



# FINANCING PROJECTS... WITH ACRONYMS! IDBs, NMTC, EB-5, and More!

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# GETTING STARTED

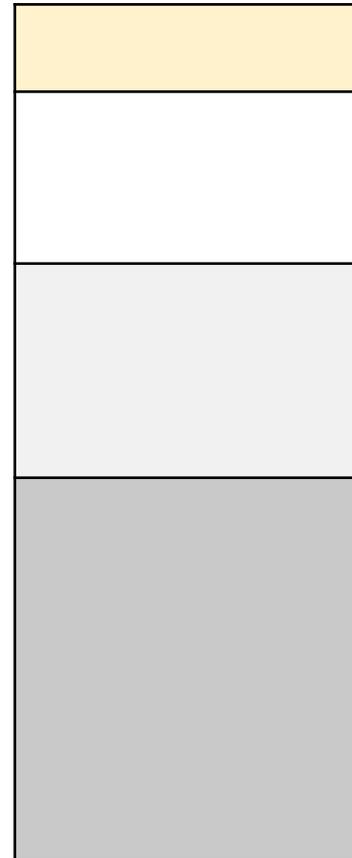


# ACRONYMS

- IDBs = Industrial Development Revenue Bonds
  - AKA: IRBs, TEBs (tax-exempt bonds), PABs (private activity bonds), revenue bonds
- NMTC = New Markets Tax Credits
  - AKA: tax credit equity, subordinated debt, sub debt, mezzanine finance, mezz debt, “forgivable loan”
- QCT = qualified census tract
- EB-5 = immigrant investor funding
  - AKA: permanent resident visa, 5<sup>th</sup> employment-based preference
- TEA = Targeted Employment Area

# WATCH FOR THIS

- YOU WILL SEE THIS SHAPE 3 TIMES IN THIS PRESENTATION
- IT IS A "CAPITAL STACK"
- THE PRESENTATION IS ALL ABOUT HOW TO FILL IT UP WITH CAPITAL FOR YOUR PROJECT



# CAPITAL STACK

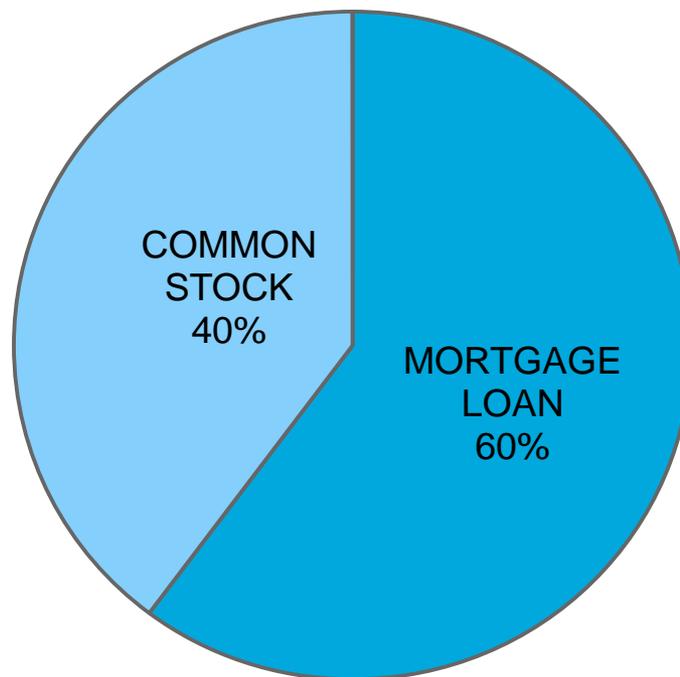


# YOU NEED TO KNOW

- A PROJECT CAN'T HAPPEN UNLESS IT CAN BE FINANCED
- DEVELOPMENT AUTHORITIES NEED TO KNOW-
  - WHY THERE ARE FEWER TAX-EXEMPT BOND DEALS
  - WHAT OPPORTUNITIES TO ISSUE BONDS STILL EXIST
  - WHY A COMMUNITY HAS AN ADVANTAGE IF IT HAS A QCT OR A TEA AND ITS COMPETITOR DOES NOT
  - HOW TO HELP THE PROSPECT

# TWO DIMENSIONAL CAPITAL

IT'S NOT AROUND MUCH ANYMORE-



■ MORTGAGE LOAN ■ COMMON STOCK

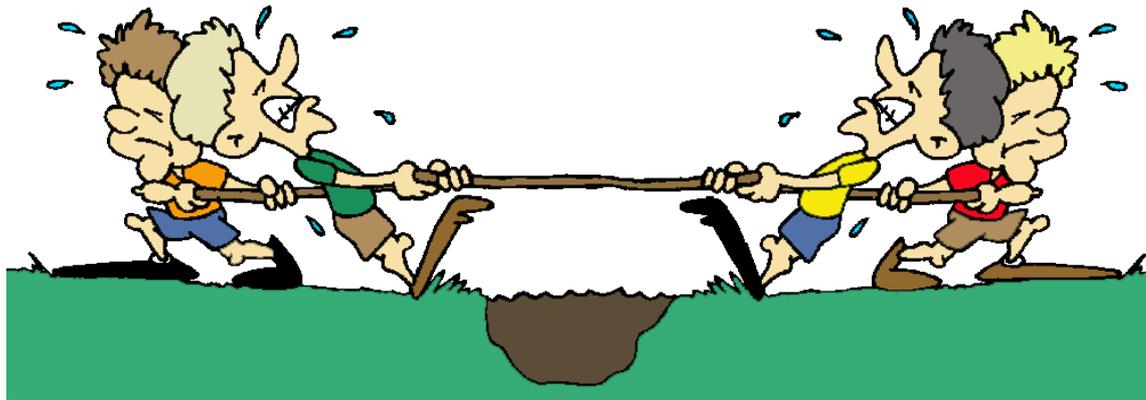


# **BANKS AREN'T AROUND MUCH ANYMORE**

- **NEED BANKS TO BUY BONDS OR PROVIDE LETTER OF CREDIT (LOC)**
- **BANKS ARE EXITING LOC MARKET**
- **FINANCING OF ECONOMIC DEVELOPMENT PROJECTS SUFFERS**

# GAPS OPEN

CHANGES IN THE FINANCIAL MARKETS HAVE PULLED OPEN FINANCING GAPS (LAYERS) THAT HAVE TO BE FILLED





# 3D CAPITAL APPEARS

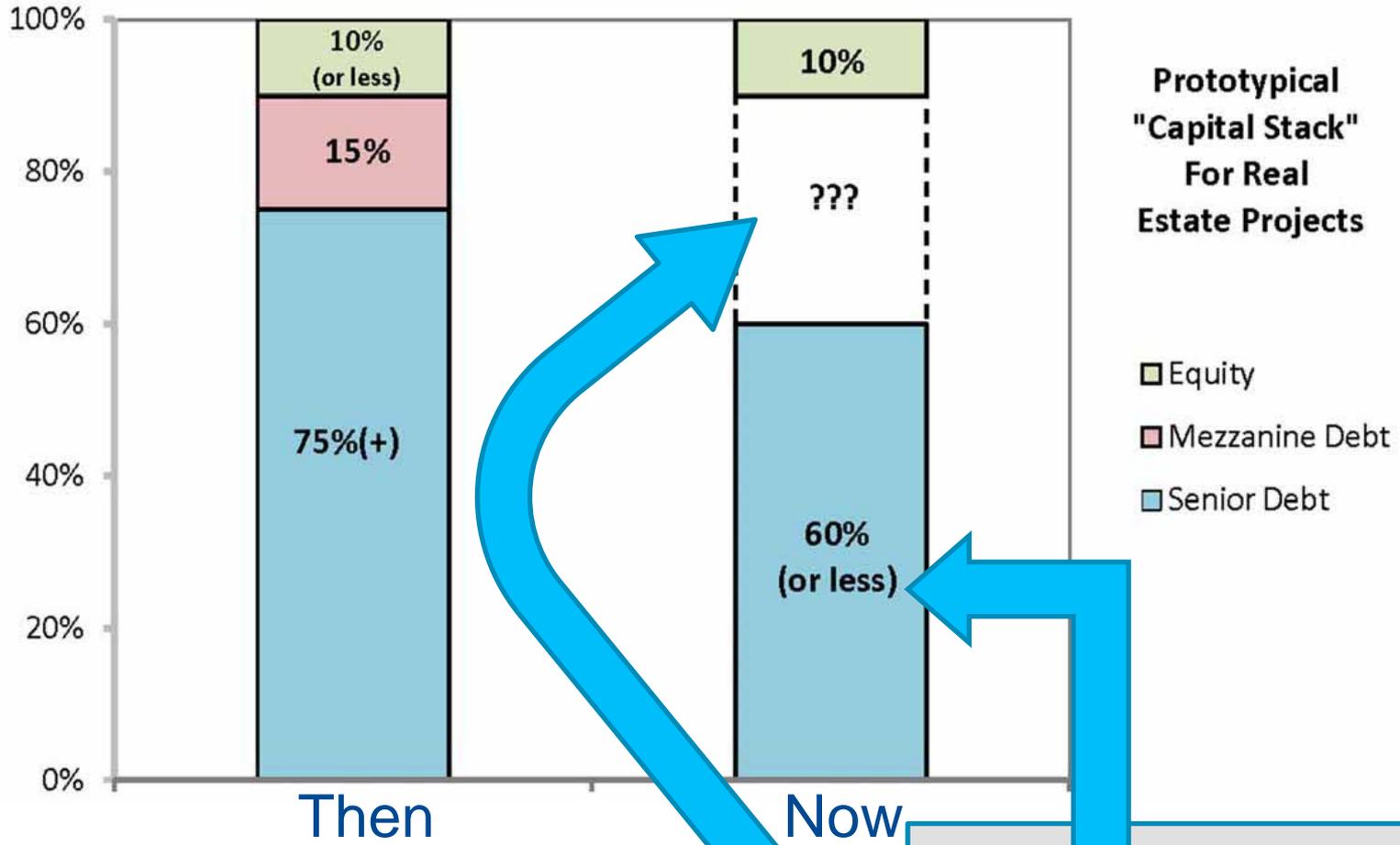
- TODAY, 3D CAPITAL, INSTEAD OF 2D CAPITAL, IS WHAT FINANCES PROJECTS
- 3D CAPITAL = CAPITAL STACK
- MIX AND MATCH TYPES OF CAPITAL
- MATCHING IS HARD
- YOU HAVE TO SATISFY *EVERYBODY!*



