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ECONOMIC DEVELOPMENT AND YOUR PUBLIC FINANCE TOOLBOX

ULCT PRESENTATION

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The Tool Box in General

- Local Government Organization/Preparation for Project(s)
- Government Incentives to Consider
- Financing Public Improvements Related to the Project
- Financing of Privately Owned Improvements

LOCAL GOVERNMENT ORGANIZATION/PREPARATION FOR PROJECT

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Local Government Organization/Preparation for Project(s)

- Consider appropriate planning/zoning standards for targeted project(s) or industries
- Review Capital Facilities Plan and/or System fee structures for related project(s) or industries
  - Any benefit (load balancing, volume efficiencies, etc.) to service expansion or burden
- Consider related Infrastructure needs for targeted project(s) or industries
- Consider creation of appropriate Local/Special Districts and/or Special Assessment Areas (allow for separate political entities or structures to govern and carry tax/fee burdens unique to project)
- Creation of Community Development and Renewal Agency and related Project Areas

GOVERNMENT INCENTIVES TO CONSIDER

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Government Incentives to Consider

- Local Government sharing of incremental property tax increase (including sales tax in some circumstances) from Project
  - Requires cooperation of applicable taxing entities (School District typically largest share of property tax)
  - Strategy in selecting Project Area route:
    - ✓ Urban Renewal Project Area (blighted areas)
    - ✓ Economic Development Project Area (retail limitations, TEC oversight but also ability to adjust with TEC approval)
    - ✓ Community Development Project Area (individual negotiations with each taxing entity)
- State Sharing of new tax revenues (income, employment, etc.) and grants for certain qualifying projects
  - Administered by Governor's Office of Economic Development (GOED)

FINANCING OF PUBLIC IMPROVEMENTS RELATED TO THE PROJECT

Financing Of Public Improvements Related To The Project (Often Done At Tax-exempt Interest Rates)

1. **General Obligation Bonds** (e.g. new City Hall/Library; Swimming Pool Complex)

2. **Sales Tax Revenue Bonds** (Local Option, Franchise, Class C, etc.) (e.g. Convention Center)

3. **System Revenue Bonds** (Water, Sewer, Electric, etc.) (e.g. water/sewer service needs for industrial park)

4. **Special Assessment Financing and Bonds** (e.g. Sewer Line Improvements). Can utilize assessments without bonding.

5. **Local Building Authority Bonds, Lease/Purchase Agreements, and Annual Appropriation Obligations** (e.g. Ice Arena)

6. **American Recovery and Reinvestment Act (ARRA) Programs**.

ARRA PROGRAMS FOR PUBLIC IMPROVEMENTS

ARRA Programs for Public Improvements

- **Build America Bonds (BABs)**. Issuer subsidy program where issuer can elect to receive a direct subsidy from federal government equal to 35% of the taxable interest rate on the bonds. No limit as to amount, available to all projects that could otherwise be funded with tax-exempt bonds.
- **Recovery Zone Economic Development Bonds (RZEDBs)**. Same as BABs, but with a higher subsidy of 45%. Limited resource, see allocation chart:
- **Qualified Energy Conservation Bonds (QECBs)**. Tax credit bond allocations for renewable energy projects such as wind, solar, biomass, energy conservation projects (20% increased efficiency), and other green programs. Issuer of bond receives a direct government subsidy equal to a taxable interest rate minus 70% of the published tax credit subsidy (the current market would allow most projects to receive approximately 70% to 100% of their interest costs to be paid by the federal government). Utah Allocation of $28,000,000, 30% of which can be used by private businesses for private use projects. See allocation chart:
- **New Clean Renewable Energy Bonds (CREBs).** Similar tax credit bond to QECBs for same projects as QECBs. Allocated by federal government across country with allocations historically granted in order of smallest to largest. Allocations to municipal power providers, co-operative power providers, and for-profit power providers

Area	Residual	Recovery Zone Economic Development Bond	Recovery Zone Facility Bond
Utah		$90,000,000	$135,000,000
Provo city, UT		8,675,000	13,013,000
Salt Lake City city, UT		0	0
West Jordan city, UT		0	0
West Valley City city, UT		0	0
Beaver County, UT		0	0
Box Elder County, UT		0	0
Cache County, UT		0	0
Carbon County, UT		0	0
Daggett County, UT		0	0
Davis County, UT		8,266,000	12,398,000
Duchesne County, UT		0	0
Emery County, UT		0	0
Garfield County, UT		0	0
Grand County, UT		0	0
Iron County, UT		0	0
Juab County, UT		512,000	768,000
Kane County, UT		0	0
Millard County, UT		0	0
Morgan County, UT		228,000	342,000
Piute County, UT		0	0
Rich County, UT		0	0
Salt Lake County, UT	Residual	0	0
San JUan County, UT		0	0
Sanpete County, UT		0	0
Sevier County, UT		0	0
Summit County, UT		0	0
Tooele County, UT		0	0
Uintah County, UT		0	0
Utah County, UT	Residual	19,560,000	29,340,000
Wasatch County, UT		4,531,000	6,797,000
Washington County, UT		41,818,000	62,727,000
Wayne County, UT		0	0
Weber County, UT		6,410,000	9,615,000

