MODULE 3

WHAT BONDS DEVELOPMENT AUTHORITIES CAN AND CAN'T ISSUE

and why

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BONDS IN GEORGIA

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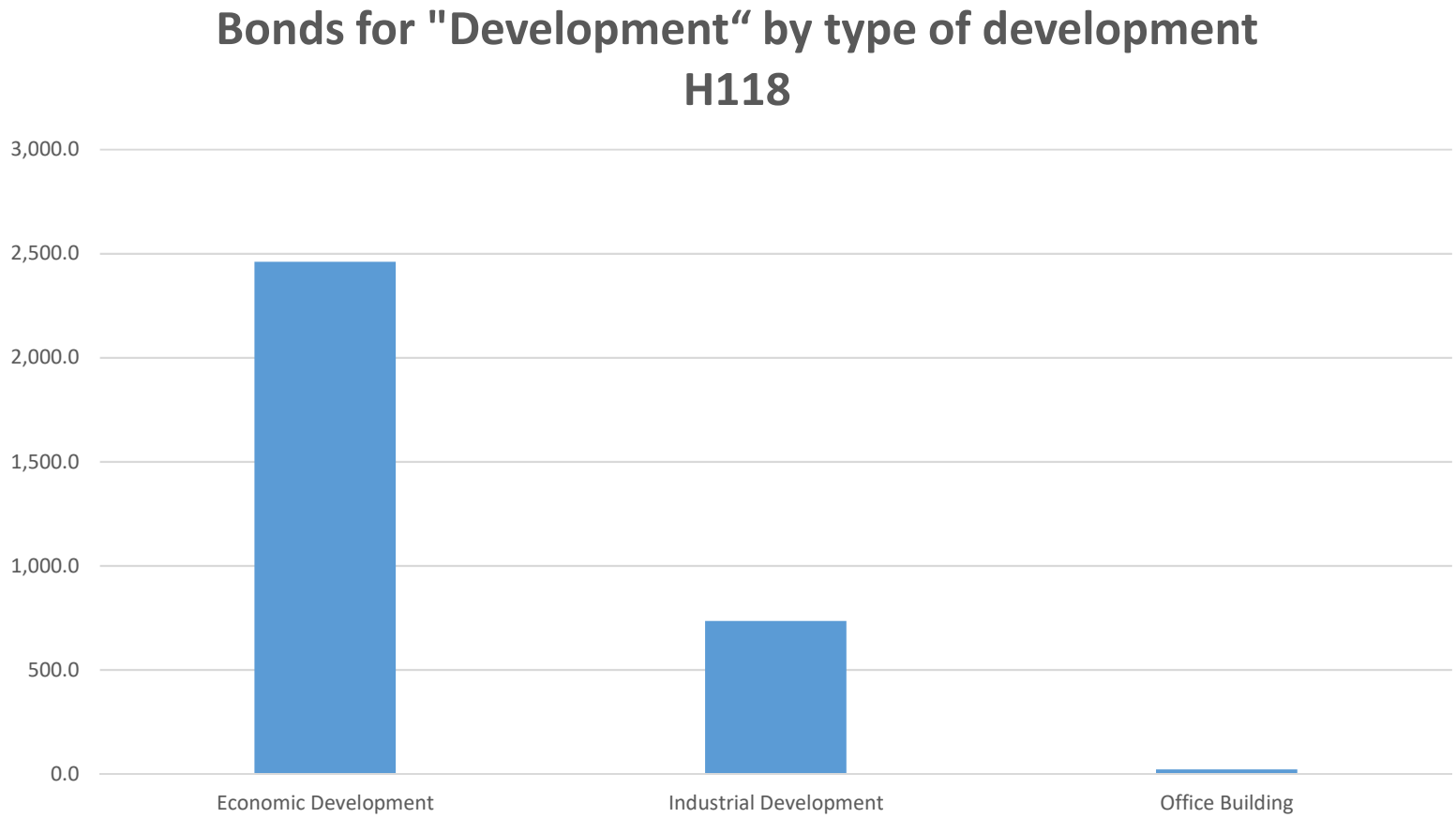
BOND ISSUES- THE NATIONAL PICTURE



Data Source: IRS, for dollars in millions, tax-exempt and taxable bonds
Data Visualization: Dan McRae