# CAPITAL STACK

- Capital Stack means all of the capital invested in a project, including pure debt, hybrid debt, and equity.
- The stack is generally described from top to bottom going from the category of capital with the most risk at the top going down the stack to the position with the least risk.
- The higher the position in the stack -- the higher the returns that can be expected for that capital because of the increased risk. Taken From: EGS, "Real Estate Terms"

# CAN IDBs BE USED?



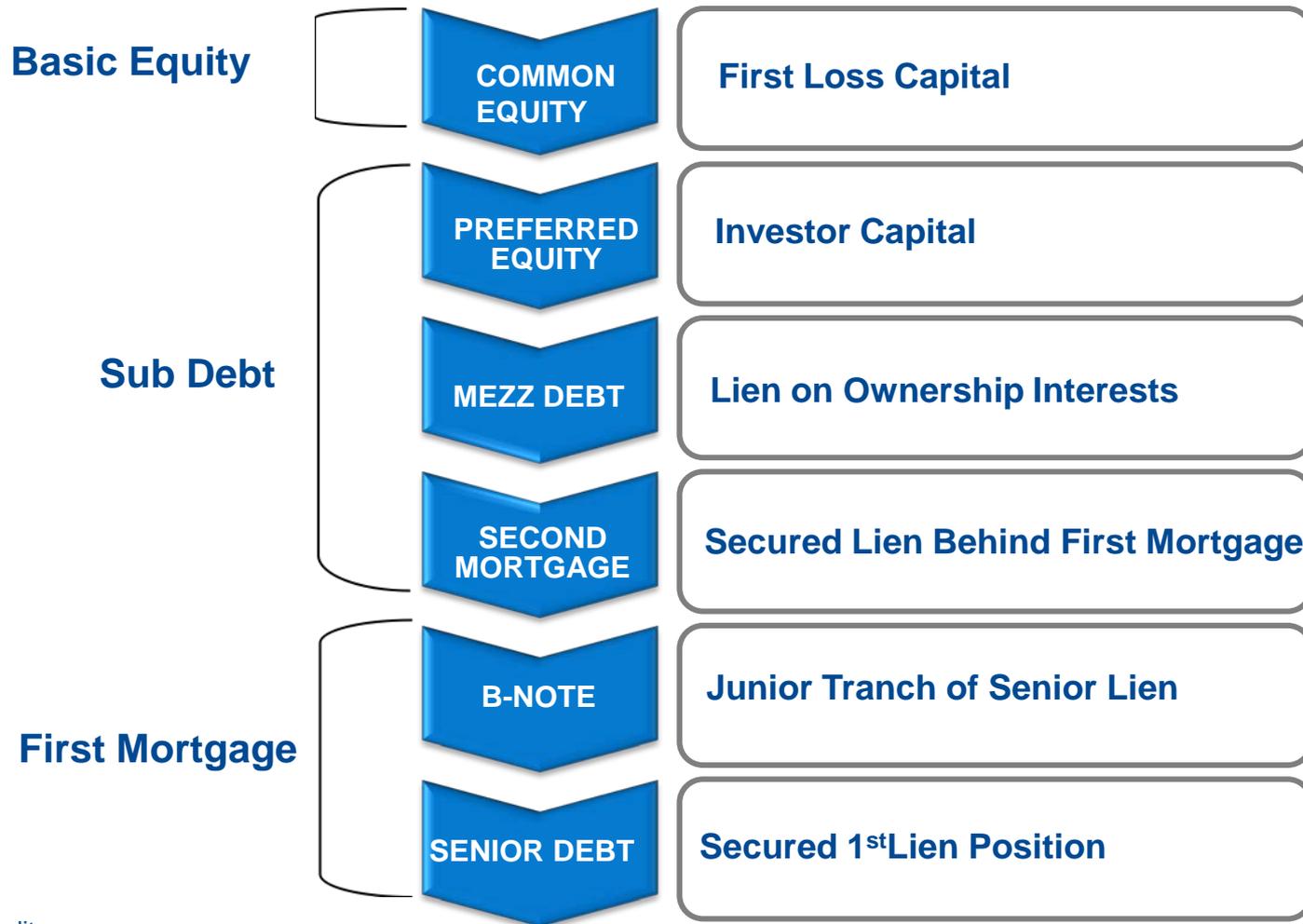
THIS could be IDBs. But in order to use IDBs, THIS gap has to be filled.



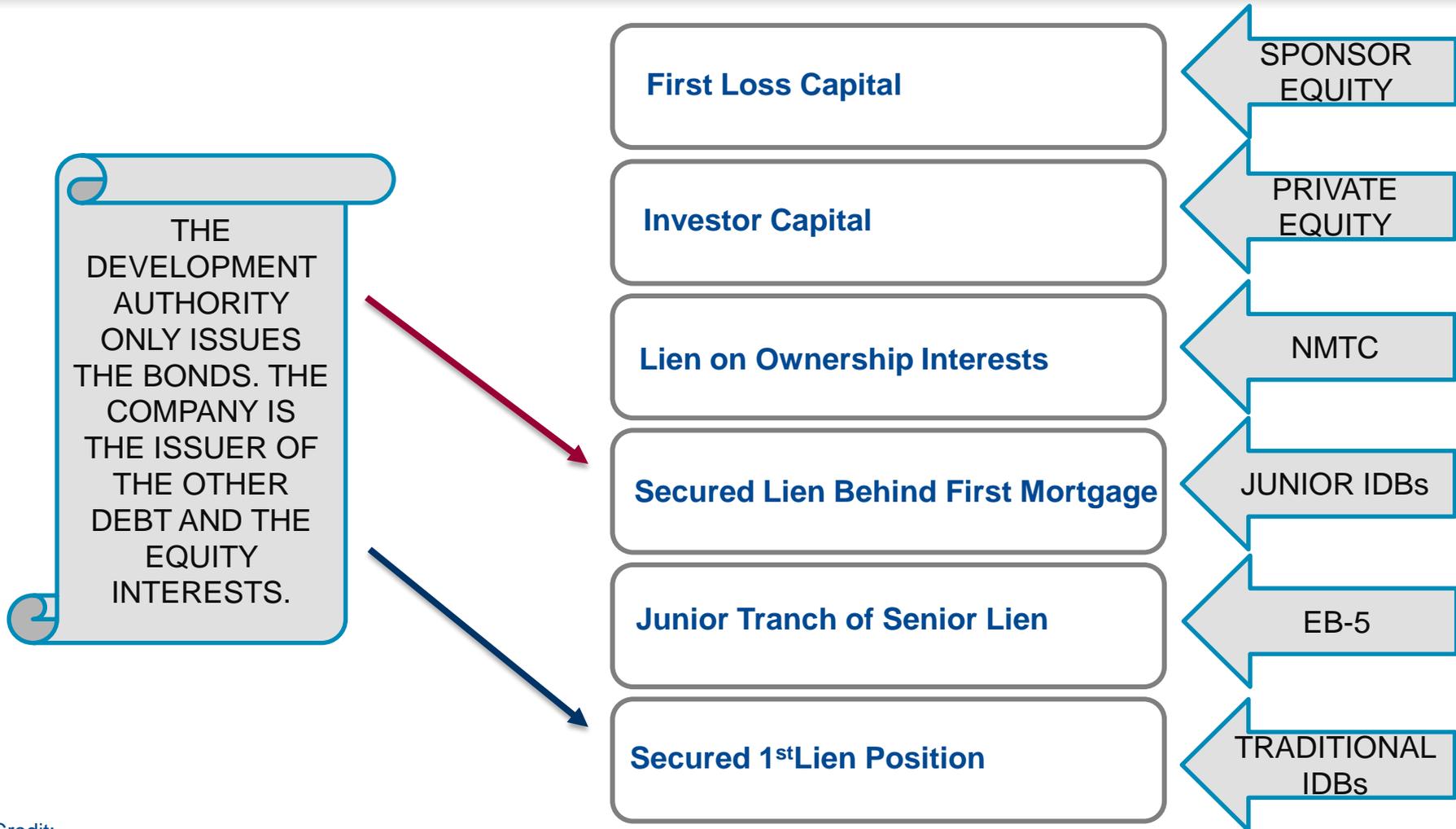
# GAP- FILLERS APPEAR

- BUT FINANCIAL MARKET CHANGES ALSO CREATE NEW LAYERS FOR THE CAPITAL STACK
- KEY- FIND A WAY FOR EACH NEW LAYER TO WORK WITH THE OTHER LAYERS

# BEHIND THE CURTAIN- WHEN A PROJECT GETS FINANCED: EXAMPLE



# EXAMPLE- BEHIND THE CURTAIN- WHEN A PROJECT GETS FINANCED



# BONDS



# BONDS- “OLD SCHOOL”, BUT STILL THE BEST WAY TO BORROW MONEY

- The interest on bonds issued by a local authority or local government is either federally taxable or federally tax-exempt.
- Federally tax-exempt bonds are more desirable.
- Advantages of tax-exempt financing
  - Lower interest rate
  - Longer term
  - Greater marketability
  - More availability of interest-only/capitalized interest
  - Smaller bond issues more do-able



# BONDS- WHO PAYS?

WHEN THE PUBLIC SECTOR ISSUES BONDS, A KEY QUESTION IS- HOW WILL THEY BE REPAYED?

