ACEC Indiana

Environmental Business & Funding Sources Conference

ARRA Build America Bonds – Time to Refinance?

-and-

Use of TIF's

September 15, 2016

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Discussion Roadmap

I. History of ARRA Funding
II. BAB Basics
III. Refunding Opportunities
IV. What is TIF
V. Uses for Environmental Projects
VI. Questions

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History of ARRA Funding

- AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009
  - $787 billion in appropriations and tax credits
  - Generally divided into Appropriation Provisions and Tax (Bond) Provisions
  - Tax (Bond) Provisions
    - Made bonds more marketable during 2009 and 2010
    - Created new bond programs to promote capital projects
    - Expanded the eligible use of private activity bonds

BUILD AMERICA BONDS (BABs)

- Taxable interest rate for federal tax purposes (but must follow tax-exempt rules)

- Projects constructed for governmental or public purposes (infrastructure, government buildings, etc.)

- Debt service paid from property tax levy, local option income taxes, utility revenues, TIF, etc.

- Existing state statutes authorizing procedures for issuance

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BUILD AMERICA BONDS (cont.)

- Direct Pay BAB
  - Issuer receives a subsidy from IRS
    = **35% of interest paid**
  - Payment by **U.S. Treasury** directly to Issuer
    (generally on interest payment date)
  - Fiscal officer or trustee must timely file IRS Form 8038-CP
    - Preparer is confirming that bonds still qualify as Direct Pay BABs each time form is filed

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BUILD AMERICA BONDS (cont.)

- <u>Direct Pay BAB (cont)</u>
  - Due date for filing on fixed rate bonds is the 45^{th} day before each interest payment date
  - Available for capital projects only (no refundings or warrants)
  - Issuance costs payable from bonds limited to 2%
  - Only De Minimis Premium permitted

BUILD AMERICA BONDS (cont.)

- Tax Credit BAB
  - Bond purchaser receives tax credit = 35% of taxable interest received
  - Applies to taxable year of interest payment; may be carried forward
  - Credit itself counts as taxable income
  - Can use proceeds to refund previous bond and for any other governmental purpose

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BABs Nationwide

- Program expired on December 31, 2010
- At that time…
  - – BABs had been issued in all 50 states
  - – 2,275 different bond issues
  - – Par amount of $181,256,000,000
  - – In December 2010, BABs constituted nearly 50% of all municipal issuance

U.S. Treasury Department
Treasury Analysis of Build America Bonds and Savings
May 16, 2011

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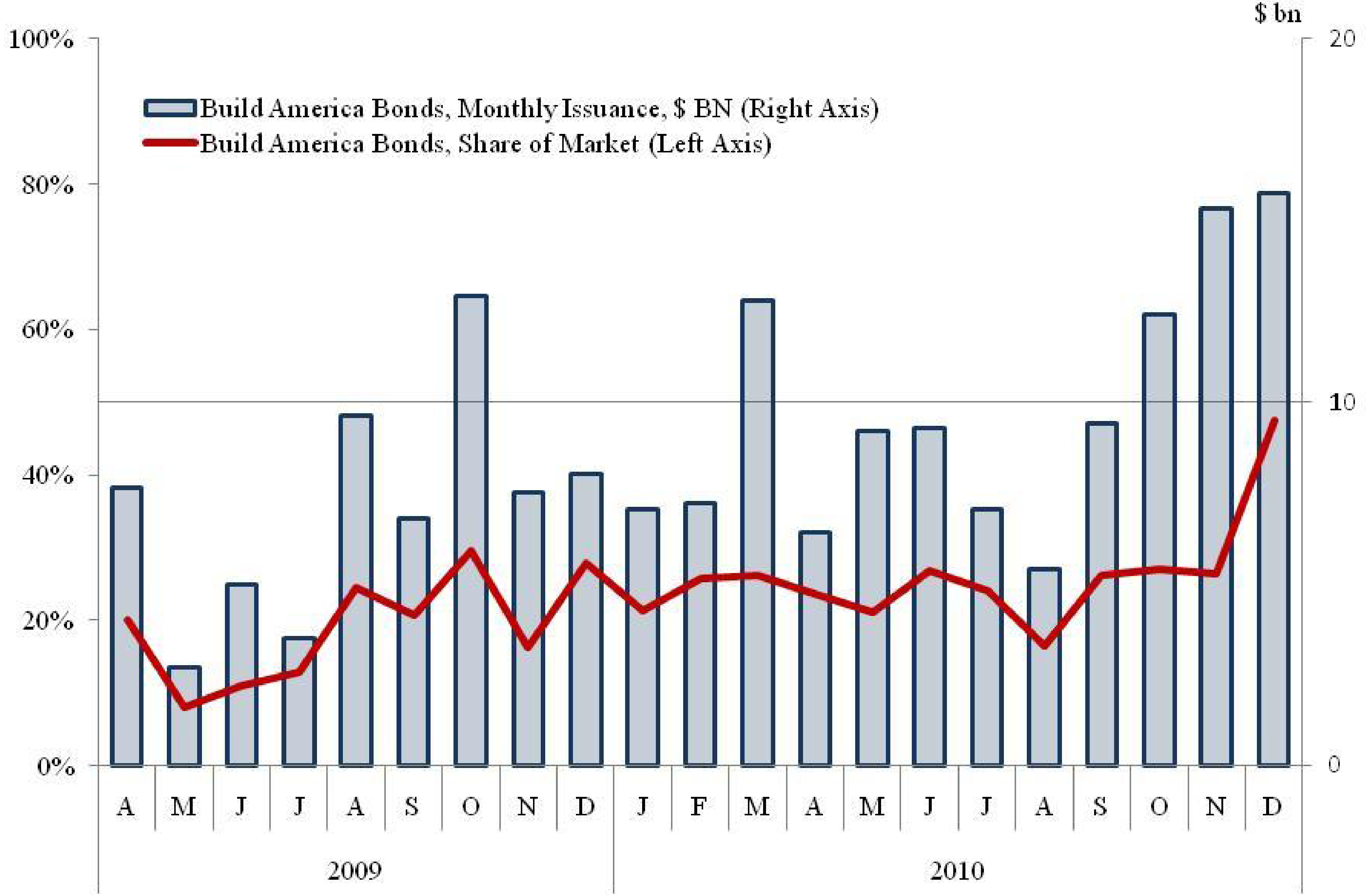