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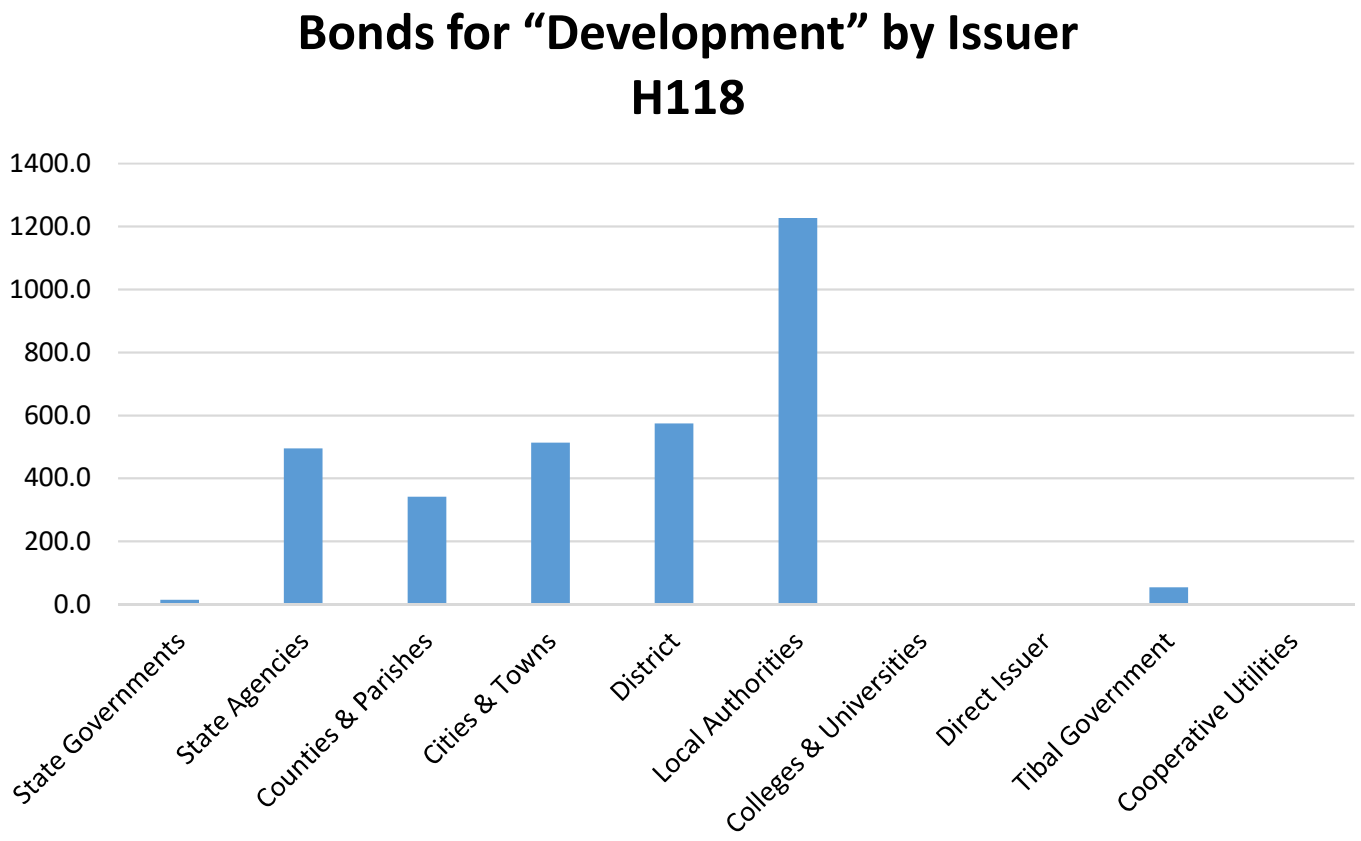
BOND ISSUES- THE NATIONAL PICTURE

Local Authorities issue by far the most development bonds (tax-exempt and taxable) by dollar amount



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Data Source: IRS, for dollars in millions
Data Visualization: Dan McRae

BOND ISSUES- THE NATIONAL PICTURE

Georgia ranks 8th nationally in bond issues by dollar amount

Data Source: IRS, for dollars in millions, for all types of bonds by all issuers, for H118
Data Visualization: Dan McRae

States	Rank	Volume ($mill)
American Samoa	0	0.0
Puerto Rico	0	0.0
Trust Territories	0	0.0
Virgin Islands	0	0.0
Other Territories	0	0.0
California	1	26,699.9
New York	2	19,711.0
Texas	3	16,354.3
Pennsylvania	4	8,548.8
New Jersey	5	5,461.5
Massachusetts	6	5,044.6
Washington	7	4,720.5
Georgia	**8**	**4,677.8**
Illinois	9	4,285.7
Ohio	10	4,271.9
Florida	11	4,027.8
Alabama	12	3,617.5
Colorado	13	3,425.9
Oklahoma	14	3,383.6
Minnesota	15	3,250.0
Connecticut	16	3,242.9
Virginia	17	3,148.4
Wisconsin	18	2,932.8
Michigan	19	2,915.0
Maryland	20	2,806.5
North Carolina	21	2,684.4
Tennessee	22	2,405.9
Kentucky	23	2,062.8
Missouri	24	2,014.0
Nevada	25	2,010.3
Arizona	26	1,906.6
Oregon	27	1,884.1
Utah	28	1,766.4
Iowa	29	1,659.0
West Virginia	30	1,299.1
D. of Columbia	31	1,276.0
South Carolina	32	1,207.2
New Mexico	33	1,197.3
Hawaii	34	1,065.4
Indiana	35	1,022.5
Kansas	36	987.2
Arkansas	37	738.7
Nebraska	38	600.2
Delaware	39	564.5
Louisiana	40	515.1
Maine	41	514.0
Rhode Island	42	417.1
Mississippi	43	408.6
North Dakota	44	371.9
Idaho	45	366.6
Alaska	46	296.8
Montana	47	236.6
New Hampshire	48	230.6
South Dakota	49	158.0
Vermont	50	134.5
Wyoming	51	77.3
Guam	52	71.4

