Development Finance

PERSPECTIVES

Issue 2 ■ 2011

cdfa
Council of Development Finance Agencies

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Advancing Development Finance Knowledge, Networks & Innovation


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August 11-12, 2011
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November 3-4, 2011
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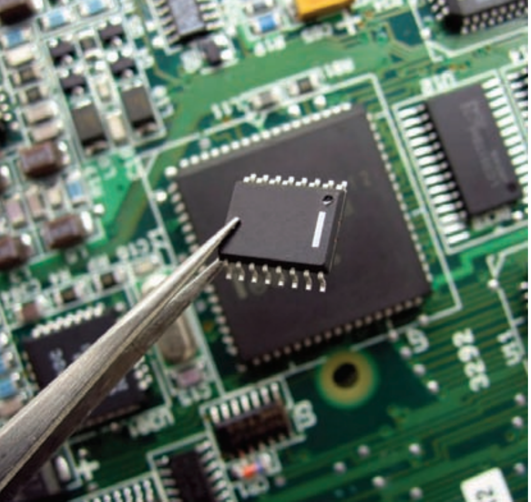
Christine Anderson, CDFA Member
Alaska Industrial Development & Export Authority



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Preserving Tax-Exempt Bonds

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For over 30 years, state and local governments have used tax-exempt bonds to catalyze and spur investment in business, industry, real estate, amenities, infrastructure, and community assets. In 1986, Congress heavily regulated bonds to establish a system of checks and balances while also instituting limitations on the types of projects that are eligible for this type of financing. CDFA was part of the 1986 discussion, and today we find ourselves facing a very similar review of tax-exempt bonds.

Over the past three years, tax-exempt bonds have ridden a wave of popularity, speculation, examination, interference, and now an analysis of the tool's relative efficiency. It is no secret that bonds are having difficulty reaching the market this year. Bond volume in 2011 is at a decade low and market participants do not see a return to high volume bond issuances for several more years. This concerning trend comes after a productive 2010, when Build America Bonds (BABs) and Recovery Zone Bonds helped to open markets for municipal bonds during the economic downturn. Federal intervention through the American Recovery & Reinvestment Act (ARRA) helped to further ease the tight credit market for bond transactions, resulting in projects and investments throughout the country.

At the end of 2010, Congress failed to renew these provisions, effectively closing access to capital for the bond markets. To make matters worse, irresponsible market pundits have fueled speculation that the municipal bond markets are faltering. The most infamous of these is Meredith Whitney, who last December predicted 50 to 100 municipal bond defaults in 2011. However, muni defaults have been below normal, with just a handful of defaults nationwide. Ms. Whitney's actions directly caused a muni bond selloff at the end of last year and the early part of 2011, needlessly adding further stress to an already constrained market.

To further confuse the situation, Capitol Hill has begun an examination concerning the efficiency of tax-exempt bonds. One recently introduced piece of legislation would eliminate tax-exempt bonds in favor of tax-credit bonds, despite the fact that no market or demand exists for this type of bond structure. The Obama Administration continues to favor a return of the popular BABs, which utilized a direct subsidy bond structure. These policies seek—in the midst of a weak economic recovery—to replace successful, long-standing financing tools with unproven or lightly tested programs.

Today, tax-exempt bonds, such as Industrial Development and 501(c)(3) Bonds, provide a valuable, affordable, and accessible source of capital for many borrowers. Issuers throughout the country have spent decades working to build bond programs and products while establishing strong relationships with manufacturers, developers, hospitals, universities, and the economic engines of our communities to advance economic development and job creation.

At CDFA's 25th Annual Development Finance Summit this past May, hundreds of development finance agencies and private sector participants gathered to discuss the ongoing challenges to municipal bonds. While we find our industry battered and bruised, we are set to continue to fight for preserving these important financing tools.

At the end of the day, we all want an efficient and effective means for financing development. Tax-exempt bonds have been through both the booms and the busts and remain the primary tool for economic development for state and local governments. At a time when our country desperately needs economic opportunity, we would be penny wise and pound foolish to eliminate tax-exempt bonds in favor of structures that may not work or establish barriers to capital.

As in 1986, CDFA will be ready and on call to address any and all challenges to tax-exempt bonds. The Council is prepared to recommend reforms and program improvements to both Congress and the Obama Administration concerning these critical provisions. CDFA is actively working to combat the negative stereotypes and inaccurate characterizations of the municipal bond industry. We call on issuers and private sector stakeholders to stand behind our efforts to preserve tax-exempt bonds in the months and years to follow.

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or level of expertise, *you can*

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- Intro Tax Credit Finance Course
  August 11-12 | Washington, DC
- Advanced Bond Finance WebCourse
  September 20-22 | Daily: 1-5pm (EDT)
- Intro Tax Increment Finance Course
  November 3-4 | Washington, DC