Source: Data are from Bloomberg

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BABs in Indiana

- 38 different bond issues
- Par amount of $2,072,000,000
- Breakdown of Projects
  - School Improvements 15
  - Higher Education 10
  - Sewer 4
  - Public 4
  - Recreational Facility 2
  - Health and Hospital 2
  - Electric 1

Highland 8/5/2009
Highland 9/14/2010
Jeffersonville 11/10/2010
Evansville 11/6/2010

U.S. Treasury Department
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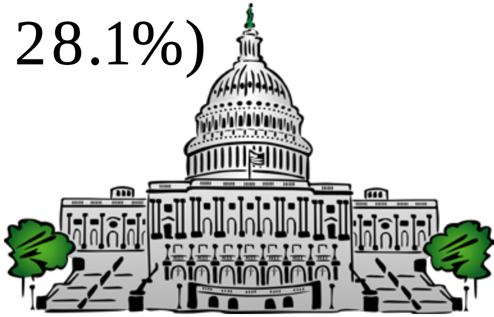
Where did the subsidy go?

- Program started with a 35% rebate from IRS on interest due
- Then we learned the word Sequestration…
  - FY 2013 **reduction** in rebate **8.7%** (net 26.3%)
  - FY 2014 **reduction** in rebate **7.2%** (net 27.8%)
  - FY 2015 **reduction** in rebate **7.3%** (net 27.7%)
  - FY 2016 **reduction** in rebate **6.8%** (net 28.2%)
  - FY 2017 **reduction** in rebate **6.9%** (net 28.1%)



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Now what do we do?

- Find another revenue source
  - Planned buffer (absorb the loss)
  - Utility rate increase
  - Other taxes or revenues
  - Budget cuts in other areas
- Refinance?

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BAB Refinancing

- The ability to refinance BABs depends on the specific language authorizing the original issue
  - Extraordinary Optional Redemption
  - Option Redemption
  - Would likely lose subsidy payments from defeasance date to redemption date

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Extraordinary Optional Redemption

- If for any reason, on or prior to January 1, 2020 (other than because of an action taken by the City), the City is held by the Internal Revenue Service to be ineligible to receive the Build America Bond Subsidy Payments from the U.S. Treasury with respect to the Series 2010 B Bonds, the City may (but is not obligated to) redeem any or all of the Series 2010 B Bonds in whole or in part, at its option, on any date…

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Extraordinary Optional Redemption