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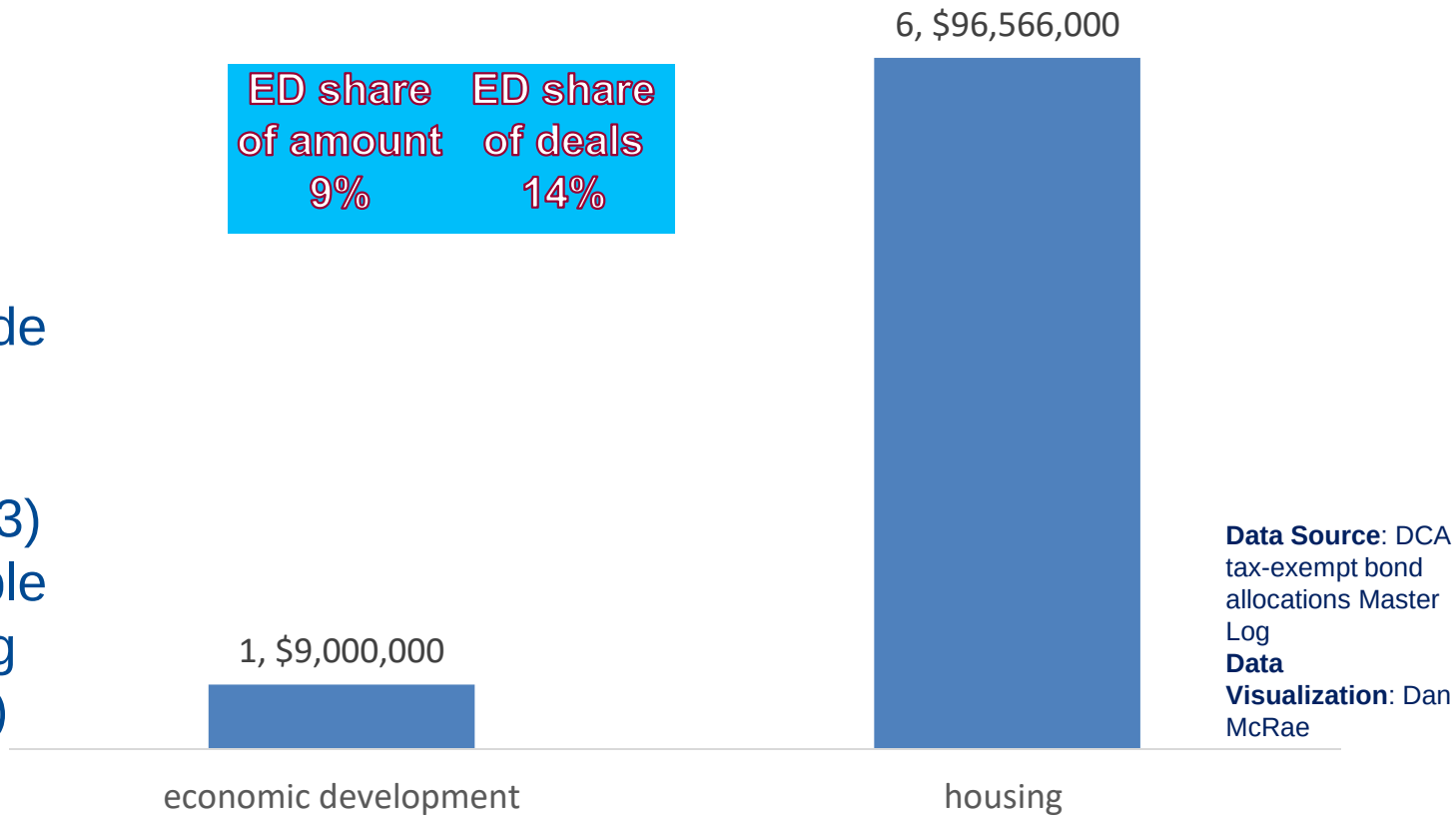
ECONOMIC DEVELOPMENT'S SMALL SHARE

OF TEBs ISSUED IN GEORGIA
THROUGH THE FIRST 7 MONTHS OF 2019

number of deals, bond amounts by purpose



data do not include bonds for governmental purpose, 501(c)(3) bonds, and taxable bonds (including "bonds for title")

Data Source: DCA tax-exempt bond allocations Master Log
Data Visualization: Dan McRae

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LARGEST USERS OF TEBs HAVE THEIR OWN REASONS

Purpose	Number of Defaults	Percentage	Annual Default Rate for all Ratings
Housing	45	45.5%	0.089%
Hospitals & Health Service Providers	23	23.2%	0.088%
Infrastructure	9	9.1%	0.009%
Education	5	5.1%	0.012%
Cities	4	4.0%	0.017%
Counties	3	3.0%	0.024%
Special Districts	0	0.0%	0.000%
State Governments	1	1.0%	0.013%
Pool Financings	0	0.0%	0.000%
Other	0	0.0%	0.000%
Non-General Obligation	90	90.0%	0.034%
General Obligation	9	9.1%	0.003%
Total	**99**	**100.0%**	**0.016%**

- HEALTHCARE- ACCESS TO CAPITAL MARKETS FOR LOWER RATED DEALS
- AFFORDABLE HOUSING- ACCESS TO 4% TAX CREDIT (LIHTC)
  - MONETIZED FOR TAX CREDIT EQUITY