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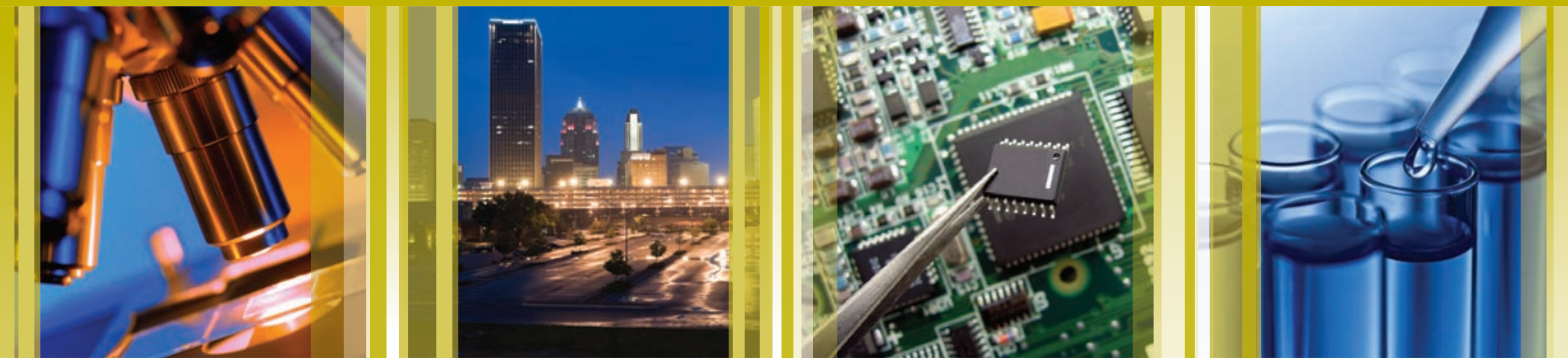
Bob Lind, *CDFA Member*
City of Minneapolis

Mark Huston, *CDFA Member*
Iowa Fund of Funds

Congratulations

2011 CDFA Lifetime Achievement Award Recipients

Thank you, Bob and Mark, for your contributions to the development finance industry. We are honored to recognize you with our industry's most prestigious award.



Launching a Public Sector Supported, Private Sector Driven Innovation Finance Initiative

Katie Kramer,
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A critical component of the development finance toolbox, innovation finance provides access to capital for entrepreneurs, new technology ventures, and emerging small businesses. CDFA created the new **Innovation Finance Course**, held this past May in Boston, MA, to teach development finance agencies of all sizes how to create an innovation finance initiative that supports entrepreneurship, business investment, job creation, and 21st century technology development.

The new course explores the seed, venture capital, and angel investment industry and provides a roadmap for designing a program that uses public sector connections, resources, and coordination to drive long-term and sustainable private sector investment.

When thinking about developing or bolstering a culture of innovation finance that harnesses the investment potential of the private-sector through the support of the public-sector in your region, here are four benchmarks to consider:

1) Know Your Community's Entrepreneurial Ecosystem

Entrepreneurs exist in every region of the country, and knowing where they are in your own community and how to support them is critical to establishing a thriving entrepreneurial culture. Engaging the full range of organizations and individuals that exist within the spectrum of innovation finance will help ensure that your community is poised for success.

According to Maria Meyers of U.S.SourceLink, a course faculty member, identifying the primary contacts in the following groups is essential to establishing the entrepreneurial support system in your community:

- University and Research Centers
- Intellectual Property Attorneys
- SBIR/STTR Assistance Programs
- Public Agencies and Financing Authorities
- Angel Groups and Networks
- High-tech and Biotech Incubators
- Venture Capital Firms
- Serial Entrepreneurs
- Mentorship Programs
- Small Business and Technology Development Centers (SBA)

Creating a network where these types of organizations can communicate with entrepreneurs will help facilitate the growth of your entrepreneurial ecosystem. Depending on the size and structure of your community, this list may include just a handful of people, or it may weave together individuals across different cities and sectors.

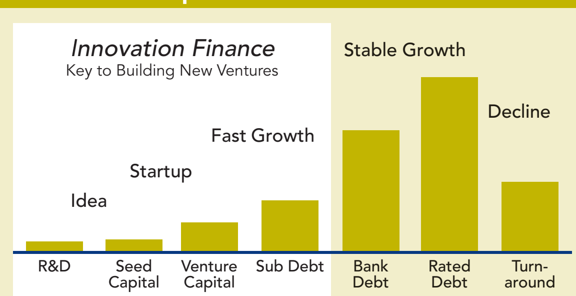
2) Utilize the Full Capital Continuum

We all know that as a business launches and grows, it will need various forms of capital over time. Identifying the sources of capital in your community and acknowledging the organizations that are best suited to providing debt or equity financing will help you advise entrepreneurs in need of support.

An entrepreneur can benefit from a variety of forms of innovation finance, depending on the scope and sophistication of his or her business. R&D, seed, venture, and sub-debt capital are often complementary and can be used together to meet the capital needs of a particular company. Jeremy Halpern of Nutter McClennen & Fish LLP, a course faculty member, pointed out that being aware of the different costs of each form of capital will help you identify which source is best in each deal.

To be able to provide access to all of these forms of innovation finance, seek out those individuals or organizations in your community that could serve as grantors, angel investors, seed funds, or venture funds. These groups are primarily found in the private sector, but some public agencies can be structured to offer these forms of access to capital.

Capital Continuum



Source: CDFA Innovation Finance Reference Guide

3) Learn How to Think Like an Investor

Investors think differently than providers of debt capital, such as traditional lenders, and learning how to evaluate a deal like them will better prepare you to lead or guide the development of an innovation finance initiative in your community.

Because early or seed stage investors are about to assume an ownership stake in a company, most of them usually conduct two levels of due diligence before making an investment. First, they carry out an initial screening, involving a cursory look at the business, the entrepreneur, and the numbers. Second, a more in-depth evaluation completes the due diligence process with an analysis of the management team, competitive advantage of the business, and ability to achieve fast growth in their market.

In particular, learning how to value a company and structure the legal terms of a venture investment will help you better understand some of the technical aspects of these types of deals. John Hession of Cooley LLP, a course faculty member, advises that you should know the following terms in order to fully speak the language of innovation finance:

- Pre-Money Valuation
- Participating Preferred
- Anti-Dilution Protection
- Class Voting/Veto Rights
- Cumulative Dividend
- Drag Along Rights

A quick hint: if these terms are unfamiliar, CDFA's *Innovation Finance Reference Guide* is a good starting point to learn more.