- LOCAL GOVERNMENT BONDS ARE OFTEN BACKED BY TAXING POWER
  - “GENERAL OBLIGATION”
  - REFERENDUM REQUIRED
- LOCAL AUTHORITY BONDS ARE USUALLY TRADITIONAL REVENUE BONDS
  - REPAYED ONLY OUT OF PROJECT REVENUES

# HYBRIDS- CONTRACT REVENUE BONDS

- SOME LOCAL AUTHORITY BONDS ARE BACKED BY MILLAGE PLEDGE THROUGH INTERGOVERNMENTAL AGREEMENT (“IGA”) WITH LOCAL GOVERNMENT
- CALLED “CONTRACT REVENUE BONDS” (FORMERLY CALLED “BACK-DOOR G.O. BONDS”)





# LIMITING OBLIGATIONS

## CONTRACT REVENUE BONDS

- “LIMITED OBLIGATION”
- MILLAGE PLEDGE MAY BE LEGALLY LIMITED
- EXAMPLE: ECONOMIC DEVELOPMENT MILLAGE
  - 1 MILL FOR COUNTY
  - 3 MILLS FOR CITY

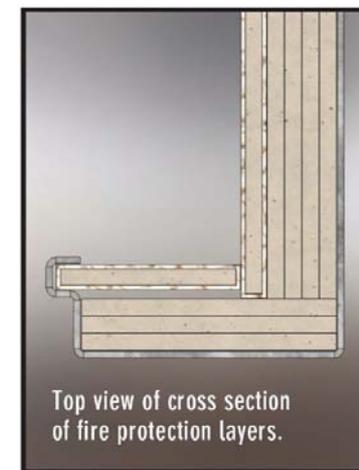
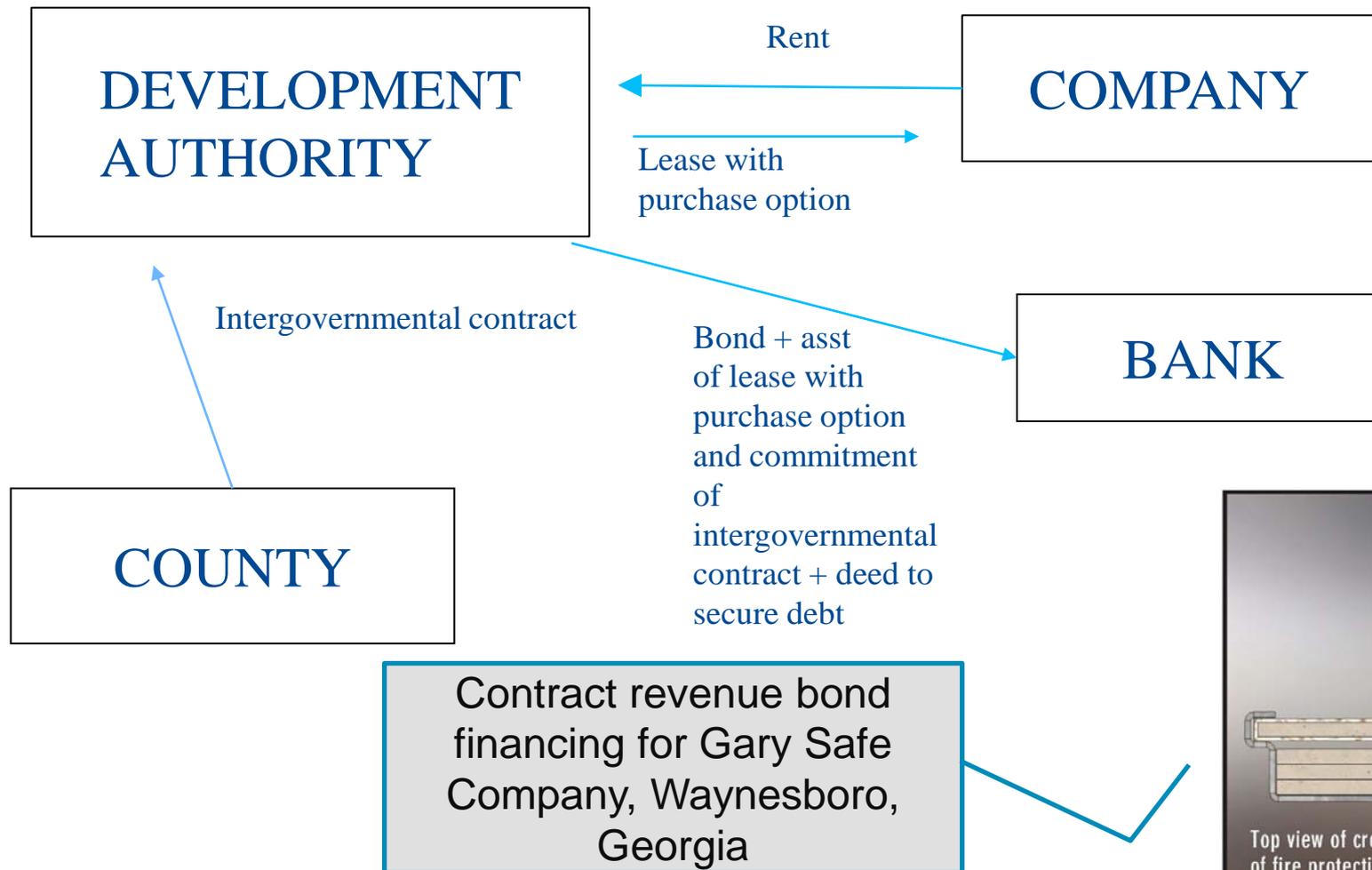


# LIMITING OBLIGATIONS

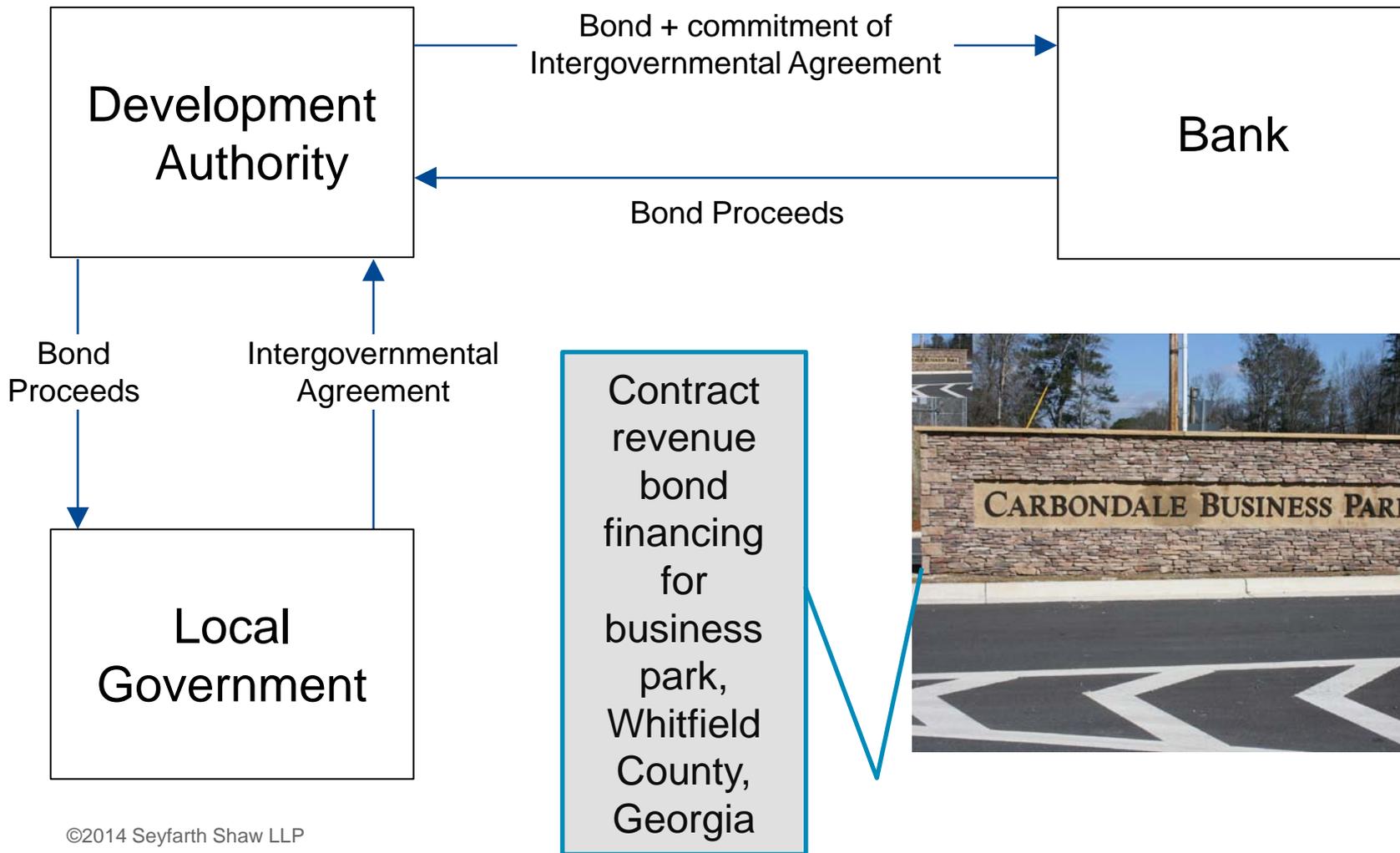
## CONTRACT REVENUE BONDS

- IF GOVERNMENTAL PURPOSE AND AUTHORIZED PROJECT, OBLIGATION COULD BE “FULL FAITH AND CREDIT” OR LIMIT COULD BE SET BY CONTRACT (NUMBER OF MILLS, OR NUMBER OF DOLLARS)
- NO REFERENDUM
  - Example of Exception: If O.C.G.A. Sec. 36-75-11(c) applies (in practice, this applies only to DeKalb County).

