Opening The Toolbox

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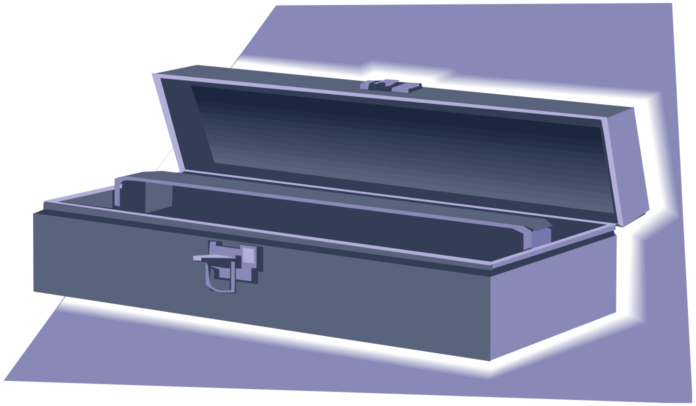
Developers and expanding businesses are searching for resources that look like equity

There are many State, Local and other incentives that can fill that gap

We see this as the Municipal Toolbox – Let's talk about what tools you actually have available



Hypothetical #1

- Hospitality project
- Multi Use Restaurant, Banquet Hall etc.
- Estimated Budget $8 million
- Start-up company - $500,000 equity but need working capital of $350,000
- New construction and rehab of older buildings to create single complex
- Site has some environmental issues

What do we have in the Toolbox?

Conventional Bank Loan?

How might a Conventional Lender look at a Banquet Hall?

- Banks are in highly regulated industry: they need to be repaid on loans and for their risk are often compensated with very low interest spreads.
- While a bank might be willing to lend 75%, 80% or even rarely 85% on a commercial mortgage loan, "Special Purpose" real estate projects such as a Banquet Hall often have lower LTV limits.
- How much "skin-in-the-game" does the Developer have? In Hypothetical#1, not much.
- Start-up Businesses are challenging. Does the operator have experience?
- Borrower wants 20 year amortization and bank policy, in this instance, might only be 15 year amortization or faster.

Local TIF?

- Local tax credit instrument
- Taxing authority issue credit
- Equity?
    - Up Front Cash
    - PayGo TIF

WEDC?

- Jobs
- Tax Credits
- Loan
- Guaranty
- Location & Purpose

PACE?

- Eligible funding for environmental improvements
- Equity?
- Repaid on Borrower's tax bill
- Unsecured (except as to taxes)

County?

- Revolving Loan Fund
- Micro Lending for gaps

Tax-Exempt Bonds?

What are Private Activity Bonds?

Private activity bonds (conduit bonds) are a type of municipal bond where the proceeds are used by a private entity rather than a governmental entity.

- **Industrial Revenue Bonds (IRBs)** are issued for the benefit of manufacturing companies.
- **Qualified 501(c)(3) Bonds** are used by not-for-profit corporations.
- **Exempt Facility Bonds** are issued for private entities engaged in various quasi-governmental purposes, including:
  - Airports, docks and other transportation related facilities
  - Water, sewer and certain other local utilities
  - Solid waste and hazardous waste disposal facilities
  - Residential rental projects (multi-family housing)
  - Enterprise zone facilities
- **Other**
  - Qualified redevelopment bonds
  - Qualified mortgage bonds (single family, veterans)
  - Student loan bonds

Why Would Bank Offer a Bond?

