	1
FINANCING ECONOMIC EVELOPMENT PROJECTS	
Presented by Pat Thomson National Development Council	
pthomson@udcsallan.org	

Economic Development Programs

• To attract private investment into communities:
• create jobs
• increase tax base
• change perceptions
• prove a market
• create affordable housing

What Is Economic	3
Development Financing?	
Financing that Encourages Investment in Sho and Long-Term Assets Financing that Stimulates Investment by Providing Incentives to Lenders and Borrowe Financing that Exists as Part of an Economic Development Financing System	
National Bendepared Countil	- L

## **Economic Development Projects** May Seem Riskier Pioneering Project Business with short track record Unproven real estate market Questions about rent and vacancy Questions about rent and vacancy Questions about rent and vacancy Uncertain property market Unfamiliar locations – rural, deteriorated big city neighborhoods Public Sector Incentive Financing Incentives to Lender and Borrower Lender incentives subordinate mortgage loan guarantees Borrower incentives manageable debt service lease regult less capture debt and/or equity tax incentives reduce operating costs or attract equity Funds from Public and Non-profit Sources that Require no repayment Reduce the Amount of Debt and/or Equity that Must Be Attracted Reduces Risk Taken by Lender and Owner

**Tax Incentives** Tax Increment Financing
Varies from state to state
Tax Abatement
Varies by state
Reduction in property tax and/or state income tax
Federal Tax Credits
Reduction in federal income tax **ED Financing Programs**  Need
 Banks are constrained from making long term loans
 Borrowers lack the 25-30% equity required
 Cash Flow is tight
 Public Loans Must Be Underwritten like Private Loans **Underwriting the Business** Economic Developer's Tool for Understanding a Company's Financial Picture
 Answers an Important Question: If I Lend a Company Money, Can it Pay Me Back?

10 **What Credit Analysis Is Not**  Does not Provide Answers
 A Substitute for Talking with Owners
 Cannot Be Done in a Vacuum 11 Form of Analysis Step One — Is the Company a Dog?

Analyze the balance sheet

management of company's resources

hidden equity

nature of liabilities

Analyze the profit and loss statement

how well the company buys and selfs inventory or services to make a profit

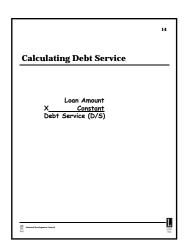
determine how much cash flow is available to repay debt service 12 Form of Analysis (cont.) Step Two — Is Cash Flow Greater than Debt Service?

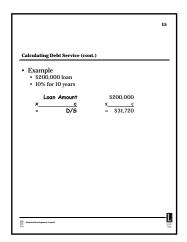
Businesses have three demands on cash flow debt service permanent working capital capital capital penditures.

Existing cash flow pays for debt service.

Future profits pay for permanent working capital needs and capital expenditures.

	13
Loans	
A Self-Amortizing Loan Is Normally Repai a Monthly Level Debt Service Payment tha Consists of Principal and Interest     Principal is the repayment of the loan while in is the payment to the lender for the loan	it
<b>ॐ</b> + <b>ॐ</b> = <b>€</b>	
•	
Medical Development Cross II	





	16
Project Sources and Uses	
Structuring the Project Sources of funds must be equal to uses of fund Identify all project costs (uses) Acquaition Sources of the structure	
R Manufacturer Count	— <sub>П</sub>

<b>Project Sources and Uses Form</b>								
		-	haject So	urces & Usa	s of Funds			
Uses of Fund		Г			Sources o			
Une	Amount	Г	Lander	Term	Estimated Nate	Collateral	Amount	Annual Debt Service
Land		1						
Building Construction/ Renovation		1						
Machinery and Equipment		1						
Furniture and Futures		1						
Lessehold Improvements		1						
Contingencies		1						
Working Capital		1						
Total Uses of Funds	5.	Total	Sources	of Funds			\$	\$
			Total U	ses = Total	Sources			•
Comments:								

	18
Loan Structuring	
Quick Analysis: Is CF > D/S? CF = PAT + depreciation What if CF is Not Greater than D/S? Identify savings from cash flow	
Restructure deal	
Malmad Development Countil	Letter Nea