4) Develop Local Angel Networks

Once you are familiar with your community's entrepreneurial ecosystem, and have assembled the necessary capital resources, and developed the knowledge to understand equity investments, you will be ready to champion the development of angel networks in your community.

In every region of the country, there exists a potential source of angel investors, or individual investors, who could be coalesced into interactive angel networks. By organizing these types of groups, you will be able to make the knowledge and capital of angel investors more easily accessible to local entrepreneurs.

We learned from Robert Heard of Cimarron Capital Partners LLC, a course faculty member, that these angel networks can be assembled in a variety of ways, from member-led, to manager-led, to professionally facilitated. No matter the type of networks you seek to create, being able to engage and recruit angel investors to participate will strengthen the entrepreneurial support system and develop a thriving culture of innovation finance in your region.

Put Your Plan into Action

Innovation finance programs are an emerging trend in the development finance industry. With the awareness of these four benchmarks, building an innovation finance initiative in your community can be an achievable endeavor. Take the next steps in your community to be ahead of this important trend and start building your private sector driven—but public sector supported—innovation finance initiatives.

Tax-Exempt Bonds in the Crosshairs

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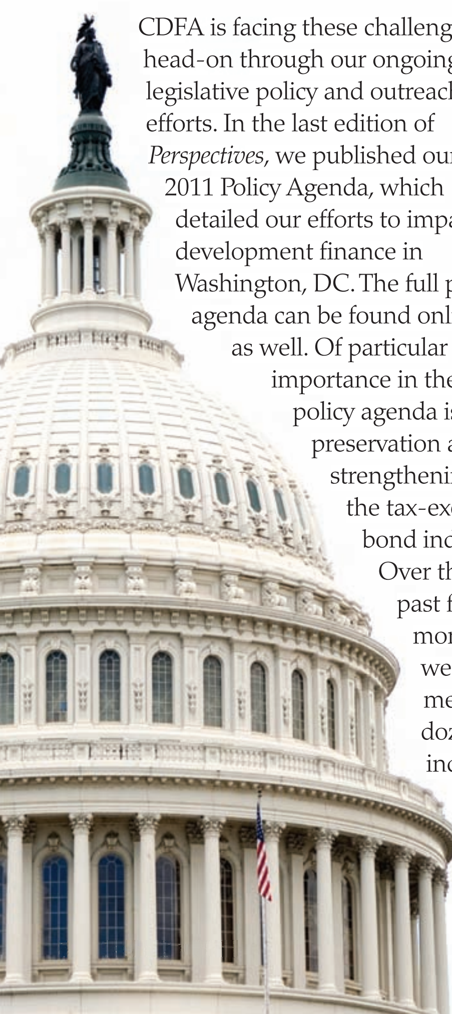
Challenge. This is one word we have been hearing a lot lately at CDFA. Over the past several months, our industry has been challenged in ways not seen since the early 1980s. We are facing market and investment challenges, Congressional attacks, and a host of industry uncertainty leading to perhaps our greatest challenge yet. To be clear, tax-exempt bonds are under attack. In just the last three months, proposals have been proffered that will eliminate private activity bonds by replacing them with unproven public finance structures. One think tank went as far as to suggest that tax-exempt bonds were inefficient, despite the 30 years of historical job creation data backing these critical economic development tools.



CDFA is facing these challenges head-on through our ongoing legislative policy and outreach efforts. In the last edition of *Perspectives*, we published our 2011 Policy Agenda, which detailed our efforts to impact development finance in Washington, DC. The full policy agenda can be found online as well. Of particular importance in the policy agenda is the preservation and strengthening of the tax-exempt bond industry. Over the past few months, we have met with dozens of industry stakeholders to lay the framework for defending the future of this critical financing tool. In the fall, we will be producing a special "built by bonds" publication highlighting projects in all 50 states, and we need your help. CDFA is asking every issuer to send in 2-4 tax-exempt bond projects for our database and publication. We need job creation, investment, and bond issuance specifics, and you can submit this all online at www.cdfa.net.

In CDFA's nearly 30 year history, we have faced no other challenge as big as the current threat against tax-exempt bonds. Congress is set to heavily trim federal spending, and tax-exempt bonds appear to be on the table for elimination. Help defend our industry and this important tool by providing case studies and by attending our upcoming Capitol Hill day in November. CDFA is planning a briefing session with House and Senate staffers to begin an education process on the impact of tax-exempt bonds on state and local job creation. Join us as we send a loud and clear message about the importance of tax-exempt bonds.

Legislation on Capitol Hill

CDFA has signed, with 17 other organizations, a letter that supports the introduction of the Municipal Bond Market Support Act of 2011. The Act, introduced by Sens. Bingaman, Cardin, Crapo, Grassley, Kerry, and Snow, would increase the bank-qualified debt limit from $10 million to $30 million and put in place other measures to encourage bond purchases from small borrowers, thus helping thousands of governments and education and health care facilities. CDFA signed onto this legislation as part of our 2011 Policy Agenda.

Congressman Sander Levin (D-MI), ranking member of the House Ways and Means Committee, recently introduced new legislation that would reinstate BABs and Recovery Zone Bond extenders, among other tools. CDFA, along with 21 other organizations, has signed a letter in support of this legislation. This letter discusses the importance of the bill in hopes it will encourage Congress to pass the legislation that will help many state and local governments and authorities increase economic development and create jobs. ■

Extra Territorial Advisory Task Force

In April, we reported the growing trend of state and local issuers issuing bonds outside of their geographic boundaries. The bond finance industry has begun to identify these agencies as "extra territorial issuers," and the policy issues related to these issuers have heavily divided the bond finance industry.