# EXAMPLE OF CONTRACT REVENUE BOND- “GUARANTY” STRUCTURE



# EXAMPLE OF CONTRACT REVENUE BOND-GRANT STRUCTURE



# BASIC RULE



- A PUBLIC BODY'S BONDS WILL BE TAX-EXEMPT, GOVERNMENTAL PURPOSE BONDS UNLESS THERE IS-
- TOO MUCH PRIVATE USE, AND
- TOO MUCH PRIVATE PAYMENT OR PRIVATE SECURITY

# TAX-EXEMPT BONDS

- "TOO MUCH" USUALLY MEANS MORE THAN 10% OF
  - USE- BASED ON TOTAL COST, OR
  - PAYMENT/SECURITY- BASED ON TOTAL DEBT SERVICE
- Above assumes compliance with other tax rules
- "Private loan" test sometimes must be considered

PFA issued tax-exempt bonds for Washington County jail





# PRIVATE ACTIVITY BONDS

- THE OPPOSITE OF "GOVERNMENTAL PURPOSE" IS "PRIVATE ACTIVITY"
  - MEANS THERE IS
    - TOO MUCH PRIVATE USE, AND
    - TOO MUCH PRIVATE PAYMENT/PRIVATE SECURITY
  - "PRIVATE LOAN" TEST MIGHT APPLY



# PRIVATE ACTIVITY BONDS

- INTEREST ON PRIVATE ACTIVITY BONDS NOT FEDERALLY TAX-EXEMPT UNLESS THERE IS AN "EXEMPTION"
- EXEMPTIONS ARE HARD TO FIND
  - COMPLIANCE WITH OTHER TAX RULES REQUIRED
- HERE ARE A FEW

# DEVELOPMENT AUTHORITY BONDS: “SMALL ISSUE” MANUFACTURING BONDS

Capital expenditure limit (\$10 million tax-exempt bond proceeds + \$10 million other) / \$40 million national limit on tax-exempt bonds for the “Company”

PREMIUM WATERS,  
DOUGLAS, GEORGIA:  
EXAMPLE OF PRIVATE  
ACTIVITY BONDS- "SMALL  
ISSUE" MANUFACTURING  
BONDS





# DEVELOPMENT AUTHORITY BONDS: “SMALL ISSUE” MANUFACTURING BONDS

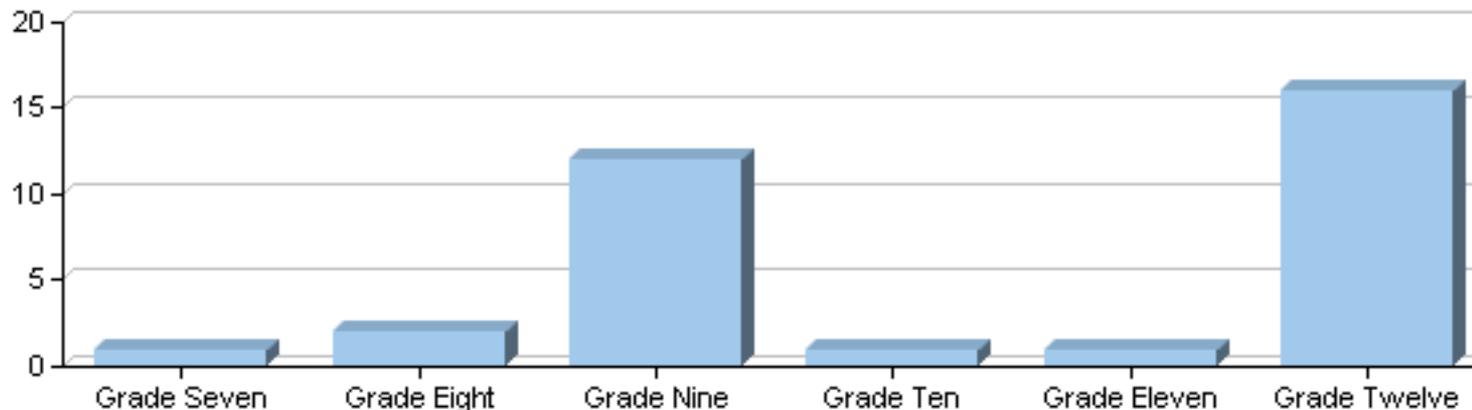
- Spending requirements –
  - 95% or more of the proceeds must be used for a “manufacturing” facility (only 5% may be “bad money”)
  - less than 25% on land costs
  - at least 15% on rehabilitation expenditures, if acquiring an existing building (and the equipment therein)
    - calculated based on acquisition costs, not 15% of total bond proceeds
    - could use non-bond funds to pay for rehab
  - at least 70% on “core manufacturing” facilities (e.g., manufacturing part of the building and new manufacturing equipment)
  - no more than 25% on “directly related and ancillary” facilities
  - up to 2% can be spent for issuance costs (this 2% is a part of the 5% allowable “bad money”)

# DEVELOPMENT AUTHORITY BONDS: “QUALIFIED 501(C)(3) BONDS”

- BONDS FOR ORGANIZATIONS THAT ARE TAX-EXEMPT 501(C)(3) ORGANIZATIONS UNDER THE INTERNAL REVENUE CODE WHICH ARE ISSUED FOR FACILITIES SUCH AS PRIVATE HIGH SCHOOLS AND COLLEGES AND MEDICAL FACILITIES.
- THESE ORGANIZATIONS ARE GENERALLY FAMILIAR WITH TAX-EXEMPT FINANCING (BECAUSE THEY TEND TO USE BOND FINANCING REPETITIVELY).

TAX-EXEMPT  
"QUALIFIED  
501(C)(3)  
BONDS" FOR  
SAVANNAH  
RIVER  
CHALLENGE,  
SCREVEN  
COUNTY,  
GEORGIA

**Savannah River Challenge Enrollment by Grade**





# DEVELOPMENT AUTHORITY BONDS: “QUALIFIED 501(C)(3) BONDS”

- NO “VOLUME CAP” FROM DCA NEEDED.
- CAN “SELF-INDUCE” (BUT AUTHORITY HAS TO ISSUE THE BONDS).
- TEFRA APPROVAL FROM LOCAL GOVERNMENT REQUIRED.
- ISSUED BY DEVELOPMENT AUTHORITIES AND SOME OTHER TYPES OF LOCAL AUTHORITIES; E.G., HOUSING AUTHORITIES.



# “EXEMPT FACILITY” BONDS

- Exempt facility bonds can qualify for tax-exemption under federal law.
- Not subject to capital expenditure limitation. Federal “volume cap” usually required.
- Local authority can issue if its state law powers permit. Some types issued by development authorities. Some types issued by Public Facilities Authorities or other specialized local authorities.



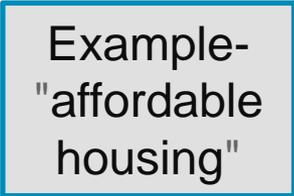
# “EXEMPT FACILITY” BONDS

Here are a few examples of exempt facility bonds-

- airports
- docks and wharves
- facilities for furnishing of water
- sewage facilities
- solid waste disposal facilities
- qualified residential rental projects



Example-  
Home Depot  
DC in  
Savannah



Example-  
"affordable  
housing"

