arlington will issue bonds to facilitate development, spur economic activity and to create jobs. The City will issue 3 series of bonds (estimated Summer 2007):
  - Tax Exempt Infrastructure ($60 million); ad valorem and sales tax TIF with back-up special assessment
  - Taxable Parking ($75 million) to fund 4 parking garages for Glory Park, the Dallas Cowboys and the Texas Rangers; parking revenue and back-up special assessment.
  - Tax Exempt Regional Improvements (up to $100 million); ad valorem TIF.

- Bank of America's overall platform provides credit enhancement, interest rate protection as well as securities offering

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Tax Increment Financing Case Study IV

Houston, Texas

- Commercial mixed-use project centered around the Galleria Mall in Houston.
- Privately placed short term financing through Bank of America accelerated funding of $25 million. Previously, Houston had issued annually in small amounts.
- Ultimately, long term financing will take out short term financing, most likely on an insured investment grade basis. Benefits include:
  - Raising needed capital upfront
  - Reduced cost of issuance
  - Interest rate savings over the life of the TIF
  - Flexible drawdown features
- Houston closed this transaction 2nd Quarter 2007.

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