The CDFA Board of Directors has taken the bold step of formally creating the "Extra Territorial Issuer Advisory Task Force" to monitor and report on this growing industry trend. The first action of this Advisory Task Force was to conduct a national webcast with industry experts to discuss the role of extra territorial issuers (available online at www.cdfa.net). Currently, CDFA has no formal opinion or policy statement concerning extra territorial issuers. The Advisory Task Force will be monitoring the development of these agencies closely and will be scrutinizing this issue, particularly as they relate to policy, transparency, and due diligence going forward.

The task force is open to CDFA members, with CDFA Board Members leading the discussion. CDFA will be publishing regular updates on this issue and will be working to communicate with the extra territorial issuers to ensure accountability. Furthermore, CDFA will be working to craft a formal policy statement concerning extra territorial issuers in the coming months. For those CDFA members who wish to be involved in the task force, please contact CDFA with your interest.

Growing Federal Partnerships

CDFA continues to be an advocate for federal financing programs. This is not only stated in our 2011 Policy Agenda, it is also demonstrated in the work we do each and every day. There is not a day that goes by that CDFA does not do something that involves a federal financing program.

Federal ED Finance Working Group

In March, CDFA held a second Federal Economic Development Finance Working Group meeting with ten agencies in attendance. These agencies were the Small Business Administration, the Department of Energy, the Environmental Protection Agency, the CDFI Fund, the Department of the Treasury, the Department of Housing and Urban Development, the National Institute of Standards and Technology, the Department of Defense, the Export Import Bank, and the Treasury's Office of the Comptroller of the Currency. CDFA has received very positive feedback from the agencies about the Federal Economic Development Working Group. These agencies have requested to meet more throughout the coming year and have committed to keeping this group as an ongoing activity. The working group was established by CDFA last year to allow the federal agencies to network with and learn about each other.

The Federal ED Finance Working Group is not the only way CDFA has been an advocate this year. In September, the U.S. Department of the Treasury announced a new program, the State Small Business Credit Initiative (SSBCI). CDFA saw this as a great opportunity to work one-on-one with the Treasury, and CDFA has been involved with this program since its inception. CDFA held a webcast in November to promote the new initiative and to inform state officials about how to submit their state's notice of intent to apply for the funds. In January, CDFA held a second webcast on this initiative, and this time, we covered the Guidance releases concerning the program. The Treasury was again right there working with us. In February, Cliff Kellogg was appointed to be the Director of the SSBCI office. Our relationship with both Mr. Kellogg and his entire SSBCI staff has grown since. We have held special panels for the SSBCI staff to learn what states are saying about the program and to find out what states need to make this program work. CDFA also held a third webcast this past April to review application best practices, as some states at the time were in need of help to finish their applications. The application submission deadline was at the end of June, and CDFA is looking forward to continuing to support states and their programs. Having demonstrated our leadership on this program, Treasury now directs states to our website and has cited us during their own webcasts, as we have over 60 resources related to the SSBCI online.

> The *Federal Financing Reference Guide* covers over 170 programs spanning 16 federal agencies.

Federal Financing Reference Guide

Our advocacy efforts do not stop here. In May, CDFA released the *Federal Financing Reference Guide* and launched the online Federal Financing Clearinghouse. The FFRG covers over 170 programs spanning 16 federal agencies. This six month research project of specific federal economic development finance programs has been a great success and has been well received by our membership. This Guide is complete with program overviews and contact information, which will be updated each year. The Federal Financing Clearinghouse, which is a members only exclusive, holds all of the information that is found in the reference guide plus additional electronic resources collected concerning these programs. To ensure we have the most updated and accurate information in our clearinghouse, we are working with all federal agencies that offer economic development finance programs to inform CDFA of program changes.

These are just a few of the ways CDFA continues to advocate for federal financing programs. CDFA is dedicated to the important role that the federal government plays in our daily development finance efforts, and I'll continue to keep you informed of these opportunities going forward.

Tax Credits **Work**

The Truth Behind One of the Federal Government's Most Productive Financing Programs

By Toby Rittner, CDFA President & CEO
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As the development finance industry has demonstrated over the past three decades, unique financing solutions can provide incentives for individuals and companies to invest in a wide variety of catalytic economic development projects. These resources–tax credits, most notably–are crucial elements of the development finance toolbox. While each program is different, they have a shared purpose: catalyzing investment.

The federal government has created tax credit programs to encourage specific investments. Current programs exist to help catalyze historic rehabilitation, environmental remediation, affordable housing, underserved markets, and renewable energy. To take advantage of the full development finance toolbox, economic development professionals must be able to understand and use these investment tools, which can make a measurable difference in fostering economic development.

The complexity of some tax credit programs can be a contributor to their limited use and inaccurate portrayals. In March, Bloomberg News published a scathing article undermining the success and productivity of the U.S. Department of Treasury CDFI Fund's New Markets Tax Credit (NMTC) program. The largely circumstantial piece of writing failed to accurately describe the massive public benefit that this program has provided to communities throughout the country. The inaccuracies of the article have been articulated by other organizations, but CDFA felt compelled to not only provide a clear story about the importance and impact of the NMTC program, but also about tax credit programs in general.

Understanding Tax Credit Finance

In order to catalyze local investment with tax credits, it is critical to understand the history and impact of these programs. Tax credits, which are often complex, remain widely under-utilized. According to CDFA research, less than five percent of finance agencies regularly employ state or federal tax credit programs. Nonetheless, these programs have become increasingly important, particularly as federal resources for other programs have diminished over the past 20 years.