Table Data Source: Moody's for 1970-2015 via Seekingalpha

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TAXABLE EQUIVALENT YIELD

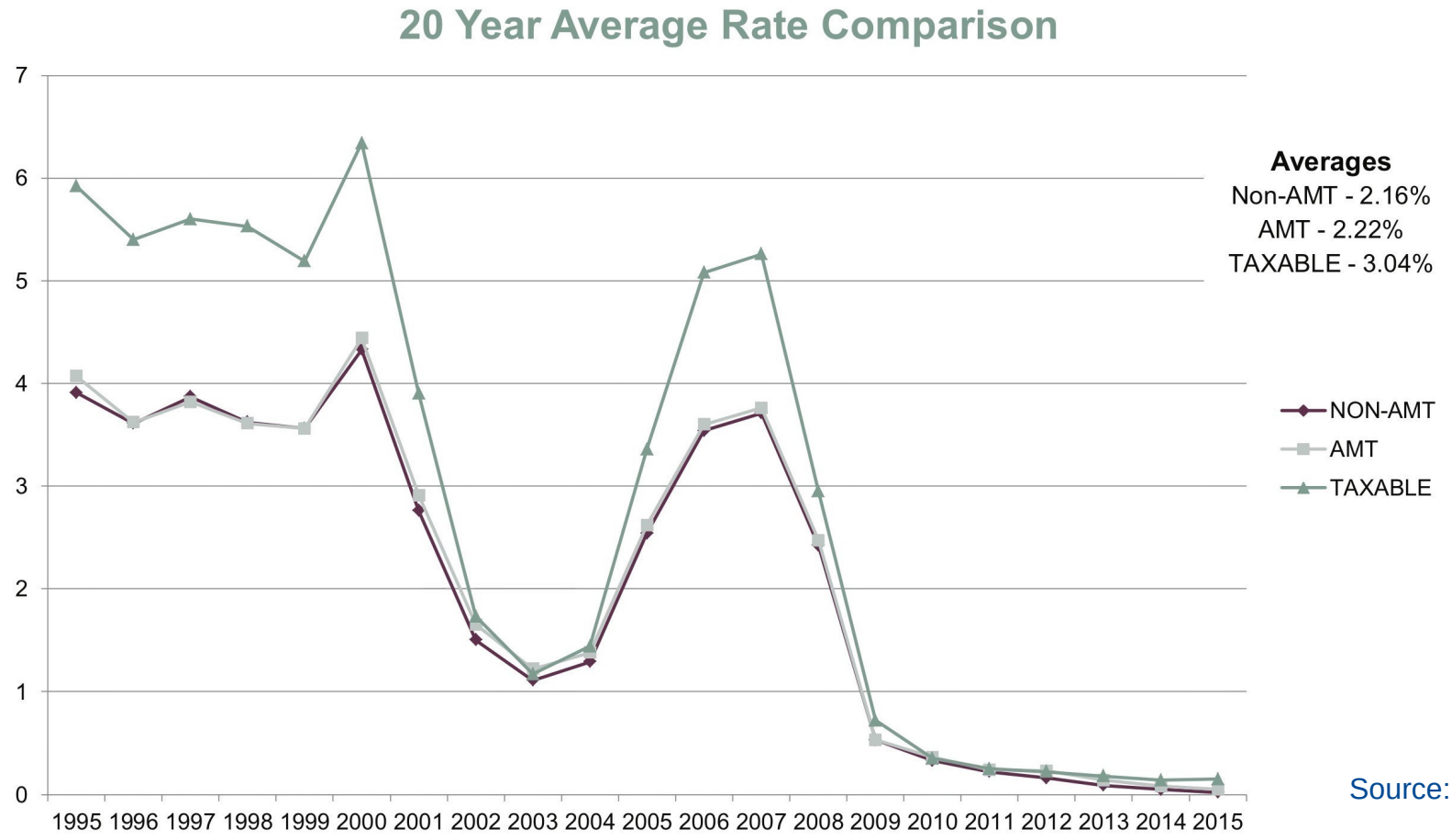
example of the economics of a Georgia corporation's investing in a recent tax-exempt affordable housing bond issue

This is an example of a bond that is "high yield" and "unrated." A development authority should exercise due diligence before issuing a bond like that. In this case, the bond was placed with a "buy and hold" Qualified Institutional Buyer."

Original Issue Discount	3.0%
coupon	7.5%
all in rate	7.6%
taxable equivalent yield	10.41%

ANOTHER REASON FOR LESS ACTIVITY IN OTHER SECTORS-TAX-EXEMPT AND TAXABLE RATES ARE BOTH LOW AND CLOSE

Historical Rates



Source: FHLB Atlanta

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WHAT BONDS ARE RIGHT FOR YOUR PROJECT?

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WHO DECIDES WHAT BONDS A DEVELOPMENT AUTHORITY CAN ISSUE?

FUNDAMENTAL RULE- A DEVELOPMENT AUTHORITY CAN ONLY ISSUE BONDS THAT STATE LAW ALLOWS IT TO ISSUE. THESE LAWS APPLY AS FOLLOWS-

- CONSTITUTION- TO ALL AUTHORITIES
- IN ADDITION, EACH TYPE OF AUTHORITY HAS ITS OWN GOVERNING LAW

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WHAT BONDS- WHO DECIDES?