- …at a redemption price equal to the greater of: (1) 100% of the principal amount of the Series 2010 B Bonds to be redeemed, or (2) the sum of the present value of the remaining scheduled payments of principal and interest to January 1, 2020 of the Series 2010 B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 B Bonds are to be redeemed, discounted to the date on which the Series 2010 B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as hereinafter defined), plus one hundred (100) basis points, plus, in each case, accrued and unpaid interest on the Series 2010 B Bonds to be redeemed to the redemption date. No premium can exceed ten percent (10%) of the principal amount of the Series 2010 B Bonds being redeemed

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Optional Redemption

- Similar to traditional tax-exempt bonds
  - The Series 2009 A Bonds are redeemable prior to maturity at the option of the Building Corporation in whole or in part in any order of maturity as determined by the Building Corporation and pro rata within maturities, on any date not earlier than July 15, 2019 at face value plus accrued interest to the date fixed for redemption and without any redemption premium.
- Usually occurs after 8 to 10 years
- Beginning of window is approaching

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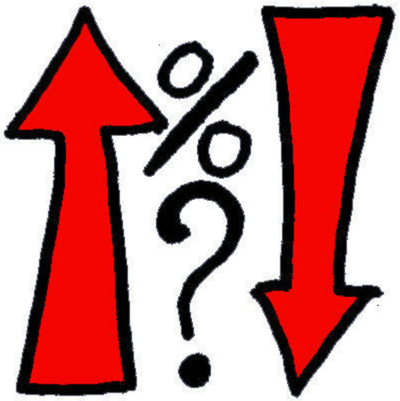
So should we refinance the BABs?

- It depends…
  - Is there an **Extraordinary Optiona** **Redemption** provision?
    - If so, it will depend on the economics
    - Some have been successfully done at a savings
  - Is there an **Optional Redemption** provision?
    - If so, the window to investigate that opportunity is now cracked. Depending on interest rate movement it may become an economically viable transaction in the coming months



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What is TIF?

Tax increment financing (or "TIF") is a tool which **captures new assessed value** and property taxes from new development in a **designated area**.

- Captures increases in real property taxes and, at times, depreciable personal property taxes.
- Usually captures only commercial and industrial property.

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Purpose of TIF

- To finance **INCENTIVES** or **INFRASTRUCTURE** needed **to induce private investment**
- To encourage orderly economic growth in targeted areas
- To redevelop blighted areas

Note: New businesses in a TIF Area still pay property taxes on their new private investment. The incremental taxes are captured for projects. The other taxing units forgo the increase in assessed value during the term of the TIF Area

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Purpose of TIF

BENEFITS

- Finances incentives and infrastructure needed to induce private investment and economic growth
- Encourages orderly economic growth in targeted areas
- Redevelops aging and deteriorating areas
- No additional tax levy
- Avoid referenda process
- Extremely flexible uses; can be used with other revenues
- *Future:* Results in growth in the property tax base
- *Immediate:* Stimulates the local economy through job creation, increased income and spending; uncaptured personal property, surplus pass-through

COSTS

- (*During the term of the TIF Area, if no excess pass-through)*

  Other taxing units forego the increase in assessed value and forego increases in revenue on rate-controlled funds and circuit breaker reductions; may delay tax reduction for individual taxpayers
- TIF bonds require extra security, credit enhancement, higher financing costs

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Uses of TIF

- Utility improvements
- Roads and Rail
- Land acquisition / site development
- Buildings / equipment
- Educational programs

- How is TIF used to fund these projects?
  - Pay-as-you-go
  - Short or Long-term Bonds

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TIF Calculation

- An "allocation area" is established and the base date is the prior March 1

- Existing (Base) assessed value cannot be captured

- INCREASES in assessed value over the base value become incremental assessed value