Tax credits are performance-based financing tools, and once implemented, their worth must be proven. The verification of relevant investment goals requires a great deal of due diligence. The tax credit application process brings with it a considerable amount of scrutiny. For most programs, the investors must prove that "but for" the provision of these tax credits, the targeted project would not attract the necessary private investment.

Tax credit programs are flexible. They can be used in urban, rural, and suburban communities. They can target low-income, historic, or underserved sectors, or they can be applied broadly. Tax credits can be used within development projects to: provide an increased internal rate of return for investors, reduce the interest rates on a particular financing package, or provide a repayment method for investors in place of cash.

Tax credit programs involve many different stakeholders, which is one of the greatest benefits these financing tools have over direct loans or grants. Tax credits may bring investors, businesses, non-profits, community development organizations, industrial development authorities, financial institutions, pension funds, state governments, the federal government, and others all together for the same deal. The opportunity to attract non-traditional stakeholders into an investment is one of the key factors that make tax credits so beneficial.

Perhaps the most important feature of tax credits is that they do not disappear during economic downturns, unlike many other financing programs. In short, economic development tax credit programs are catalytic, dependable, and politically popular.

How Tax Credits Work

In news media and public perception, tax credit deals are often lumped together with tax incentives and tax abatements. However, unlike tax incentives and abatements, the tax credit user must demonstrate the outlay of resources in order to receive the benefits. The distributor of the tax credit is authorized to issue credits based on the actual outlay of resources, as evidenced by the investor.

Tax credit programs help to encourage private sector leveraging of resources and act as a catalyst for public/private partnerships. Tax credit programs allow businesses and investors to claim a tax credit for committing resources to a deal. A resource commitment could be an investment in a real estate project, seeding a revolving loan fund or a cash investment in a business. Without these structures, private financing for nearly all of the projects identified by Bloomberg would not have materialized.

NMTCs permit taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. The investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase for the first three years and six percent annually for the final four years. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. This has resulted in a committed investor base working hand-in-hand with CDEs nationwide, helping to encourage project success and even expansion.

The Case for NMTC

The NMTC program, created under President Clinton, has funded and helped to leverage financing for thousands of development projects over the past decade. Bloomberg's article outlined a handful of projects that, while meeting or exceeding every criteria of the program, did not live up to the perceived standards of their writer and editor. Inaccurately described as abusive and serving unintended markets, the NMTC program has actually worked remarkably well over the past decade and is widely considered one of the federal government's most successful programs.

> NMTC investments through 2007 supported 210,000 construction jobs and 45,000 full time-equivalent jobs.

Critics often point out that tax credit projects benefit large investors. Of course they do. Investor groups like Prudential Financial Inc., JPMorgan Chase & Co., Goldman Sachs Group Inc., and U.S. Bancorp are some of the most active participants in the NMTC program, and for good reason. The NMTC program provides an alternative and attractive investment opportunity for these firms while helping them meet Community Reinvestment Act (CRA) and socially responsible investment goals. The financial institutions earn a solid return, which is the purpose of private firms, but they also invest in local economic development projects that serve the community. Particularly during an economic downturn, these projects would not move forward but for the financial inducement provided to investors.

Bloomberg's article pointed out projects for luxury hotels, high end commercial projects, and a renovation of a historic armory. The article ignored the fact that each project passed the CDFI Fund's qualification tests and were further approved by the local CDE. Each project also created a significant number of jobs and catalyzed investment throughout their neighborhoods.

The more important omission by Bloomberg and many other critics are references to the hundreds of other projects that have unquestionably positively affected communities nationwide. The CDFI Fund has reported that NMTC investments through 2007 supported 210,000 construction jobs and 45,000 full time-equivalent jobs through the development of over 68 million square feet of real estate in low-income communities. According to the New Markets Tax Credit Coalition, NMTCs have raised more than $14 billion in qualified equity investments for low-income communities, and nearly 300 CDEs are using NMTCs to support economic development initiatives.

The bottom line is that NMTCs have simply worked. Over the life of the program, the CDFI Fund has awarded 594 allocations totaling $29.5 billion in allocation authority. The program is so oversubscribed that 250 applications were received for the latest $5 billion round of funding.

Representative cases of the NMTC program range from an investment in a new childcare facility on the west side of Chicago, to the creation of the first new supermarket and shopping center in Southeast Washington, DC in many years, to the establishment of a new aerospace facility in rural Oklahoma, and to the financing of a solar manufacturing facility that will create 1,500 new jobs in a low income community outside of Albuquerque.

With the NMTC program, the potential is endless and the opportunity is abundant. This program was designed a decade ago to infuse capital into underserved markets and is meeting that goal unequivocally. No amount of scrutiny, focused solely on outliers and ill informed assumptions, will ever diminish or reduce the positive impact that this program has had in the development finance community.

Access to Capital

Spurring Job Growth Through Greater Investment

By Jason Rittenberg, CDFA Research & Resources Coordinator
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Access to capital may be the development finance tool that is most relevant to people's daily lives. Businesses and people share a common necessity: access to affordable, reliable cash. A business or household can function successfully while in debt, but operating without the "working capital" to pay for supplies/food or a lease/mortgage is another matter altogether. Furthermore, whether in the form of a home mortgage, a car lease, or a credit card, the typical American is familiar with the general benefits and downsides of loans.