No cost to bank
Tax Exempt Multiplier discounts rate because interest is exempt from Federal income taxes

Defense – other banks will offer

Customer's annual interest savings:

***$9,000-$11,000/million of par**

***Appreciating future value as rates rise**

Significant savings to customer

Offense – can compete for new customers

Assumptions

- Par Amount of Tax-Exempt Bond = $4 Million
- Maturity Date = 20 Years
- Payments = Quarterly payments of interest and annual principal payments of $200,000
- Interest Rate = Variable interest rate (based on 5-year LIBOR) as illustrated below:

YEAR	TAX-EXEMPT RATE (83% of Conventional Rate)	CONVENTIONAL RATE	IMPROVEMENT IN RATE
Years 1 through 5	4.56%	5.50%	.94%
Years 6 through 10	6.47%	7.80%	1.33%
Years 11 through 15	7.55%	9.10%	1.55%
Years 16 through 20	8.46%	10.20%	1.74%

Savings Comparison

INTEREST PAID	TAX-EXEMPT BONDS	CONVENTIONAL LOAN
Years 1 through 5	$ 820,300	$ 989,397
Years 6 through 10	$ 841,596	$1,014,598
Years 11 through 15	$ 604,662	$ 728,798
Years 16 through 20	$ 253,893	$ 306,112
Total Interest	$2,520,451	$3,038,905

Interest Savings on $4 million Tax-Exempt Bond = $518,454

New Market Tax Credits?

What are New Market Tax Credits

New Markets Tax Credits (NMTC) are credits against federal income taxes based on the amount of equity invested in a qualifying business located in a low-income area.

NMTC were created in order to assist in attracting capital to areas that are typically underserved in capital investment in businesses.

Numerous qualifications and exceptions

SBA 504?

- Fixed asset financing
- As little as 10% down
- 20 yr. fixed (currently < 4.0%)

Possible Solutions

Solution #1

• Bank 504	3.7M
• WBD 504	1.9M
• TIF	1.0M*
• PACE	600K*
• WEDC	250K
• County	250K*
• Cash Equity	500K*

Hypothetical #2

- Manufacturing Facility – Food industry
- Estimated Budget $8 million
- Established company - $750,000 equity
- New construction (will sell existing facility)
- Site has some environmental issues

Once again, what do we have in the Toolbox?

Possible Solutions

Look at the same Tools as before:

- Conventional bank loan ✓
- Local TIF ✓
- WEDC ✓
- County ✓
- Tax Exempt Bonds ✓
- New Market Tax Credits *[probably too small]*
- SBA 504? ✓
- WHEDA ✓
- PACE ✓

Hypothetical #3

- Manufacturing Facility – Food industry
- Located in Rural Wisconsin
- Company wanted to add Capacity and Cold Storage
- Estimated Project Budget $39 million
- Established company - $9.5 million total equity contributed
- New construction (will sell existing facility)
- Existing building had an IRB that needed to be addressed

Again, look at the same Tools as before:

- Conventional bank loan ✓
- Local TIF ✓
- WEDC ✓
- County ✓
- Tax Exempt Bonds ✓
- New Market Tax Credits ✓
- SBA 504? ✓
- WHEDA ✓
- PACE ✓

How the Deal Came Together…

- Advisor to Company determined that New Market Tax Credits helped deliver the “equity” the company needed for its big plans
- Incumbent Bank was uncomfortable with NMTC in the plan of finance and did not have an allocation to be NMTC Investor
- New Bank (PNC), was willing to be both a NMTC investor and was comfortable being a secured lender in a NMTC structure
- New Bank assumed the IRB (initial back-to-back LC)
- Two other NMTC investors were sourced
- WHEDA did $2MM 2nd Mortgage loan
- Existing Building was Contributed as Equity to total Project

Sources & Uses ($000s) *Scenario #3*

Sources	Amount	
$5MM Revolver	0	OpCo
Bank IRB (assumption)	3,350	OpCo
Bank Term Loan to OpCo	9,650	OpCo
Bank Real Estate Loan	8,400	SPE
WHEDA Real Estate Loan	2,000	SPE
Tax Credit “Equity”	6,200	SPE
Cash /Equity	9,450	Opco/SPE
Total:	**$39,050**	

Uses	Amount
Cash	0
Payoff IRB Bank (Return LC)	3,350
New Facility Construction	34,500
Fees and Expenses	1,200
Total:	**$39,050**

Q & A