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Qualified Energy Conservation Bonds – Utah Allocation

Allocation estimate based on guidance that Cities and Counties of over 100,000 receive direct allocation based on population:

Total Allocation to the State of Utah		Entity	Population 2007	Population - Net Cities or Counties Listed	Conservation Bond Allocations	Rounded by $1,000	Percent of Total Allocation
$28,389,000	1	State of Utah	2,645,330	399,440	$4,286,687	$4,287,000	15.1%
	2	Salt Lake County	1,009,518	604,048	$6,482,488	$6,482,000	22.8%
	3	Salt Lake City	180,651	180,651	$1,938,700	$1,939,000	6.8%
	4	West Valley City	122,374	122,374	$1,313,286	$1,313,000	4.6%
	5	West Jordan City	102,445	102,445	$1,099,413	$1,099,000	3.9%
	6	Utah County	483,702	366,110	$3,928,998	$3,929,000	13.8%
	7	Provo City	117,592	117,592	$1,261,967	$1,262,000	4.4%
	8	Cache County	108,887	108,887	$1,168,547	$1,169,000	4.1%
	9	Davis County	288,146	288,146	$3,092,309	$3,092,000	10.9%
	10	Washington County	133,791	133,791	$1,435,811	$1,436,000	5.1%
	11	Weber County	221,846	221,846	$2,380,794	$2,381,000	8.4%
		Totals		**2,645,330**	**$28,389,000**	**$28,389,000**	**100.0%**

(Population Source: Governor's Office of Planning 2007 Subcounty Population Estimates published summer 2008.)
(Source of Guidance and Allocation: http://www.irs.gov/pub/irs-drop/n-09-29.pdf.)

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FINANCING OF PRIVATELY OWNED IMPROVEMENTS

Financing of Privately Owned Improvements

- Targeted Assistance with related Public Improvements to a Project (see above). Financing does not have to be done tax-exempt.
- Traditional Volume Cap Bond Programs. Small issuer manufacturing, tax-exempt facilities, multi-family housing-all requiring an allocation of "volume cap" from the State Private Activity Board.
- Tax Increment Financing (Sharing of incremental tax revenues attributable to the Project)
  - Can agree with private party to share over time as such revenues become available. (Private financing obligation)
  - With a willing lender, can monetize revenue stream up front. (Typically a CDRA bond or related obligation)

Financing of Privately Owned Improvements

- Credit Market Realities. Difficult to borrow against anticipated revenues (construction risk, business risk, real estate collateral risk, etc.)
  - Consider converting a portion of the existing project loan to a bond or communicating with any existing project lender on certainty of tax increment revenues if project succeeds (project lender should already have a comfort with the associated risks to project).
  - In certain circumstances, local government may "lend, grant, or contribute funds" to a Project Area. Examples include credit enhancement with annual appropriation backstop, limited revenue pledge, etc. However, puts local government funds at risk if tax increment does not meet expectations.
  - Federal Programs (New Market Tax Credits, FHA/HUD Programs, Energy Incentives, etc.)
  - ARRA Programs for Private Improvements

ARRA PROGRAMS

FOR

PRIVATE IMPROVEMENTS

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ARRA Programs for Private Improvements

- **Recovery Zone Facility Bonds (RZFBs)**. Allocation for broad spectrum of new capital projects, privately owned or benefitted, to be financed at tax-exempt rates. $135 million available in Utah, must be issued by Dec. 31, 2010. Must be depreciable assets and requires a local government Recover Zone designation. See allocation chart
- Current Federal legislation proposal to extend and re-allocate additional RZFBs to States
- Other renewable energy incentives

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Emery County, UT		0	0
Garfield County, UT		0	0
Grand County, UT		0	0
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Kane County, UT		0	0
Millard County, UT		0	0
Morgan County, UT		228,000	342,000
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Some Suggested Considerations

- Prudent Investor rule: What is the expected return to the local government investment (can include monetary contributions, administrative time and effort, etc.)? Potential returns may include monetary (new revenues), jobs, quality of life, economic stability, preservation, etc.
- What is the impact upon the local government if the project fails? Particularly important in any long term obligation that survives project failure. Can this be mitigated by other potential viable uses of the project or related improvements?
- Assess any concern over undue favoritism for one area, industry, or private entity, particularly within the local government?
- Are there any unique characteristics, resources, existing facilities, etc., that could be leveraged to expand favorable economic development and preserve an economic advantage? Does the local government have any large to small scale “industry-clustering” potential?

Some Suggested Considerations

- How much “skin in the game” does the potential developer or private entity have-is it an industry standard or business practice to obtain/use government incentives? Can you communicate with the project lender or source of capital and compare their expected return to yours?
- Who are the competitors to the project and what may be their reaction to the project? Does the project business model take that into consideration?
- Who is representing the local government in the transaction and who is paying those costs?