- REVENUE BOND LAW- TO ALL AUTHORITIES
- PILOT RESTRICTION ACT- TO ALL AUTHORITIES
- O.C.G.A. Sec. 36-75-11 RESTRICTIONS ON CONTRACT REVENUE BONDS- IN PRACTICE, JUST TO DEVELOPMENT AUTHORITY OF DEKALB COUNTY

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BASIC RULE

- A PUBLIC BODY'S BONDS WILL BE TAX-EXEMPT, GOVERNMENTAL PURPOSE BONDS UNLESS THERE IS-
- TOO MUCH PRIVATE USE, AND
- TOO MUCH PRIVATE PAYMENT OR PRIVATE SECURITY

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PRIVATE ACTIVITY BONDS

- THE OPPOSITE OF "GOVERNMENTAL PURPOSE" IS "PRIVATE ACTIVITY"
  - MEANS THERE IS
    - TOO MUCH PRIVATE USE, AND
    - TOO MUCH PRIVATE PAYMENT/PRIVATE SECURITY
  - "PRIVATE LOAN" TEST MIGHT APPLY

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PRIVATE ACTIVITY BONDS

- INTEREST ON PRIVATE ACTIVITY BONDS NOT FEDERALLY TAX-EXEMPT UNLESS THERE IS AN "EXEMPTION"
- EXEMPTIONS ARE HARD TO FIND
  - COMPLIANCE WITH OTHER TAX RULES REQUIRED

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WHAT CAN YOU BUILD WITH BONDS?

CASE STUDIES

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AN EXPANSION OF A TEXTILE MILL

1888 Mills growing in Griffin

Wednesday May 18 | Read more: Griffin Daily News

RAY LIGHTNER/DAILY NEWS1888 Mills Vice President Doug Tingle gave a tour of the new facility on Airport Road as of the Griffin-Spalding Chamber of Commerce Governmental Affairs Committee breakfast, which 1888 Mills hosted Thursday morning.

- there's a $20 million capex limit over the test period
- there's a sublimit of $10 million that can be tax-exempt

GSDA ISSUED A $10 MILLION **TAX-EXEMPT MANUFACTURING** BOND THAT WAS PRIVATELY PLACED WITH A BANK

ALSO ISSUED ANOTHER $5.75 MILLION IN CASHLESS **TAXABLE BONDS FOR TITLE** TO THE COMPANY

ENTIRE EXPANSION GOT PROPERTY TAX "ABATEMENT"

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NEW FOOD PROCESSING PLANT (TREATED WATER)

For the Premium Waters project, Douglas-Coffee County Industrial Authority issued:

- $10 million in floating rate bonds as **TAX-EXEMPT MANUFACTURING BONDS** that were privately placed with a bank
- $9.5 million in **CASH FUNDED TAXABLE BONDS** privately placed with a bank
- $20 million **in cashless TAXABLE BONDS FOR TITLE** that were placed with an equipment leasing company- all bond-financed property received property tax "abatement"

equipment under a "true lease" is not counted as capex if it is a type of equipment ordinarily leased

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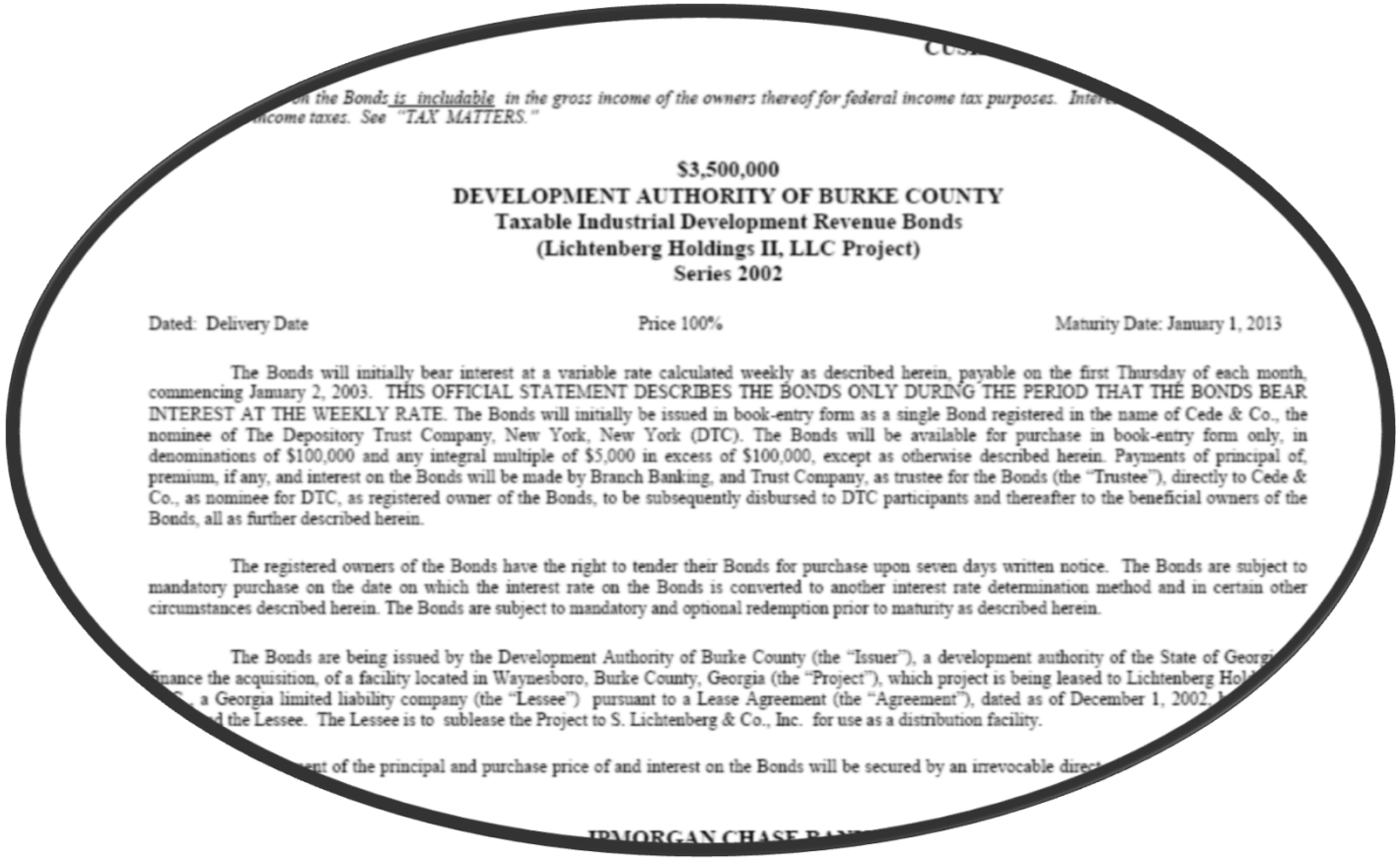
A NEW WAREHOUSE