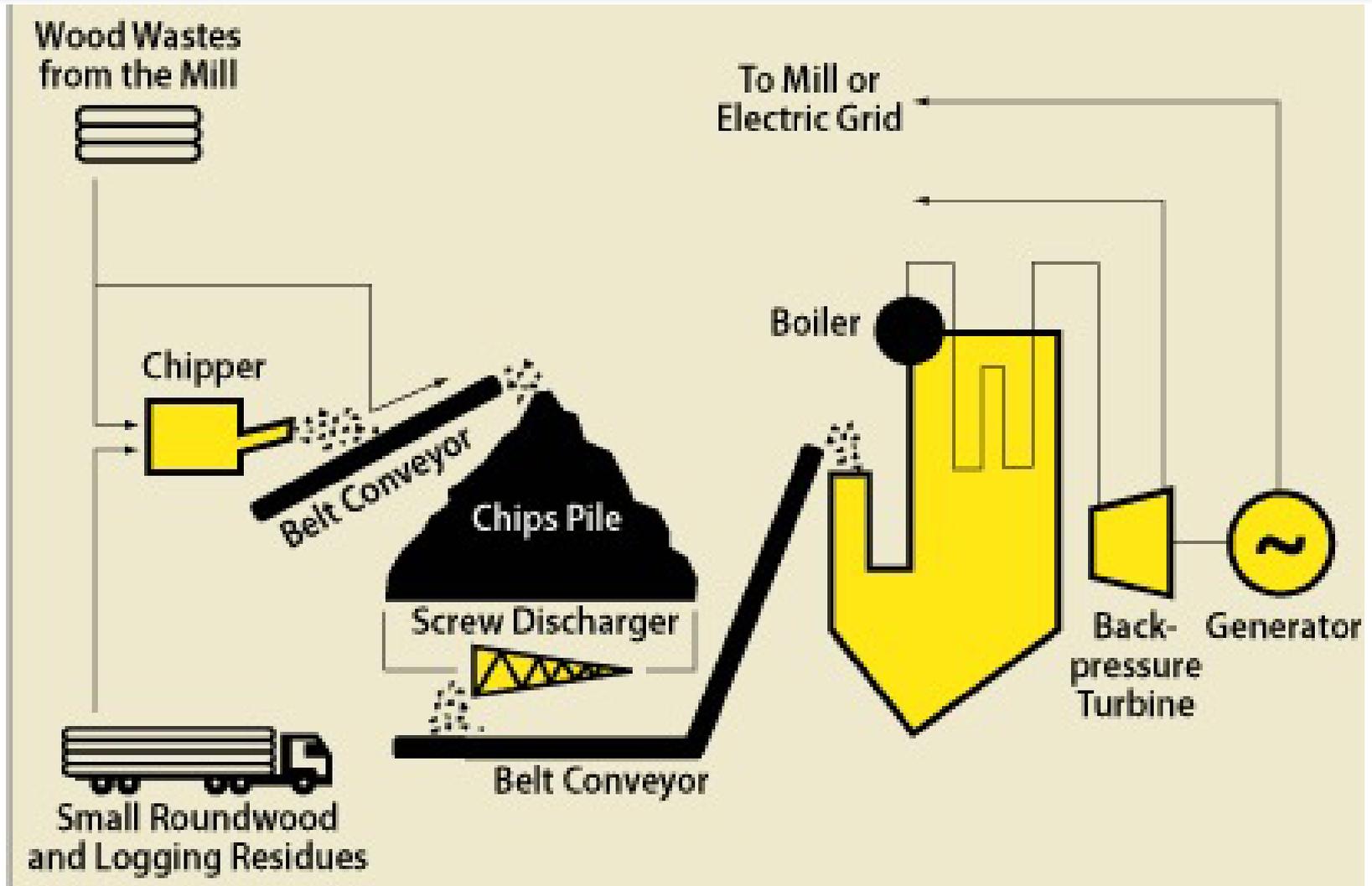
# BOND OPPORTUNITIES

# BOND OPPORTUNITY-RENEWABLE ENERGY

- Solid waste disposal bonds
- “Small issue” manufacturing bonds
- Examples of projects:
  - pellet mills



# BOND OPPORTUNITY-RENEWABLE ENERGY- EXAMPLE: woody biomass-to-electricity project





# BOND OPPORTUNITY- SENIOR LIVING

## Affordable Housing: Sec. 142(d) Bonds

- Example: Development Authority of Cobb County Revenue Bonds (Provident Group - Creekside Properties LLC Project) Series 2014 in an aggregate principal amount not to exceed \$14,500,000 (assisted living and memory care facility)

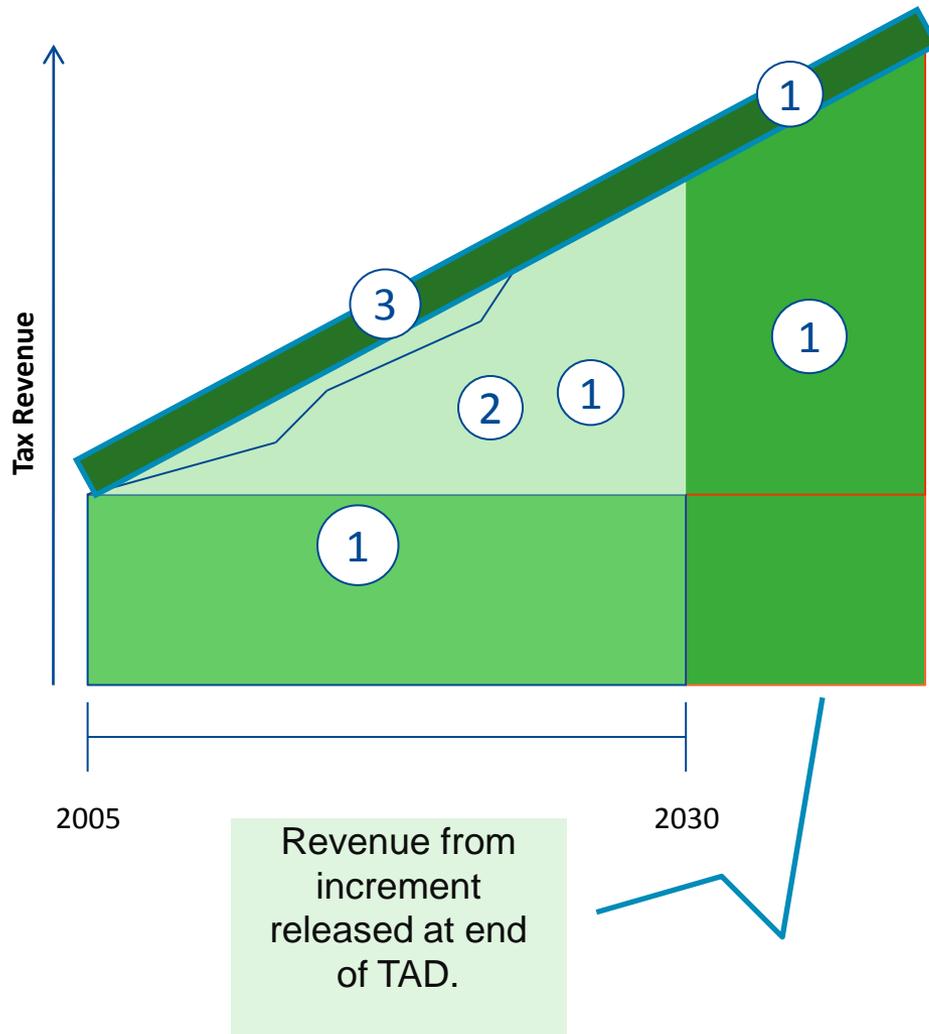


# BOND OPPORTUNITY- HIGHER ED

## Qualified 501(c)(3) bonds

- Example- Development Authority of Cobb County \$43,290,000 of Student Recreation and Activities Center Revenue Bonds (KSU SRAC Real Estate Foundation, LLC Project) Series 2013

# BOND OPPORTUNITY- "MONETIZING" PROPERTY TAXES: BONDS ARE ISSUED. REVENUE NEEDED TO REPAY THEM.



## WHERE THE REVENUE COMES FROM

1. Payments in lieu of taxes. PILOT Bonds can potentially "monetize" equivalent of all taxes on project.
2. Incremental tax revenue. Tax allocation bonds "monetize" the increment (increase) within the TAD.
3. A new layer of additional taxes or assessments. CIDs "monetize" the new revenues within its district.

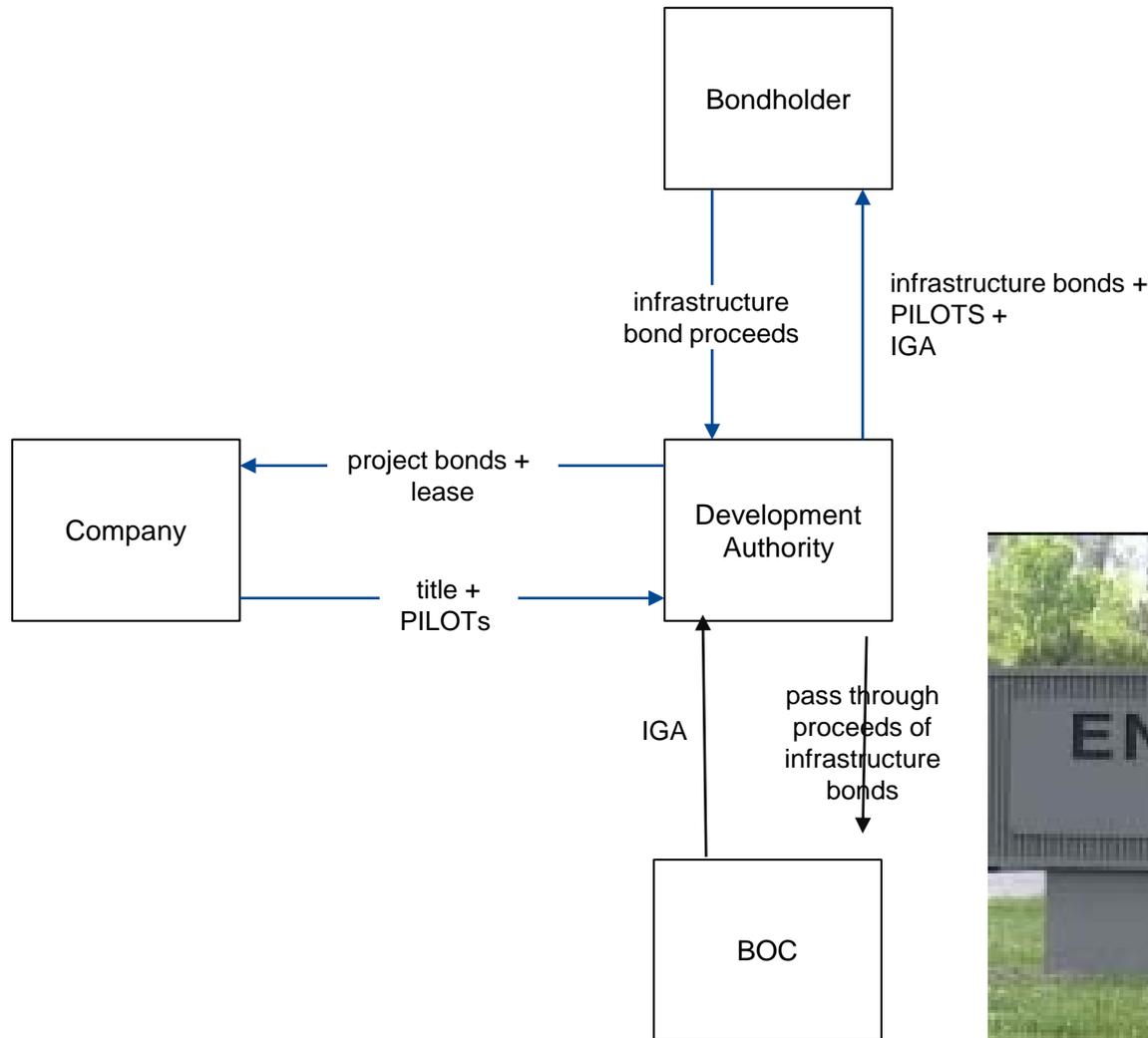
Note- Contract revenue bonds also can "monetize" property taxes, based on all of the tax digest, or on an increment.