The consumer debt programs with which we are all familiar, however, quickly become lost in the world of economic development finance. As we move beyond direct loans, the structural complexity of access to capital programs increases rapidly. Forgivable loans, capital access programs, loan guarantees, angel, seed, or venture investments, and funds of funds all involve capital access, but each has unique elements. In short, familiarity with direct loan structures does not always translate to a ready understanding of access to capital programs for economic development.

Defining Access to Capital Programs

The concept behind access to capital programs is straightforward. As it is used by CDFA, an "access to capital" program is any financing tool that helps a business acquire the cash—or "working capital"—it needs in order to launch, operate, or grow. As long as the program helps businesses access capital, the term applies.

> Many financing programs are not cost-effective for those with borrowing needs under $35,000, which is a significant problem for microenterprises.

Of course, many diverse programs are covered by this one label. An access to capital program can be tailored to address anything from small financing needs (as low as a few thousand dollars) to large scale projects (as high as tens of millions). A program can be further targeted based on owner characteristics (e.g., disadvantaged groups), business stage (e.g., start-ups), or industry type (e.g., technology). Alternatively, an access to capital program can simply be available to any business for any purpose. The options are virtually limitless.

It is largely because of this diversity that access to capital programs are a key facet of the development finance toolbox. Tax credits and bond financing are invaluable tools, but they cannot address the entire development finance spectrum by themselves. For example, there are 24 million U.S. businesses with five or fewer employees, and these microenterprises have capital needs smaller than $35,000. Many financing programs are not cost-effective at this level, which is a significant problem when you consider that the majority of job growth in the last decade came from small businesses. Access to capital programs can not only easily be designed to service microenterprises and small businesses, but they can also be tailored to fit almost any financial service gap that a development finance agency needs to fill.

Types of Access to Capital Programs

The flexibility of access to capital programs makes strict categorization difficult, but we can generally identify four types of programs:

Grant Programs

Grants are typically created either on a competitive basis (e.g., a business model competition) or to serve a niche type of business and purpose (e.g., minority technology businesses). The competitive model also provides a good opportunity for a development finance agency to bring together a variety of businesses and stakeholders who might not otherwise meet. Funds that are expressly designed to offer forgivable loans may share many characteristics of grant programs.

> Loans that can convert to grants provide a versatile tool for agencies looking to both incentivize development and reward excellence. New Jersey's Edison Innovation Green Growth Fund, for example, provides low interest loans to companies developing clean or energy efficiency technologies. If those companies meet pre-determined revenue or employment goals, then up to half of the loan converts to a grant.

Loan & Loan Participation Programs

Loans provide capital to a business, with the full expectation that the business will pay that money back. A common type of loan program is a revolving loan fund (RLF), in which the development authority issues smaller loans (although the actual size can reach $250,000) out of a larger loan fund; as loans are paid back to the authority, the fund is replenished and new loans can be issued. Another tool that largely fits in this category is loan participation, where an agency lends part of a larger amount in conjunction with a financial institution. Some loan participation programs are structured so that the finance agency is actually purchasing a portion of a loan from the lending institution, which then overlaps with the next category.

> Loan Participation Programs enable a development finance agency to directly address the access to capital needs of a business without assuming the entire risk for those needs. An example program is the Grow Missouri Loan Fund, which can provide a loan of up to 10% of the total loan amount. Qualified businesses benefit not only because they increase their capital access, but also because the program allows deferred payments on interest for up to three years and on principals for up to six years.

Credit Support Programs

Credit support is necessary when a business cannot qualify for a traditional loan without assistance. Some of the more common programs in this category are capital access programs (CAPs), loan guarantees, and collateral support programs.

> Capital Access Programs (CAPs) support loans by making matching contributions to a reserve fund belonging to the lender. More specifically, the bank and borrower pay an up-front insurance premium of 3-7%, and this is the amount matched by the state. The reserve fund is held as insurance across the institution's entire CAP portfolio, which means that later loans are additionally supported by the unclaimed premiums of earlier loans. California runs one of the largest CAPs in the U.S., supporting over 800 loans at a leverage ratio of 26:1 in 2010.

The common thread to these programs is that the development finance agency provides a financial incentive that makes the business a more attractive candidate to the lending institution. Whether the incentive goes into a reserve fund (such as a CAP) or towards a guarantee depends on the program.

Investment Programs

Investment occurs when a development finance agency or private sector investor infuses capital into a project for an interest in the business. Such programs are often covered under the category, "Innovation Finance," and include angel, seed, or venture funds, as well as fund of funds models. [See the Education & Programs column in this issue of *Perspectives* for more information on innovation finance.]

> Collateral Support Programs are a currently-popular model of credit support programs. In this model, the development agency sets aside funds to supplement the borrower's existing collateral, making the loan more attractive to the lending institution. For example, Michigan's program contributes to a collateral account for diversifying companies that cannot otherwise receive loans. The state will contribute up to 49.9% of the credit facility. The state enrolls an average of 30 loans each year with an average support level of 20%.

Advancing Access to Capital

While the underlying principle of access to capital is familiar to everyone, the diversity and complexity of specific programs make them difficult to monitor effectively. Adding to this difficulty is the fact that the federal government offers access to capital programs through multiple agencies (e.g., the Small Business Administration, the Department of Agriculture, and the Export-Import Bank), state development agencies often house multiple programs, and local agencies may even provide their own set of loans or related tools. An economic development practitioner looking for guidance on program resources or best practices can be quickly overwhelmed by this environment.

