Opening The Toolbox

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Best Practices Conference

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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?

- **Offense – can compete for new customers**
- **Defense – other banks will offer**
- **Significant savings to customer**
  - Customer’s annual interest savings: *$9,000-$11,000/million of par*
  - *Appreciating future value as rates rise*

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

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TAX-EXEMPT RATE (83% of Conventional Rate)</th>
<th>CONVENTIONAL RATE</th>
<th>IMPROVEMENT IN RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years 1 through 5</td>
<td>4.56%</td>
<td>5.50%</td>
<td>.94%</td>
</tr>
<tr>
<td>Years 6 through 10</td>
<td>6.47%</td>
<td>7.80%</td>
<td>1.33%</td>
</tr>
<tr>
<td>Years 11 through 15</td>
<td>7.55%</td>
<td>9.10%</td>
<td>1.55%</td>
</tr>
<tr>
<td>Years 16 through 20</td>
<td>8.46%</td>
<td>10.20%</td>
<td>1.74%</td>
</tr>
</tbody>
</table>
# Savings Comparison

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

**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 \textit{[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 2\textsuperscript{nd} Mortgage loan
- Existing Building was Contributed as Equity to total Project
## Sources & Uses ($000s) Scenario #3

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
<th>Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5MM Revolver</td>
<td>0</td>
<td>OpCo</td>
<td>0</td>
</tr>
<tr>
<td>Bank IRB (assumption)</td>
<td>3,350</td>
<td>OpCo</td>
<td>3,350</td>
</tr>
<tr>
<td>Bank Term Loan to OpCo</td>
<td>9,650</td>
<td>OpCo</td>
<td>34,500</td>
</tr>
<tr>
<td>Bank Real Estate Loan</td>
<td>8,400</td>
<td>SPE</td>
<td>1,200</td>
</tr>
<tr>
<td>WHEDA Real Estate Loan</td>
<td>2,000</td>
<td>SPE</td>
<td></td>
</tr>
<tr>
<td>Tax Credit “Equity”</td>
<td>6,200</td>
<td>SPE</td>
<td></td>
</tr>
<tr>
<td>Cash /Equity</td>
<td>9,450</td>
<td>Opco/SPE</td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$39,050</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0</td>
</tr>
<tr>
<td>Payoff IRB Bank (Return LC)</td>
<td>3,350</td>
</tr>
<tr>
<td>New Facility Construction</td>
<td>34,500</td>
</tr>
<tr>
<td>Fees and Expenses</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$39,050</strong></td>
</tr>
</tbody>
</table>