# BOND OPPORTUNITY- PILOT BONDS

- REVENUE TO REPAY THE BONDS COMES FROM PAYMENTS IN LIEU OF TAXES (PILOT payments)
  - to the extent normal taxes are not payable
  - In order to use PILOT payments, either the financing must not be subject to the PILOT Restriction Act, or compliance with the Act is required. See O.C.G.A. Sec. 36- 80-16.1
- DON'T CONFUSE WITH "BONDS FOR TITLE"
  - Property taxes aren't monetized when a typical bond-financed sale-leaseback structure is used for property tax savings ("abatement") purposes; i.e., "bonds for title"
  - PILOT Restriction Act doesn't apply

# HOW TO USE PILOT BONDS- Infrastructure Bonds for GEDA “Deal of the Year”





# “NEW SCHOOL” CAPITAL

Source: Balfour Beatty

## IDENTIFY NEW REVENUE STREAMS

- HOUSING, PARKING, RETAIL
- MIXED USE, ECONOMIC DEVELOPMENT

## CREATE NEW TAX OR FEE REVENUE

- HOTEL/MOTEL AND RENTAL CAR TAX
- USER FEES AND SURCHARGES
- TAD/TIF DISTRICTS

## ACCESS ALTERNATIVE FUNDING SOURCES

- GOVERNMENT GRANTS
- EB5, NEW MARKETS TAX CREDITS

## MONETIZE UNDER-UTILIZED ASSETS

- SALE OR LEASE

## OPERATIONAL SAVINGS CAN INCREASE FINANCING CAPACITY

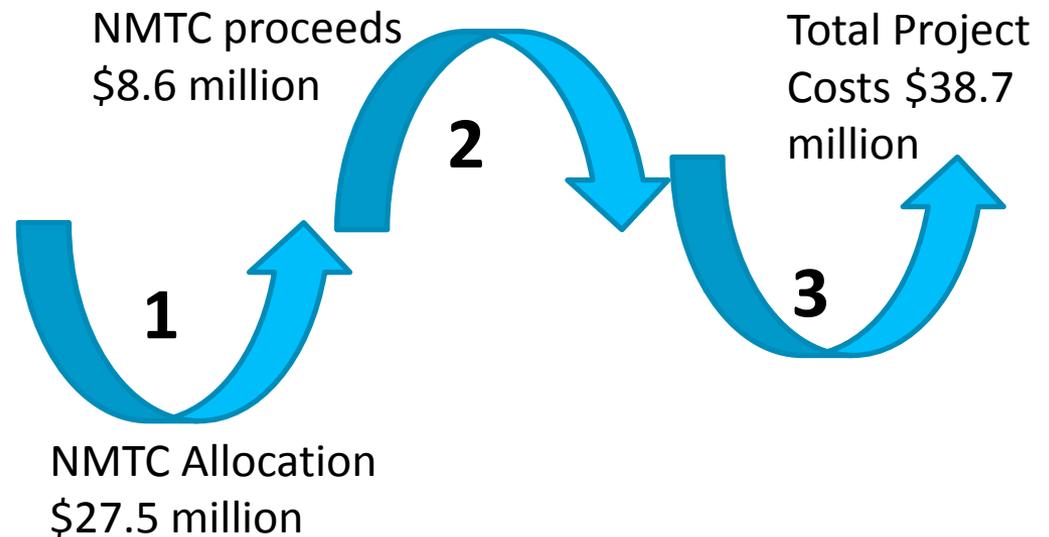
## SOME STRUCTURES NOT SUBJECT TO VOTER REFERENDUMS OR CAPITAL BUDGET ALLOCATIONS

# NMTC

# HOW TO USE NMTC TO GET A “FORGIVABLE LOAN”



Meridian Bioplastics, Inc. (Meridian) is a green technology company that uses byproducts of the timber and agricultural industry to create bioplastics. Meridian utilized NMTC financing to acquire new equipment and expand from their previous facility to a 190,000 square-foot industrial, office and research facility in Bainbridge, Georgia. The continued success and growth of Meridian is vital to the economic health of the city of Bainbridge, and the new facility has brought significant investment into a low-income community in rural Georgia. Source: Meridian