Current NAV – Base NAV = Incremental AV

Incremental AV x Tax Rate = TIF

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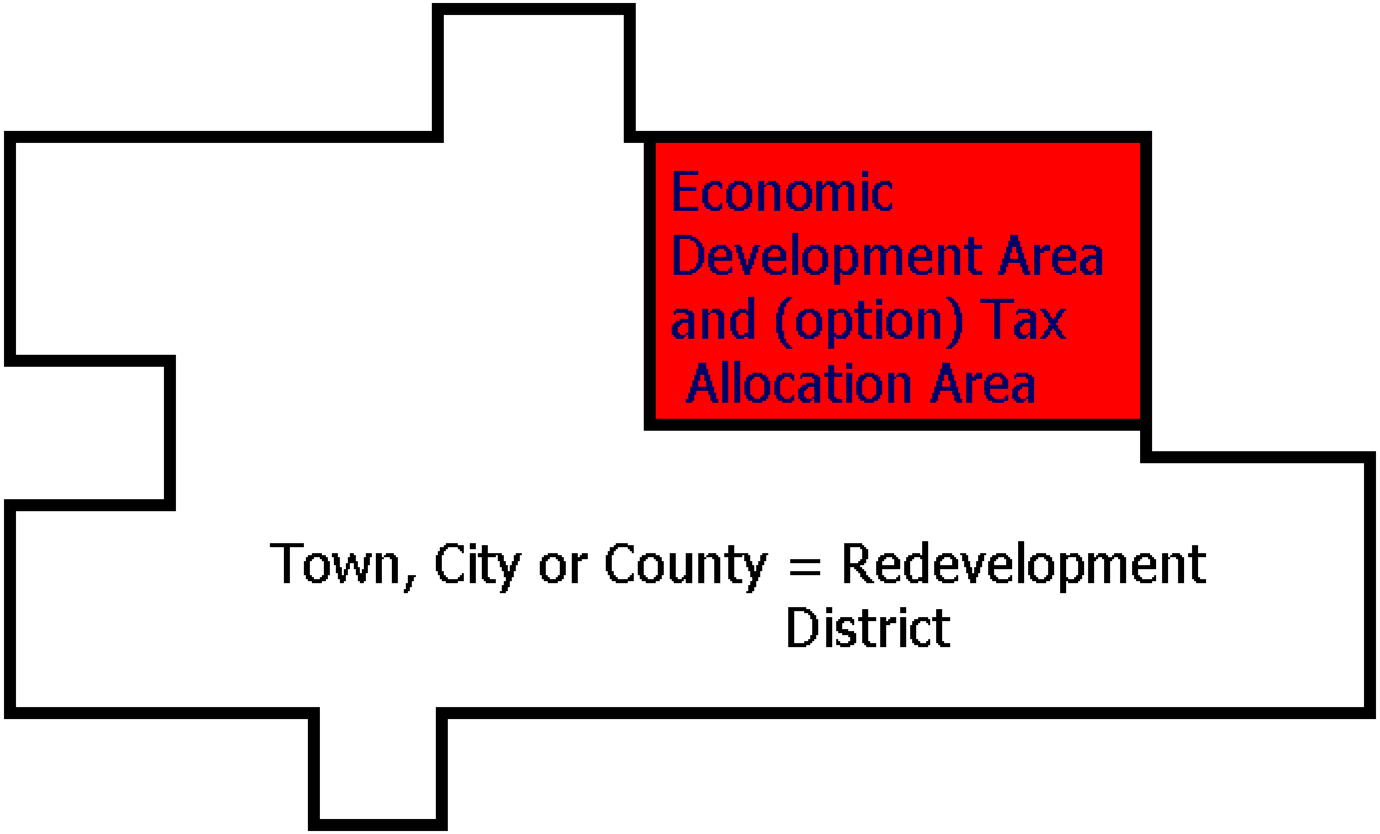
Tax Increment Financing (TIF) Area



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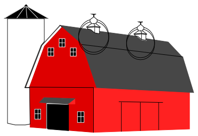
Existing property assessed value is part of tax base for all overlapping taxing units



Tax Allocation Area –
<u>Before</u> New Construction

					- County
Base		**Tax**			- School
NAV	**x**	**Rate**	**=**	**Taxes**	- Library
					- City