...on the Bonds is includable in the gross income of the owners thereof for federal income tax purposes. Interest ... income taxes. See "TAX MATTERS."

$3,500,000
DEVELOPMENT AUTHORITY OF BURKE COUNTY
Taxable Industrial Development Revenue Bonds
(Lichtenberg Holdings II, LLC Project)
Series 2002

Dated: Delivery Date | Price 100% | Maturity Date: January 1, 2013

The Bonds will initially bear interest at a variable rate calculated weekly as described herein, payable on the first Thursday of each month, commencing January 2, 2003. THIS OFFICIAL STATEMENT DESCRIBES THE BONDS ONLY DURING THE PERIOD THAT THE BONDS BEAR INTEREST AT THE WEEKLY RATE. The Bonds will initially be issued in book-entry form as a single Bond registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York (DTC). The Bonds will be available for purchase in book-entry form only, in denominations of $100,000 and any integral multiple of $5,000 in excess of $100,000, except as otherwise described herein. Payments of principal of, premium, if any, and interest on the Bonds will be made by Branch Banking, and Trust Company, as trustee for the Bonds (the "Trustee"), directly to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the Bonds, all as further described herein.

The registered owners of the Bonds have the right to tender their Bonds for purchase upon seven days written notice. The Bonds are subject to mandatory purchase on the date on which the interest rate on the Bonds is converted to another interest rate determination method and in certain other circumstances described herein. The Bonds are subject to mandatory and optional redemption prior to maturity as described herein.

The Bonds are being issued by the Development Authority of Burke County (the "Issuer"), a development authority of the State of Georgia, to finance the acquisition, of a facility located in Waynesboro, Burke County, Georgia (the "Project"), which project is being leased to Lichtenberg Holdings II, LLC, a Georgia limited liability company (the "Lessee") pursuant to a Lease Agreement (the "Agreement"), dated as of December 1, 2002, between the Issuer and the Lessee. The Lessee is to sublease the Project to S. Lichtenberg & Co., Inc. for use as a distribution facility.

...ment of the principal and purchase price of and interest on the Bonds will be secured by an irrevocable direct...

JPMORGAN CHASE BA...

DABC ISSUED $3.5 MILLION IN "TAXABLE FLOATERS" FOR LICHTENBERG THAT WERE PUBLICLY SOLD

PROJECT RECEIVED PROPERTY TAX "ABATEMENT"

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A NEW SENIOR LIVING FACILITY

there is a “set aside” requirement for residents which takes into account their income, but not their assets

DACC ISSUED $19 MILLION IN **TAX-EXEMPT “AFFORDABLE HOUSING”** BONDS FOR PROVIDENT VILLAGE AT CREEKSIDE

REFINANCE A PRIVATE SCHOOL

- qualified 501(c)(3) bonds do not require an allocation of "volume cap"
- the organization can "self-induce"

DACC ISSUED $12.75 MILLION IN **TAX-EXEMPT QUALIFIED 501(C)(3) BONDS** FOR NORTH COBB CHRISTIAN SCHOOL

GOVERNMENTAL PURPOSE BONDS

- GOVERNMENTAL PURPOSE BONDS ARE RARELY ISSUED BY DEVELOPMENT AUTHORITIES
- REASON- STATE LAW RESTRICTION OF DEVELOPMENT AUTHORITIES TO PRIVATE PROJECTS AND PUBLIC/PRIVATE PROJECTS
- IN PROPER CASE, BONDS COULD BE BOTH TAX-EXEMPT AND "BANK QUALIFIED" (BQ)
  - BASIC BQ REQUIREMENTS: GOVERNMENTAL PURPOSE OR 501(c)(3) TYPE; $10 MILLION PER YEAR LIMIT ON TAX-EXEMPT BONDS OF THE ISSUER- INCLUDES BONDS OF SOME OTHER ENTITIES AGGREGATED WITH THE ISSUER, BUT EXCLUDES PRIVATE ACTIVITY BONDS AND SOME OTHER BONDS; BONDS MUST BE DESIGNATED BQ
  - IF BQ, BANK CAN DEDUCT 80% OF ITS CARRYING COSTS IN ADDITION TO BENEFIT OF INTEREST BEING TAX-EXEMPT

