

Bonds as the Bedrock of Development Finance

November 18, 2014

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CDFA

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CAN I FINANCE MY PROJECT THROUGH A BOND ISSUE?

Yes! If permitted by those pesky...

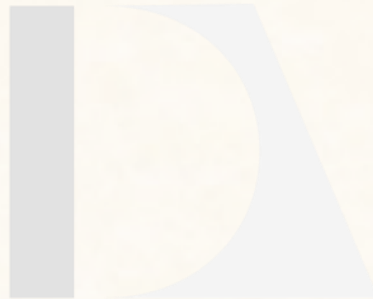
- Lawyers
- State laws
- Federal tax laws
- Practical market forces

THE BIG PICTURE

- Bond is nothing more than a “fancy loan”
- Capital markets as lender
- Result is a low interest rate and flexible terms
- Typically \$3-4 million minimum
- Public offering or private placement

PARTICIPANTS IN A TYPICAL BOND ISSUE

- Issuer
- Borrower
- Underwriter
- Trustee
- Bond Counsel



TYPICAL BOND PROJECTS

- Manufacturing or commercial facilities
- Office buildings
- Health care institutions
- Housing (single family and multifamily)
- Convention or trade show facilities
- Airports, docks, wharves, transportation, parking facilities
- Water/sewer, solid waste disposal, electric energy, or gas facilities
- Industrial park facilities
- Air or water pollution control facilities
- Educational facilities, including charter schools
- Public-private partnership (P3) projects
- 501(c)(3) projects
- Detention or correctional facilities
- Anything else that generates a revenue stream

DOCUMENTS IN A TYPICAL BOND ISSUE

- Trust Indenture
- Loan Agreement
- Official Statement (OS)

STATE PRIVATE ACTIVITY BOND (PAB) ALLOCATION

- 2014 PAB cap is \$662,662,400 for Arizona
- About \$500,000,000 of unused cap
- Applies to most PABs other than 501(c)(3) bonds and current refundings
- 10% Director's discretion, 35% MRBs, 10% MF, 20% student loans, 15% IDBs, 10% other
- January 1 first lottery; cap of \$35 million; valid for 90 days; re-pooling July 1; all done December 17

STEPS ASSOCIATED WITH BOND ISSUANCE

- Preliminary resolution of issuer
- Apply for PAB cap allocation
- TEFRA notice and hearing
- Draft bond documents
- Final resolution of issuer
- Print and mail official statement
- Price the bonds
- Close and fund

WHAT IS AN IDA?

- The IDA Act gives IDAs specific statutory authority to issue bonds for numerous projects that most local governments do not have the authority to do
- Can issue tax-exempt bonds under the Federal Tax Code
- An alternative to traditional bank loans, allows borrowers access to credit from the capital markets
- Ability to borrow at a lower rate, bond buyers are willing to accept in recognition of tax-exempt nature of the interest
- Think of it as a coupon for approximately 30-35% reduction in interest costs prior to adjustment for higher cost of issuance

ABOUT THE PHOENIX IDA

- Established in 1981
- Serves as a conduit issuer of private activity bonds
- Provides access to capital for community and economic development
- Strives to increase job opportunities within our communities
- Provides affordable housing for underserved communities
- **Does not** rely on taxpayer or general fund dollars

CHARACTERISTICS OF IDA BONDS

- IDA serves as a conduit issuer of bonds; once the bonds are issued, the IDA has limited ongoing involvement
- Bond investors deal primarily with the conduit borrower and the bond trustee
- IDAs, the State, nor the host jurisdiction (i.e. City, County) have any payment obligation on the bonds
- Borrower is typically required to pay annual fees to the issuer, usually through the trustee

CASE STUDIES

Project Name	Amount Financed	Bond Type
JMF-Higley 2012, LLC Project	\$70,630,000	Education Facility Revenue Bonds
Vieste SPE, LLC – Glendale, AZ Project	\$28,395,000	Solid Waste Disposal Facility Revenue Bonds

CASE STUDY #1: HIGLEY

- **Project:** 2 new middle schools in Gilbert & Queen Creek for the Higley Unified School District No. 60
- **Borrower:** sole member, The James Megellas Foundation, LLC [501(c)(3)]
- **Real property:** owned by the District, with 40-year lease to the Borrower; ground subleased & facilities leased back to District (40 years w/annual non-renewal right)
- **Design Builder:** CORE Construction
- **Underwriters:** Lawson Financial and HJ Sims
- **Trustee:** Bank of Arizona
- **Bond Counsel:** Kutak Rock LLP
- **Political Subdivisions:** Phoenix IDA, Higley School District, the cities of Phoenix, Gilbert and Queen Creek, Maricopa County, State Attorney General
- **Result:** 2 new middle schools built (1,600 students), no debt incurred, no school bond election required

CASE STUDY #2: VIESTE

- **Project:** New materials recovery facility owned by Vieste SPE, LLC (special purpose LLC) in Glendale, AZ; Phase I: Renewable energy production facility
- **Real property:** owned by City of Glendale, 30-year lease to Developer
- **Under Waste Supply Agreement:** City supplies waste, recyclables and pays tipping fees
- **Underwriter:** HJ Sims and Lawson Financial
- **Trustee:** Bank of Arizona
- **Bond Counsel:** Kutak Rock LLP
- **Political Subdivisions:** Phoenix IDA, the cities of Phoenix and Glendale, State Attorney General
- **Result:** Approx. 180,000 tons of solid waste processed annually at reduced cost to City; no reliance on landfills



Questions & Answers