In order to better support the efforts of economic development professionals to provide access to capital programs, CDFA is reestablishing the Access to Capital Coalition (ACC). The ACC will lead the charge in advocating for the importance of developing a strong access to capital program in a community's development finance toolbox. Much like the CDFA Tax Increment Finance Coalition serves TIF, the ACC will provide a national forum for those in search of access to capital information by providing education, research, resources, and best practices for this set of tools. If you are interested in learning more about the ACC, contact CDFA. ■

Collaborating Through CDFA's Network

Laura Radcliff,
CDFA Board of Directors,
Senior Vice President, Stifel Nicolaus & Company, Inc.

Collegiality. Collaboration. Teamwork. These words describe what I like best about my work as an economic development investment banker. I am a "people person" whose inspiration comes from clients, coworkers and the public, and who believes that our work is enhanced by collaborating with others. CDFA is a source for such collaboration.

I attended my first CDFA Annual Summit in Phoenix in April 2005. Knowing very little at that point about CDFA, I figured I could fill my time with the resort's pool and hiking trails if the Summit were a flop.

I never donned my swimsuit or my hiking boots. The Summit certainly exceeded my expectations. As with every Summit I have attended since, I was torn between which sessions to attend, as offerings were numerous, timely and interesting. I met issuers and practitioners and people from every part of the development finance industry. I went out to dinner with new acquaintances who have since become clients and friends. And I met competitors.

At CDFA, competition takes a back seat. The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests, in large part through education and lobbying.

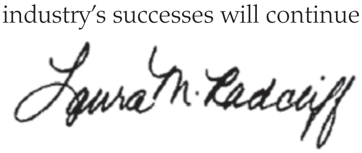
CDFA's strength comes from the fact that its members work together to accomplish the organization's goals. And CDFA's members' strengths are enhanced by CDFA's successes. Take recent legislative successes, for example. In the past four years, CDFA has passed a handful of bond finance-related pieces of legislation, including increasing the capital expenditures limitations and updating the definition of manufacturing for industrial development bonds. CDFA has also influenced policy by briefing President Obama's transition team in 2008.

CDFA's impressive legislative work, publications, networking opportunities, educational programs, and website helped persuade Stifel Nicolaus to become both a national sponsor of CDFA and a sponsor of the *Federal Financing Reference Guide.*

While CDFA has many members who are state and local governments and economic development agencies, our membership also includes a variety of non-governmental and private organizations ranging from regional and large investment banks to commercial finance companies to bond counsels, bond insurers, trustees, venture capital companies, rating agencies, and other organizations interested in economic development finance.

After the 2005 Annual Summit, I maintained contact with CDFA members and staff. By the 2006 Annual Summit, I was working with a team of those acquaintances—practitioners including other investment bankers, authority and local government representatives—on a Tax Increment Finance curriculum for CDFA. By 2007, I was on the Board of CDFA. In 2008, I moved to a new firm, Stifel Nicolaus, where I sang CDFA's praises. CDFA's impressive legislative work, its publications, the networking opportunities it provides, its live and online educational programs, and the information on its website helped to persuade Stifel Nicolaus to become both a national sponsor of CDFA and a sponsor of CDFA's most recent publication, the *Federal Financing Reference Guide.*

For those of you who are CDFA members, you know what I'm talking about. For those of you who are not, I encourage you to join. The Council of Development Finance Agencies is a fine organization. If your work is in some way related to economic development, CDFA has enhanced your professional life—although you may not even have known it. By joining CDFA and interacting with colleagues from all parts of this industry, you will realize great benefits, and our industry's successes will continue to grow.



Original Research Focus

Jason Rittenberg,
Research & Resources Coordinator
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Help CDFA Preserve IDBs!

Bond issuance is at a decade low this year, but that does not mean that bonds are taking a backseat at CDFA. As you can see in this edition of *Perspectives*, tax-exempt bond policy is squarely in our sights this year. The Original Research Focus is supporting advocacy efforts by developing a special report featuring industrial development bond case studies from every state.

This special report will hammer home the connection between industrial development bonds (IDBs) and job creation. IDBs, which fall under the Qualified Small Issues category of tax-exempt bonds and are also called industrial revenue bonds (IRBs), are the primary source of financing for small- to medium-sized manufacturers. As a program that targets both small business and manufacturers, it is easy to see why IDBs are one of the best development finance tools for job creation.

In order for this report—which will be a key facet of CDFA's advocacy for tax-exempt bonds—to happen, we need you to share your IDB case studies. Fortunately, the Original Research Focus has created an easy, 11-item online project submission form (see the "Calls for Participation" sidebar) that you can use to share your case study.

When you share your project, do not forget the jobs! It is one thing to say that IDBs have leveraged investment for manufacturers; it is quite another thing to say that IDBs have created or retained jobs for people. That is the number that will drive the importance of this financing tool home for the public, Congress, the Obama Administration, or whoever else needs convincing.

Research Numbers

3 Number of expected programs per state to appear on State Small Business Credit Initiative Applications

59 Percent of respondents saying they supported cities or counties issuing bonds outside of their geographic jurisdiction.

23 Percent of respondents naming public good as a potential benefit of an extra-territorial bond issuer

16 Number of states (through May) with updated statutes in the CDFA TIF State-by-State Resource Center.

210 Approximate number of records added to the CDFA Online Resource Database since the last issue of *Perspectives*.

Calls for Participation

Industrial Development Bond (IDB) Case Study Collection

CDFA is collecting IDB case studies (also called IRBs) from around the country. These projects will be used to create a state-by-state report that will help CDFA advocate for the continued existence of this important financing tool. Anyone with the details of an IDB project can participate at: bit.ly/IDBprojects

Tax Credits Case Study Collection

CDFA is collecting case studies of projects involving at least one federal tax credit program. These projects will help CDFA demonstrate the role these programs play in catalyzing economic development. Anyone with the details of a tax credit project can participate at: bit.ly/TCprojects

State-by-State TIF Statutes

Report changes to your state's TIF statute so that CDFA can keep the TIF State-by-State Resource Center current. This key resource is an important facet of CDFA's efforts to educate on best practices for this financing tool. Anyone who is familiar with any state's TIF statute is encouraged to participate. The online form is available at: bit.ly/TIFlaws

Access to Capital Programs

CDFA is launching a research effort through the new Access to Capital Coalition (see pages 12-13). This project will establish an index of capital programs in each state. Contact CDFA to find out more about the project and how you can help.