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CASE STUDY

NEW PLANT FOR MANUFACTURING FLOORING

DALTON-WHITFIELD JDA ISSUED $7.185 MILLION IN **TAX-EXEMPT, BANK QUALIFIED GOVERNMENTAL PURPOSE BONDS** FOR INFRASTRUCTURE TO SUPPORT THE ENGINEERED FLOORS PROJECT

JDA ALSO ISSUED $60 MILLION IN CASHLESS TAXABLE BONDS FOR TITLE FOR PROPERTY TAX “ABATEMENT” FOR LANDLORD

THE ANATOMY OF A BOND ISSUE

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HOW LONG AND WHO

- Bonds for title
  - 4-6 weeks
  - Company, Development Authority, and their counsel
- Bonds funded in a private placement
  - 6-8 weeks
  - Company, Development Authority, Bank and their counsel
- Bonds funded in a public offering
  - 60-90 days
  - Participants 7-10 entities, including the development authority, an underwriter, its counsel, a trustee, its counsel, etc.

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SOMETIMES IT'S MORE COMPLICATED

specimen affordable housing bond issue distribution list- private placement

PARTICIPATING ENTITIES (TOTAL 18)	ROLE
1	Borrower
1	Borrower
1	Borrower
1	Borrower
1	Borrower
1	Borrower
1	Borrower
2	Borrower counsel
2	Borrower counsel
2	Borrower counsel
3	Bank construction loan lender
4	Bank debt counsel
4	Bank debt counsel
4	Bank debt counsel paralegal
5	Bank equity
6	Bank equity counsel
6	Bank equity counsel
7	Equity
7	Equity paralegal
8	Equity counsel
9	ank Commercial Real Estate lend
9	ank Commercial Real Estate lend
9	ank Commercial Real Estate lend
9	ank Commercial Real Estate lend
9	ank Commercial Real Estate lend
9	Bank Closer Specialist
10	City Housing Authority
11	City Housing Authority counsel
12	Bond Counsel
12	Bond Counsel
13	Fiscal Agent
14	ment Authority counsel (Issuer's
14	ment Authority counsel (Issuer's
15	Trustee
16	Trustee counsel
17	lopment Authority Executive Dir
18	permanent bond holder counsel

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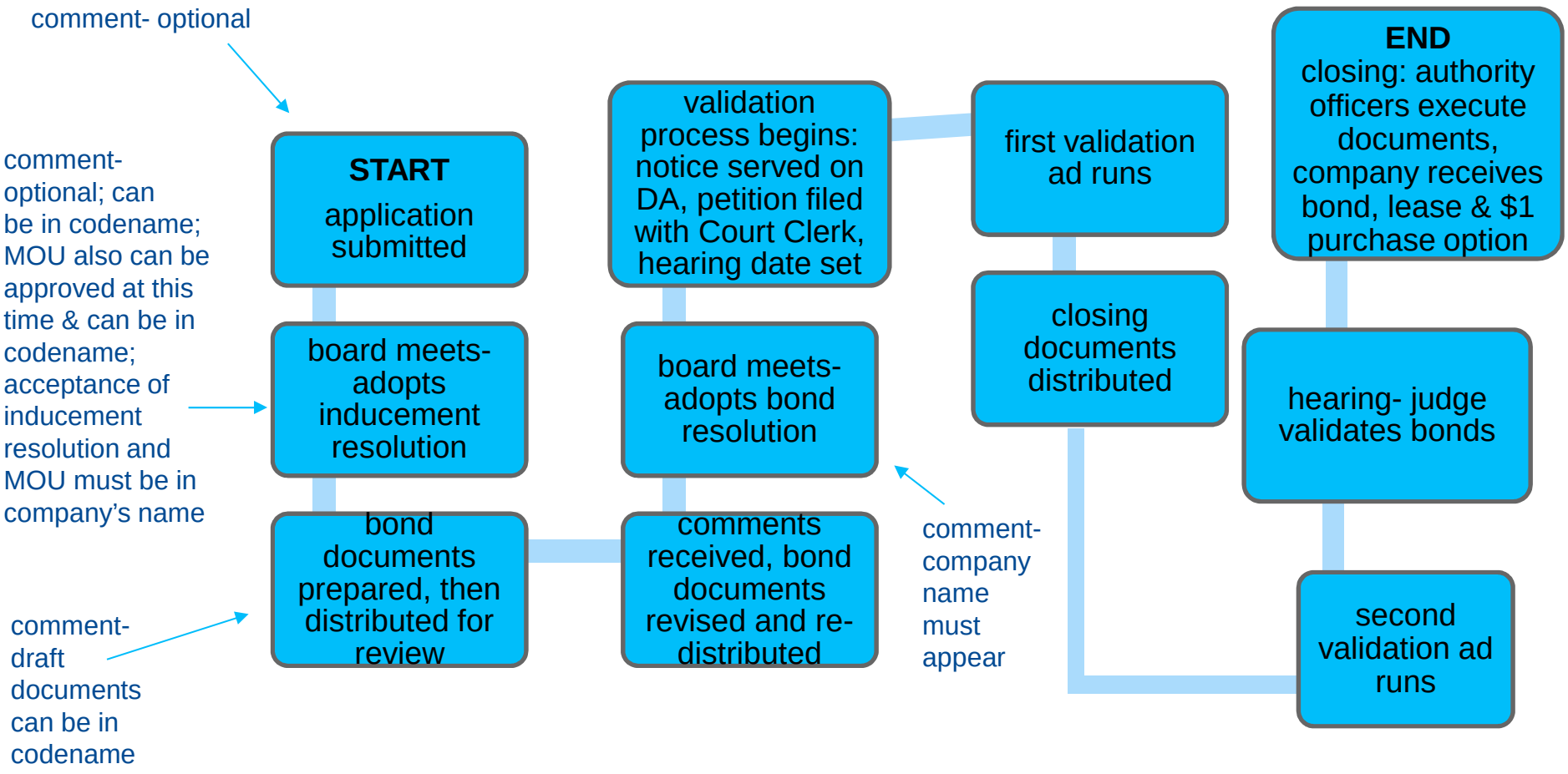
BONDS FOR TITLE
STEPS IN THE PROCESS