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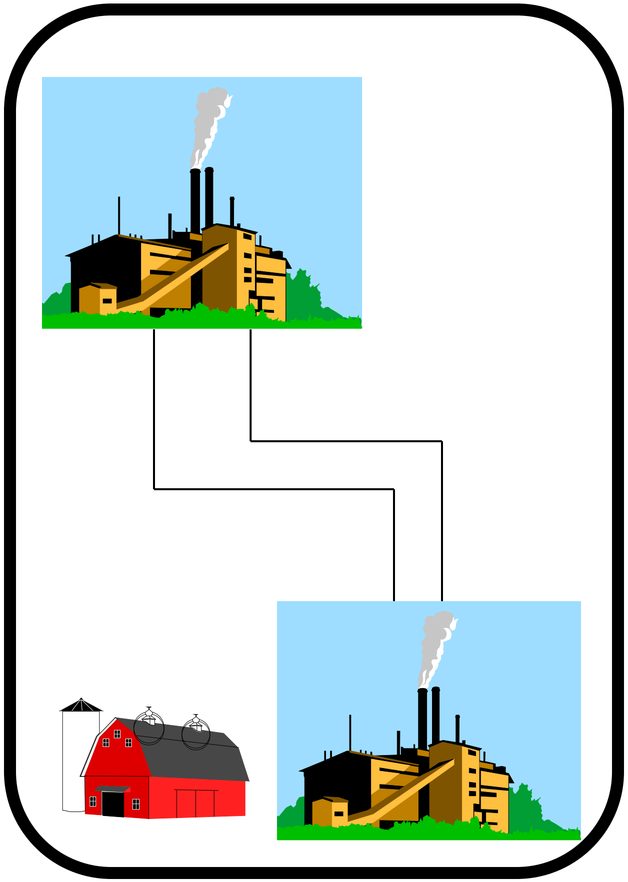
TIF: <u>Capture</u> real and *(sometimes)* personal property assessed value <u>growth</u>



Tax Allocation Area –
<u>After</u> New Construction

Incremental Assessed Value	x	Tax Rate	=	TIF Taxes	→	Redevelopment Commission Allocation Fund
Base Assessed Value	x	Tax Rate	=	Taxes	→	County School Library City/Town

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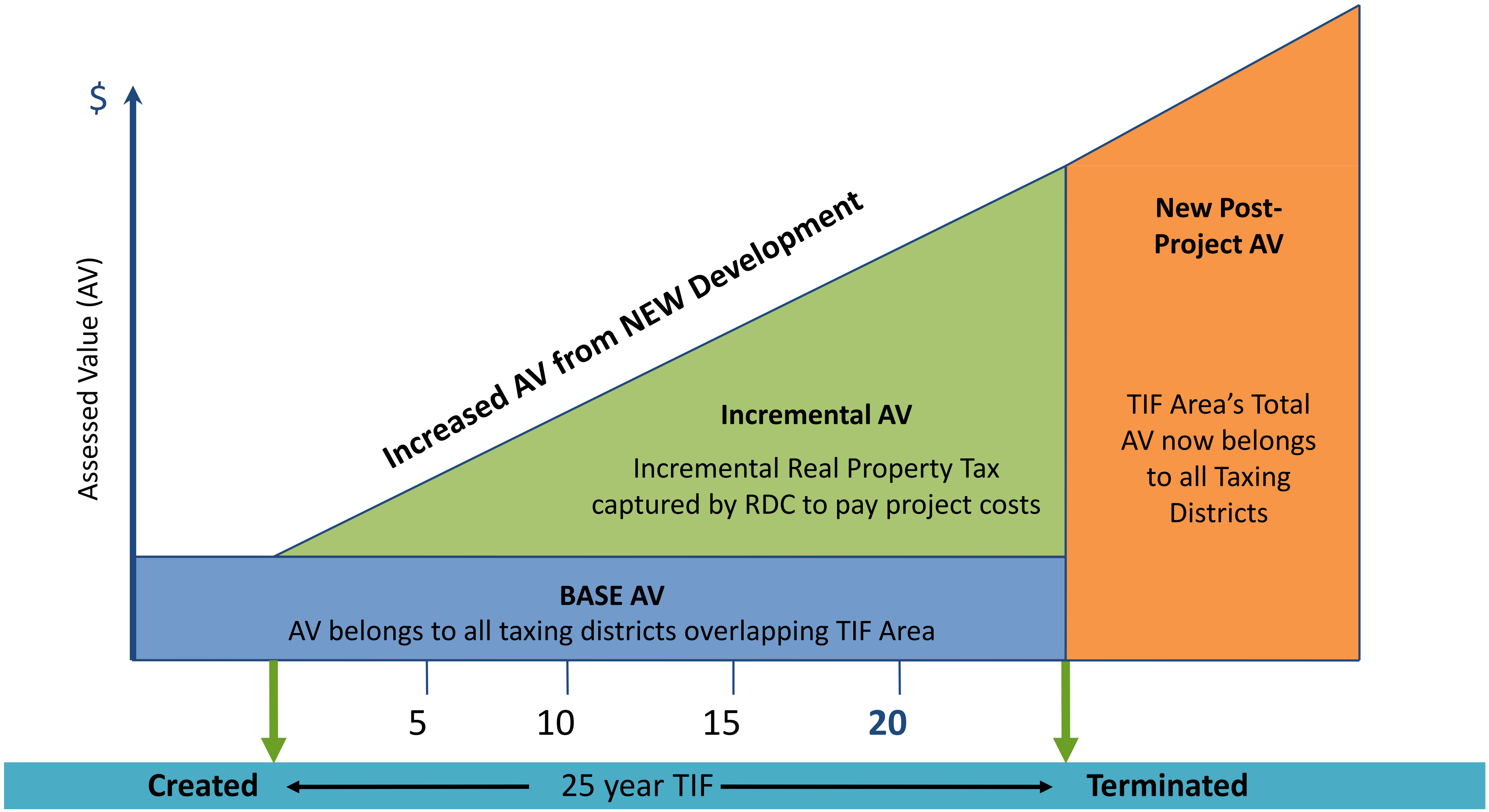
TIF Mechanics