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

Tax Increment Finance Statutes

Tax Increment Finance (TIF), perhaps more than any other financing tool, is driven by state and local policy and politics. Given the political awakening that has occurred throughout the country in the last few years, it should come as little surprise that many states have changed their TIF statutes over this same period.

The changes, which are reflected in the CDFA TIF State-by-State Resource Center, have affected a wide array of facets of TIF policy components (e.g., eligible costs, authorizing entities, required findings). The good news is that, on the whole, states seem to be increasingly in line with CDFA's recommended practices for this financing tool. One example is that building community support is reflected by the considerable number of states requiring city council support and public hearings before a district can be created. Another example is that many states now report that a "but for" test must be passed as part of the district creation process.

To find out more about TIF state statutes or best practices, visit the CDFA TIF State-by-State Resource Center. To supply information about the TIF statute in your state, see the "Calls for Participation" sidebar in this article.

CDFA Research News

The National Volume Cap Resource Center is one of the most popular features produced by CDFA. Each year, CDFA updates this center with the latest information on state allocations, issuance, and carryforward. The 2010 versions of the CDFA National Volume Cap Resource Center and Report will be released in July. Check the CDFA homepage for the latest information about this bedrock financing tool.

Did you know?
You can send news and resources about your interesting projects or programs directly to CDFA.

■ ■ ■

CDFA takes great pride in providing excellent content across the breadth of economic development finance tools, but we realize many of you are interested in targeted areas of our industry. For those of you, CDFA is rolling out tool-specific resources. The Bond Finance Resource Center and Weekly Bond Finance Report will launch this summer. Similar resources for TIF, Access to Capital, and Tax Credits will come later this year. Contact CDFA or read *Development Finance Review Weekly* every Thursday for information on these new services. ■

Membership Corner

STEFANIE STOLLER,
DEVELOPMENT COORDINATOR
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We just wrapped up the 25th Annual Development Finance Summit in Boston, MA. The Annual Summit started with a kick-off celebration, where attendees were able to mingle with their colleagues, and ended with a bus tour of the New England Coast Line. We had a great week in Boston with over 40 speakers, 38 sponsors and exhibitors, and nearly 300 attendees.

With the release of the *Federal Financing Reference Guide*, CDFA also revealed new membership benefits at the Annual Development Finance Summit. CDFA member organizations will receive a copy of the Guide upon renewing their membership. All members will also receive access to the online version of the Guide through the Federal Financing Clearinghouse. We're very excited about the Reference Guide and to add another benefit to being a part of CDFA!

I look forward to seeing you all in 2012, when the Development Finance Summit moves to Washington, DC!

Welcome CDFA's New Members March - May, 2011

Boldt Consulting Services
City of Glens Falls
Dallas-Houck Associates
Front Royal-Warren County Economic Development Authority
Gateway Community Action Partnership, Inc.
Greene County Industrial Development Agency
Jones, Walker, Waechter, Poitevent, Carrere & Denegre LLP
Katy Area Economic Development Council
McGlinchey & Stafford
Midcoast Regional Redevelopment Authority
Perseverance Capital Advisors LLC
Swinomish Indian Tribal Community
Tremco Inc.
Tunica Chamber & Economic Development Foundation

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	

Member Benefits

CDFA greatly appreciates the support of our members and, in return, we offer the following benefits.

Discounted registration rates, bookstore savings & special offers from industry partners
CDFA Members receive reduced rates to all CDFA events, including Training Institute courses, the Annual Development Finance Summit, and other workshops and seminars. This benefit can ultimately cover the cost of annual dues. Publications produced by CDFA are available for sale at a discounted rate to members, and CDFA members are eligible for reduced rates on a number of industry publications through partnerships established by the Council.

Exclusive Access to the CDFA online Federal Financing Clearinghouse
The Federal Financing Clearinghouse is the online companion to the *Federal Financing Reference Guide*. The CDFA online Federal Financing Clearinghouse is a member exclusive database that provides members an overview of over 170 federal economic development financing programs from 16 agencies. The clearinghouse serves as a reference point for economic development professionals seeking federal funding for projects in their own community.

Individualized technical assistance services
The Research & Technical Assistance Program provides members access to CDFA's extensive knowledge of the development finance industry. Members using these services receive specialized attention from a team of experts who are keenly aware of the issues and challenges facing development finance organizations.

Dedicated & effective legislative representation on Capitol Hill
CDFA is the voice of development finance on Capitol Hill. Our dedicated Legislative Affairs team advocates on behalf of the industry, addressing its most pressing concerns in an effective and efficient manner. The Council routinely provides congressional offices advice, research, testimony and legislative language that help advance the industry. As a result, Congress has repeatedly passed CDFA-led initiatives, underscoring the organization's outstanding reputation in Washington, DC.

Opportunity to serve on CDFA's working committees to help build future initiatives
Members have the opportunity to guide CDFA's policy agenda by serving on the Legislative Committee. This committee actively works with the general membership to identify the causes that are the most critical to the industry.

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 Annual Development Finance Summit – the premier gathering of leaders and innovators in the profession.

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