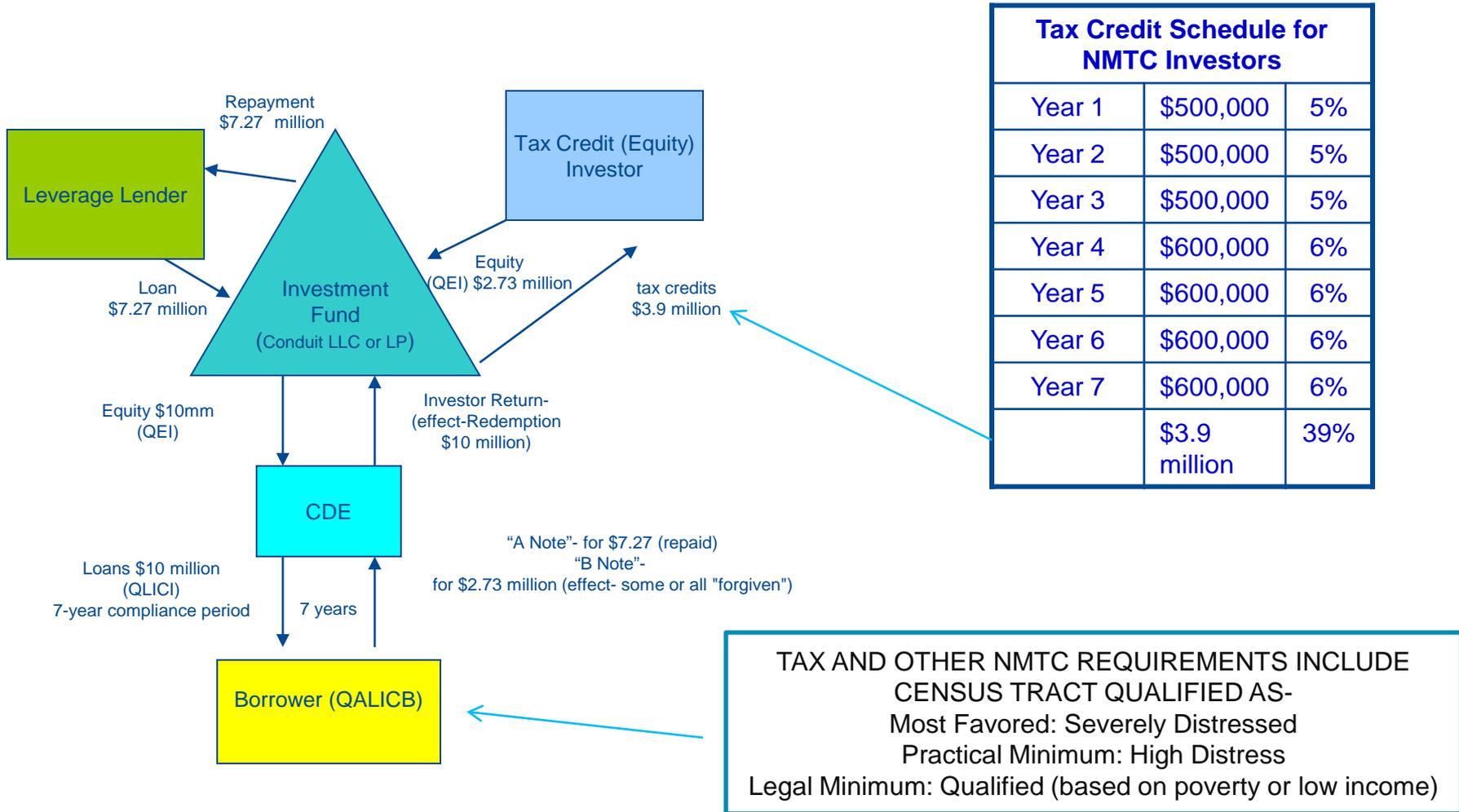


# BASIC RULE

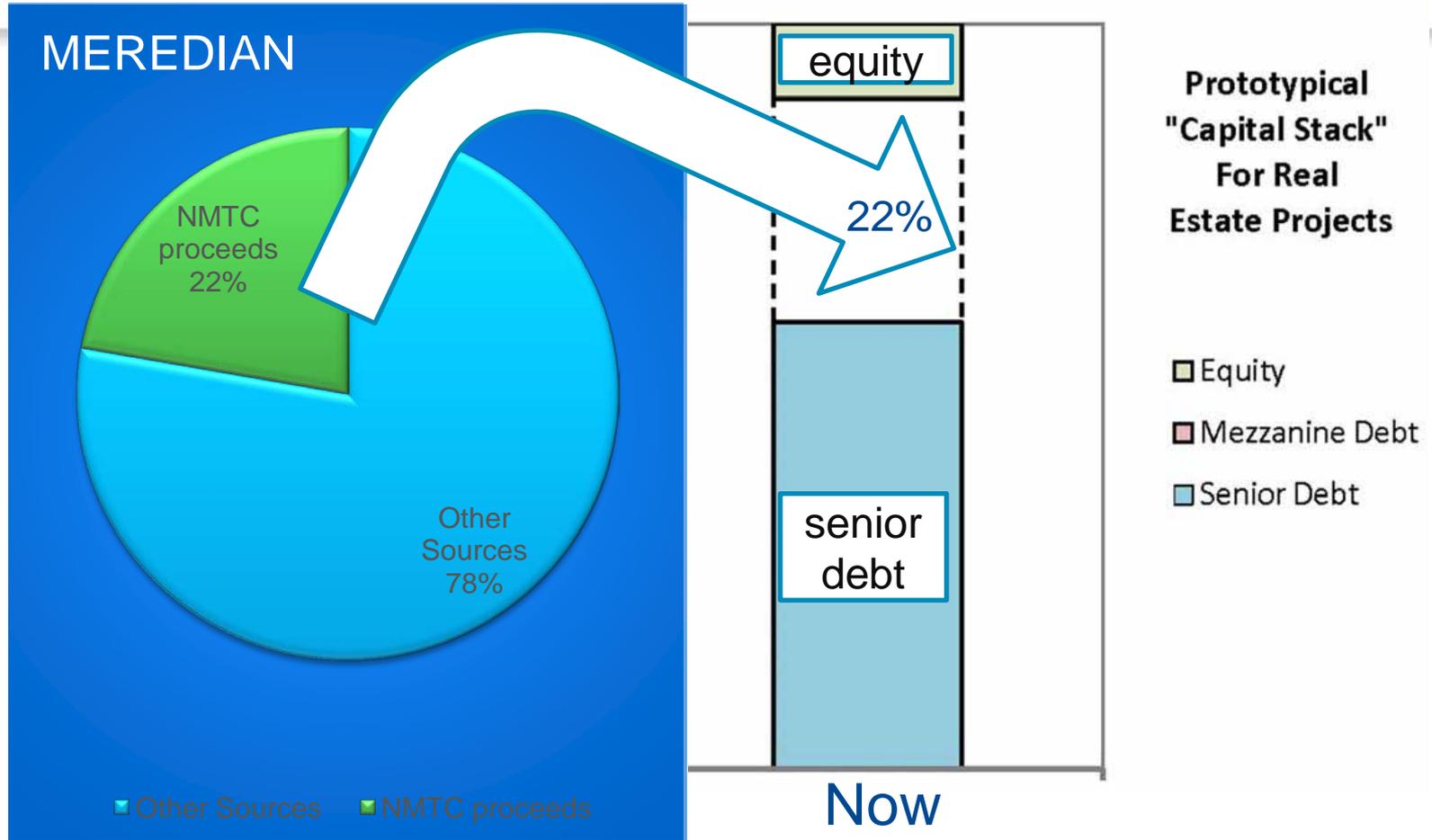
THE PROJECT  
TYPICALLY NETS SUB  
DEBT ("FORGIVABLE  
LOAN") EQUAL TO 20%-  
25% OF THE NMTC  
ALLOCATION



# HOW NMTC SUB DEBT BECOMES TAX CREDIT EQUITY



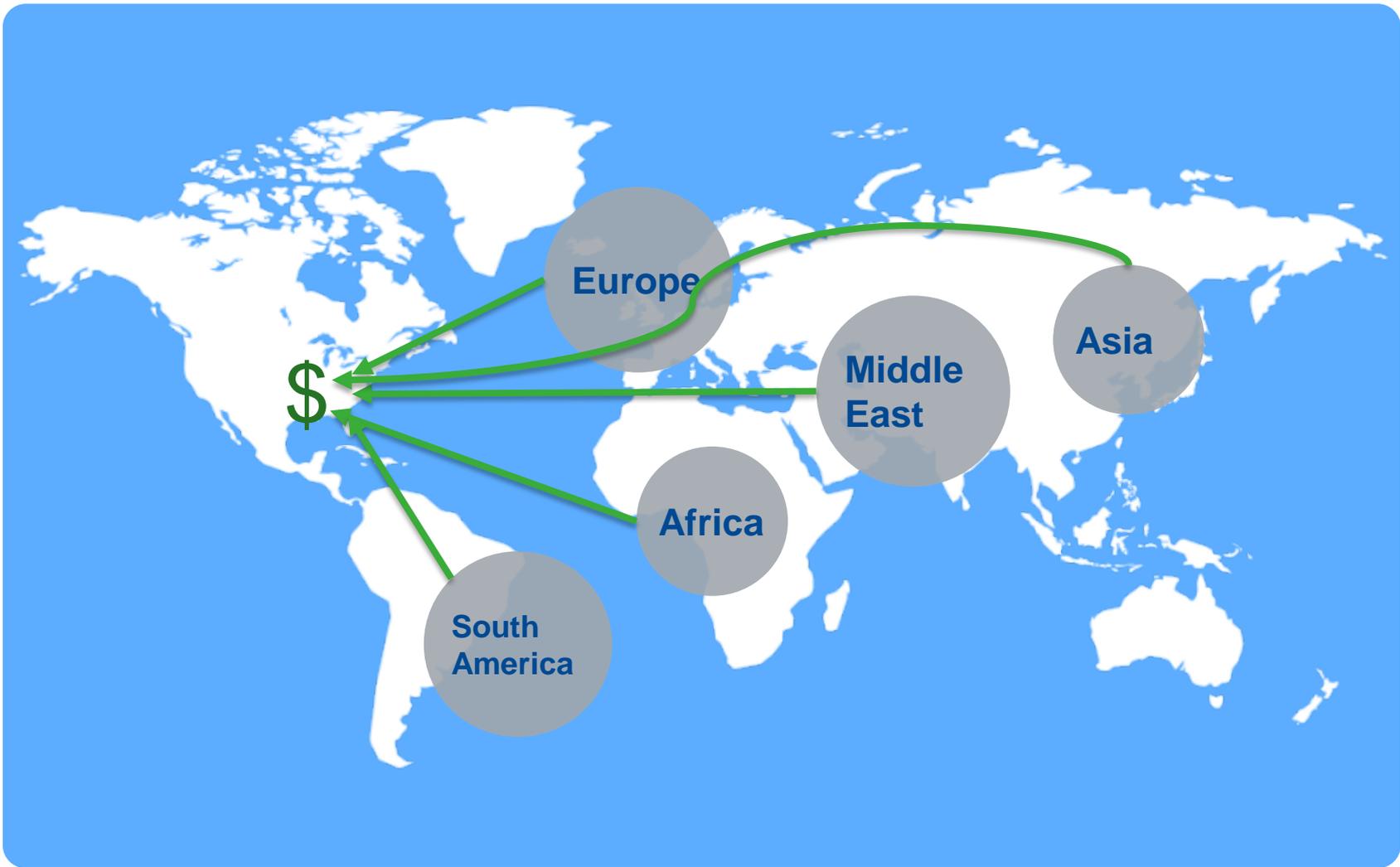
# HOW NMTC FILLED THE GAP



Taken From: Smith, "Closing the Gap"

# EB-5

# EB-5



# BASIC RULE



FOR A \$500,000 INVESTMENT IN A TARGETED EMPLOYMENT AREA THAT CREATES AT LEAST 10 DIRECT OR INDIRECT JOBS, A FOREIGN INVESTOR WILL GET A "GREEN CARD"



## WHY EB-5?

- IT'S NOT THE INTEREST RATE.
- WHEN THE PROJECT BORROWS EB-5 FUNDS, INTEREST RATE EXAMPLES ARE OFTEN IN THE 5%-7% RANGE. NOT SO GREAT, COMPARED TO A PERMANENT LOAN IN THE REAL ESTATE INDUSTRY.



# WHY EB-5?

## HERE'S WHY-

- IT'S NON-BANK CAPITAL. DIFFERENT CREDIT UNDERWRITING. DIFFERENT RULES AND REGULATIONS.
- INTEREST RATES CAN BE LOWER DURING THE CONSTRUCTION PERIOD.
- IT'S OFTEN INTEREST-ONLY THROUGHOUT THE TERM.
- THERE'S "ALL THE MONEY IN THE WORLD" AVAILABLE.
- THE EB-5 LOAN IS OFTEN SUBORDINATED.
  - BECAUSE IT'S JUNIOR TO THE SENIOR DEBT, THE SENIOR LENDER IS MORE WILLING TO MAKE THE SENIOR LOAN.



# EB-5 PRIORITIES

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**Investor's priorities (in this order)-**

- 1. ultimate return of capital**
- 2. obtain “green card” (permanent resident visa)**
- 3. get small return (maybe)**



# THE REGIONAL CENTER IS THE CONDUIT

- REGIONAL CENTER (RC)
- EB-5 investment can be made by an investor on a stand-alone basis, or through a USCIS-designated Regional Center (RC)
- RCs are the norm
- Each investor's investment must create at least 10 jobs (direct and indirect)
  - If the investment is stand-alone, indirect jobs are not counted
  - RCs use an economic model to calculate and substantiate job creation
    - Models that are used are subject to USCIS approval



# HOW IT WORKS

- Regional Center will have a business model
  - loan model
  - equity model
  - hybrid model
  - “lease” model
  - proprietary model
- Loan model
  - Yield on EB-5 investment is below domestic market if structured as senior debt or sub debt
- Equity model
  - Return on EB-5 investment follows private equity model if structured as equity
- Horizon for EB-5 investment is generally 5 years
  - need to plan for liquidity event
- EB-5 funding can be used to leverage NMTC funding



# QUALIFY THE PROJECT

- Per investor requirement is \$1 million, unless project is located in a Targeted Employment Area (“TEA”)
  - Within TEA, allows minimum of \$500,000 per investor
  - EB-5 market consistent – investors only willing to invest \$500,000 each
  - So EB-5 funding really available just within TEAs
- TRENDS-
  - larger minimum investment
  - longer investment horizon
  - attractive projects more financeable even if outside TEA
    - means \$1 million/investor minimum