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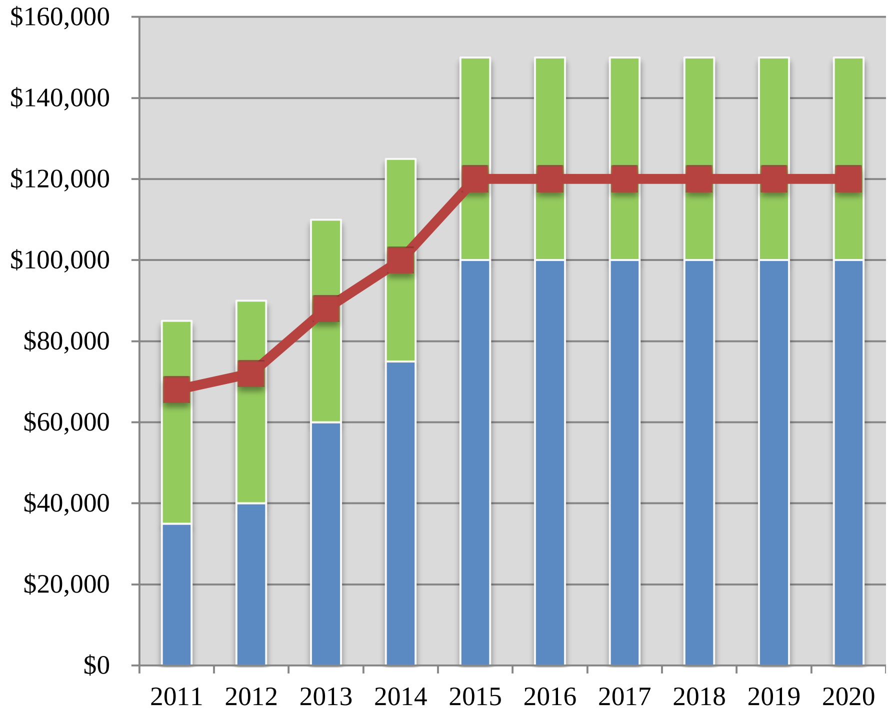
Economic Development Financing

Bonds Payable from TIF and Sewer Revenues



- Bonds and leases may be paid from:
  - TIF only
  - TIF and other revenues to add security or to fill in gaps during early years
    - EDIT, COIT or sewer revenues
    - F & B taxes and other special taxes
    - Project revenues, i.e. parking fees
    - CRED or CTP revenues
    - Special benefits tax (property tax) levy

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What are some RISKS of TIF ?

- No Project, Smaller Project, or Delayed Project
  - The Company doesn’t make the private investment at all, or the size and scope of the project could be less than estimated
- Assessment is less than estimated
- Taxpayer appeals the assessment
- Economic conditions cause general decrease in property values
- Business problems:
  - Company goes out of business or relocates
  - Company doesn’t reinvest or replace equipment, and equipment depreciates, becomes obsolete, or decreases in value
- Natural disasters: earthquakes, floods, tornadoes
- Taxable property becomes tax-exempt

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Issues Affecting Bonds Payable from TIF

- **Taxable vs. tax exempt interest**
- **Bond Marketability / Security**
-
  - **TIF revenues only** [Bonds may not be marketable.]
  - ***For single Company or Developer-driven projects:***
    - **Corporate guarantee, taxpayer payments, bank letter of credit, or Company purchases bonds**
  - ***For Locally-driven projects - may add tax backup***
    - Property taxes, local income taxes, sewer revenues
    - Lower interest rate, leverage bigger bond
- **RISK:** Consider **who bears bond risk**, bond marketability, local political support/approval

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Questions

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