19 **Small Business** Administration 7(a) Loans
SBA 7(a) is a lender-based program that provides guaranties of up to 85 percent
Elighie uses
Long-term loans
Rates up to prime plus 274 percent
Reasonable response time (upon receipt of complete application)
Borrowers
Most small businesses are eligible for SBA loans National Development Council 20 SBA 7(a) (cont.) Terms

Maximum maturity is based on the useful life of the asset financed

working capital will not exceed 10 years

fixed assets will be limited to the economic life of the asset

real estate typically is 20 years 21 Abolins Tacoma, WA 

SBA 504
Loan Program

- SBA 504
- Fixed asset financing
- Fixed rate financing
- Long-term (10/20 years)
- Reasonably priced
- Low down payment
- Subordinated financing

SBA 504 (cont.)

Typical SBA 504 deal
Private Lender 50% (Ist Ben)
SBA 504 (CD) 40% (2nd Ben)
Total Project Cost 100% (equity)
Total Project Cost 100%

Eligible borrowers
User businesses
For-profit
Existing companies
Must have sound business purpose

SBA 504 (cont.)

• Jobs Requirement
• Individual loans
• one job per \$50,000 of \$BA 504 loan
• special geographic areas: one job per \$75,000 of \$BA 504 loan
• loan
• Immunifecturers: one job per \$100,000 of \$BA 504
Loan
• Structure
• Bank first mortgage equal to or greater than \$BA 504 loan
• Federal sources such as CDBG less than 50 percent of project

25 Rural Development Business Programs Funded by U.S. Department of Agriculture (USDA)
 Rural Business Cooperative Service (RBS) provides credit opportunities and services to businesses in under-served rural areas
 Communities with fewer than 50,000 people in nonurban areas 26 Rural Development Business Programs (cont.) Commercial Lending
 Business and Industry Guarantee Loans
 purpose is create and maintain employment and to diversify and improve economy of rural communities
 provides guarantee of 10-90 percent of a boan made by a
 maximum loan amount is \$25 million
 community facility program 27 U.S. Department Of HUD Programs • CDBG • Section 108

28 **Community Development Block Grant Program**  Provides Annual Grants on a Formula Basis to Public Entities
 Metropolitan cities
 Urban counties
 States for purposes of providing funds to non-entitlement areas
 Indian Tribes or Nations 29 CDBG (cont.) Eligible Projects Must Meet One of Three National Objectives and moderate income people
 Prevent or eliminate slums and blight
 Meet urgeal community development needs
 Low and Moderate Income Benefit
 Primary objective of CDBS grogram
 Not less than 70 percent of the overall allocation of CDBG funds must be specified on activities that benefit low and moderate on the companies of the compan 30 **HUD Section 108** Loan Guarantee Loan Guarantee Provision of the CDBG Program
Eligible Applicants
Entitlement communities
Entitlement communities
Small cities through state CDBG program
Amount
Up to five times the public entity's latest (approved) CDBC entitlement amount less outstanding commitments or principle balances
Collateral
Pledge of current and future CDBG funds
The assets financed by the loan
Term
Up to 20 years

**Brownfields Programs**  EPA
 Brownfields Assessment, Revolving Loan Fund and Clean Up Grants
 Resource Conservation and Recovery Pilot Grants **EDA Title IX** Public Works Grants
Grants to local governments to assist in infrastructure improvements
Must show job creation
For economically distressed areas or have employment linked to low-income populations
Non-relocation restrictions
Davis Bacon applies
Improvements must remain in ownership of local government so use is restricted to off-site public improvements
Requires a 50% local funding match 33 **EB-5 Immigrant Investor** Investment by Foreign Nationals in job creating entity
Investment of \$1 million (\$500,000 in special circumstances)
Either Direct or Through Regional Centers
Investment in large projects, generally over \$20 million
Investor and family receive a green card, permanent if jobs are created