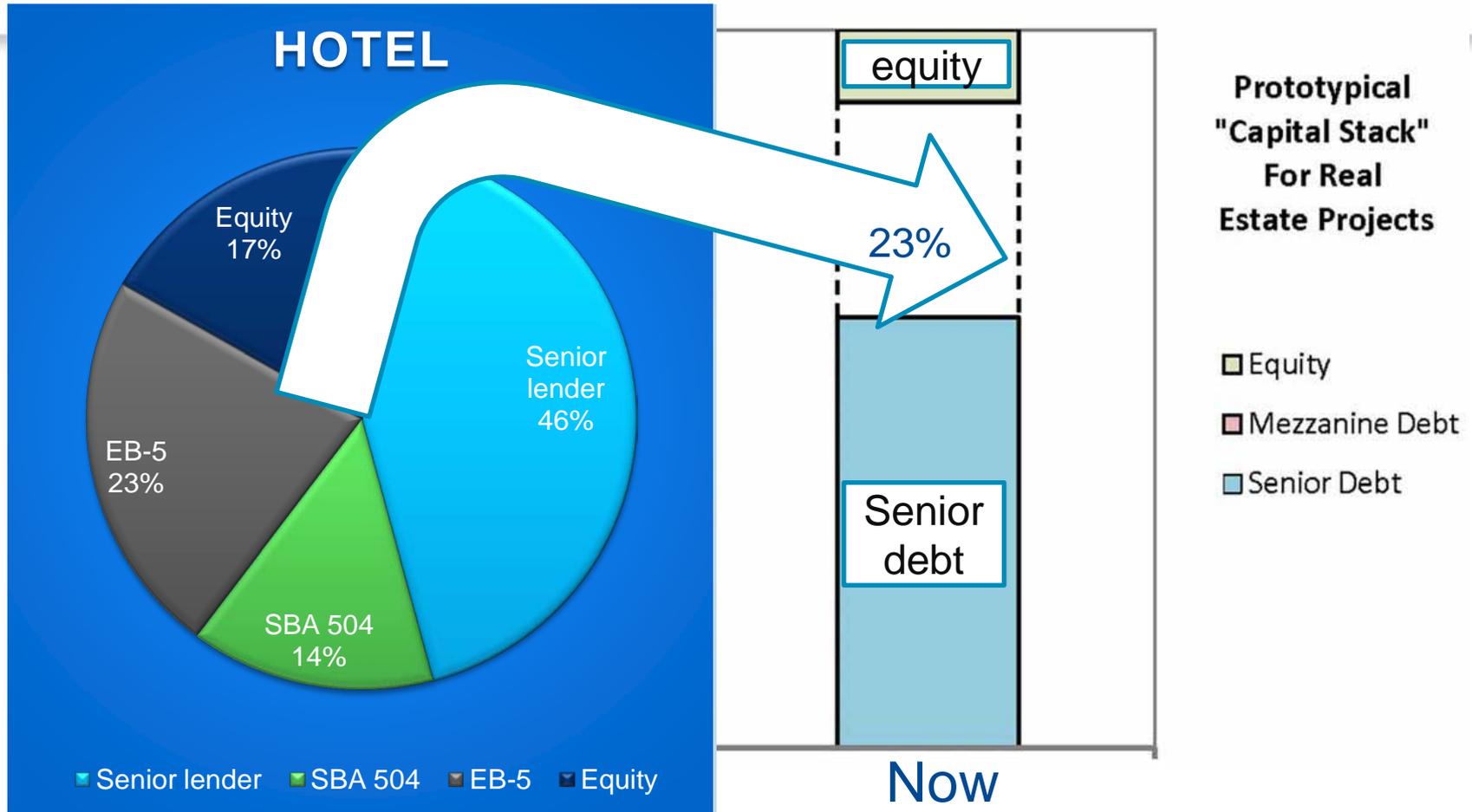
# TARGETED EMPLOYMENT AREA (TEA)

- TEA
- A Rural Area
  - outside an MSA, and
  - city or town with population under 20,000, or
  - unincorporated county
- OR
- An area of high unemployment (areas with unemployment rates at least 150% of the national rate)
  - The state may designate a particular geographic or political subdivision located within a metropolitan statistical area or within a city or town having a population of 20,000 or more within such state as an area of high unemployment (at least 150 percent of the national average rate)

# HOW TO USE EB-5 IMMIGRANT INVESTOR FUNDING: Conference Center Hotel Project

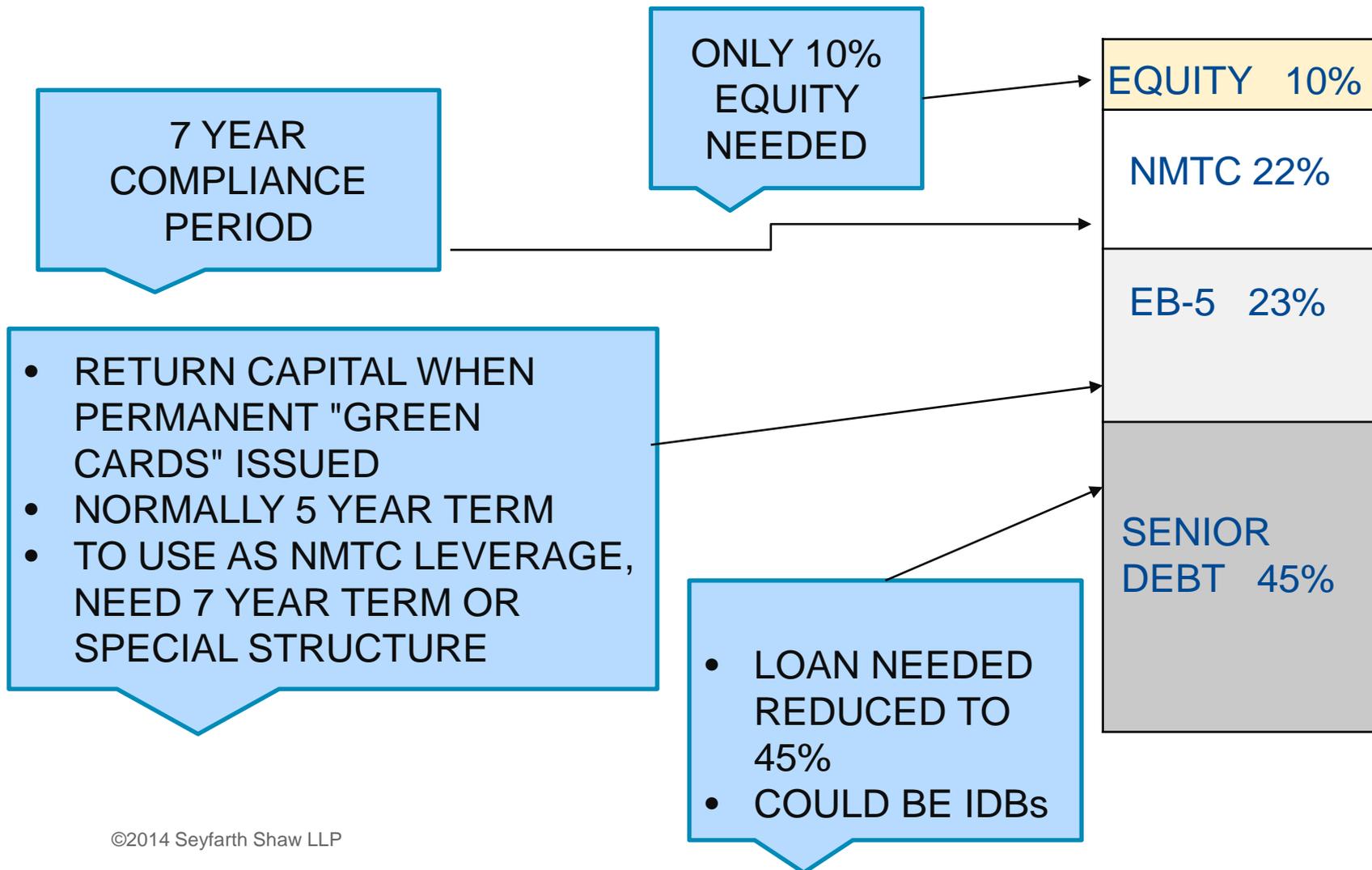


# HOW EB-5 FILLED THE GAP



Taken From: Smith, "Closing the Gap"

# BRINGING IT ALL TOGETHER- EXAMPLE OF 3D CAPITAL STACK



# CONCLUSION



# WHAT IT ALL MEANS

- HOW TO FINANCE THE PROJECT?
- INDUSTRIAL DEVELOPMENT REVENUE BONDS USED TO BE THE ANSWER
- NOW, THERE IS NO ONE ANSWER
- BUT WHEN ONE DOOR CLOSES...
  - OTHER DOORS OPEN
- GOOD LUCK WITH ALL YOUR NEW FINANCING OPPORTUNITIES!

# MORE INFORMATION



# QUESTIONS?

If you have any questions or comments on this presentation, please do not hesitate to let me know.

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# REFERENCES

THIS PRESENTATION AND OTHER REFERENCES CAN BE DOWNLOADED AS FOLLOWS:

November 2013- P3 for D-B: “How the Public Sector and Design-Builders Can Survive and Thrive in the P3 World”

August 2013- “P3- Understanding Public/Private Partnerships”

May 2013- “P3- Public/Private Partnerships Done Right”

November 2012- “In-Sourcing Capital: EB-5 Loans and Equity; NMTC Tax Credit Equity; and Non-Recourse Project Finance Bonds”

August 2012- “Bonds 101”

June 2011- “TIFs and TADs in Tough Times”; TIFs and TADs Questions and Answers

January 2011 - “Introduction to Tax-Exempt Bonds”

August 2010 – “Bonds For Title”

at <http://danmcrae.info/whitepapers>

February 2013 – Quick Takes: “Projects – Money Comes Knocking”

June 2011 – Quick Takes: “Easy Equity – the NMTC and EB-5 Programs”

January 2011 – Quick Takes: “After ARRA – What Bonds Can We Use Now to Finance Projects?”

at <http://danmcrae.info/quicktakes>



# ADVICE

This presentation is a quick-reference guide for elected and appointed officials and their staffs, company executives and managers, economic developers, participants in the real estate and financial industries, and their advisors. The information in this presentation is general in nature. Various points which could be important in a particular case have been condensed or omitted in the interest of readability. Specific professional advice should be obtained before this information is applied to any particular case. Any tax information or written tax advice contained herein is not intended to be and cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer. (The foregoing legend has been affixed pursuant to U.S. Treasury Regulations governing tax practice.)