The RLF as a Component of an Economic Development Strategy What Is a Revolving Loan Fund (RLF)?
 Financing tool
 Illings just the local capital markets
 recycles dollars so that they stay in the community
 leverage private sector financing through financial incentives
 finances riskier, smaller, unconventional deals 35 **Sources of RLF Capital** Community Development Financial Institution
USDA – Intermediary Relending Program
CDBG
SBA Micro Lending Program
Direct Allocation from Local Governments
Private Foundation Grants and Program Related Investments (PRIs)
Bank Community Development Corporations 36 **Tax-Exempt Financing** Funding through State and Local Bond Issues
 Interest Exempt from Federal Income Taxes =
Lower Borrowing Rates
 Different Types of Tax-exempt Financing
 Industrial Revenue Bonds (IRBs)
 33-20 bonds
 Tax increment financing

Self Financing Bonds (Tax Increment Financing (TIF))

Bonds Issued, Repaid with Increases in Real Estate or Sales Taxes
Tax Base for a District Is Estimated and "Frozen"
Tax Revenues Beyond this Amount or Tax Increment Is Used for Payment to Bondholders
May Only Be Used for Eligible Public Purposes
Provides Public Funding for
Oif-site or eligible public uses (reduces project budge) or Allocates project tax payments to fund improvements (expands sources of funds)

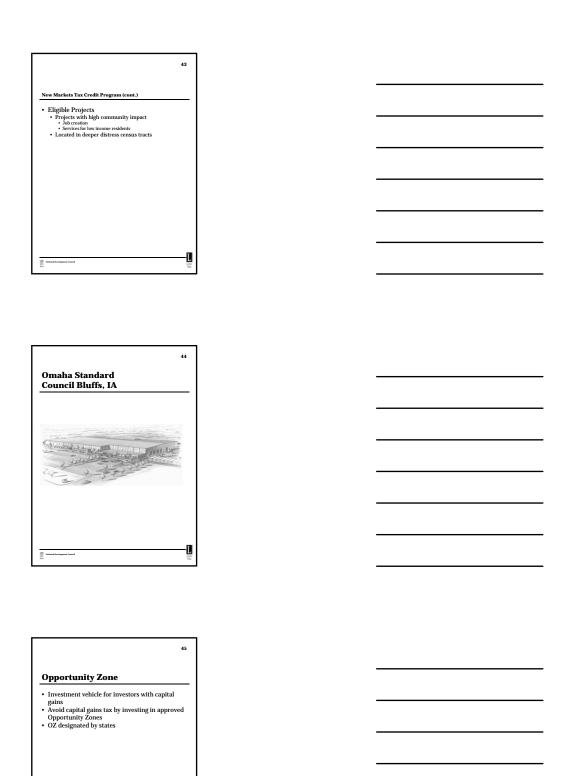
Tax Credits

• A Direct, Dollar-for-Dollar Reduction of Tax Liability
• Types
• Rehabilitation Tax Credits (RTC)
• New Markets Tax Credits (NMTC)

Rehabilitation Tax Credits

- Historic Rehabilitation
- 20 percent, one-time credit on rehab costs
- Must qualify:
- certified historic structure or contributing building in
National Register historic district
- commercial, industrial or rental housing
- property's adjusted depreciable logic
- follow Secretary of Interior standards - National Park
- Service (NPS)

40 Model T Building Omaha, NE 41 **State Historic Credits**  Some States Have Their Own Tax Credits for Historic Preservation
 Offset state income tax liability
 State credits have lower value to investors 42 New Markets Tax Credit Program What Is It?
Designed to generate new, private sector investment in targeted distressed areas
Tax credits passed through to investors
Who Administers?
DFI Fund, division of U.S. Treasury
DFI allocates tax credit authority over seven years to Community Development Entities (CDEs)



46
Economic Development Financing Programs
Provide financing to complete marginal projects     EDF fills the gaps in the capital markets – it does not duplicate existing resources
EDF fills the gaps in the capital markets – it does not duplicate existing resources     EDF goal is to leverage private sector dollars in order to expand the amount of capital available     EDF resources are scarce compared to private sector capital
sector capital
Marined Development Control