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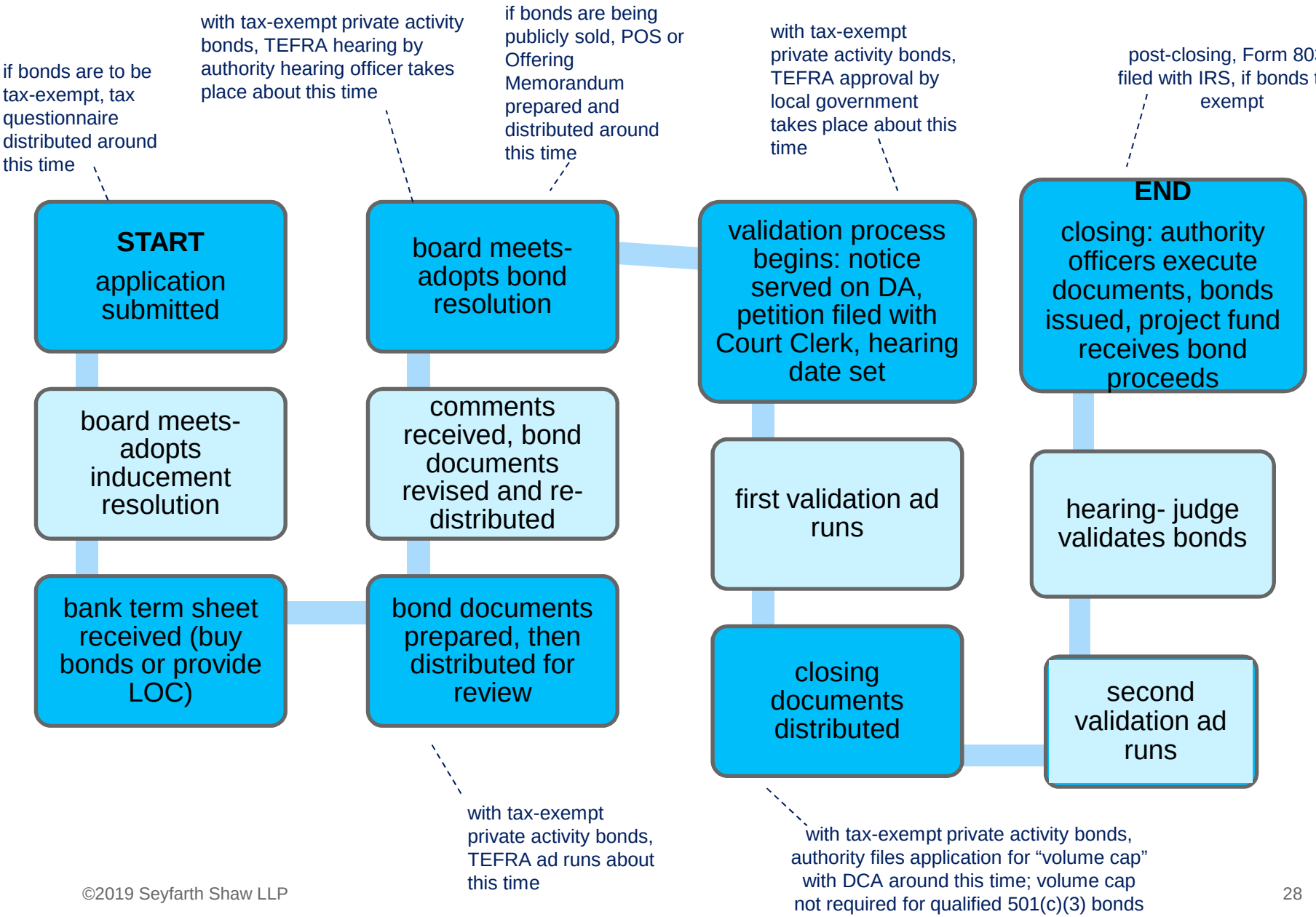
IF BONDS ARE USED FOR FINANCING



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HOW MUCH DOES IT COST?

- THE COST OF ISSUANCE IS NEGOTIABLE
  - EXCEPTION- SOME FEDERAL TAX RULES. SEE BELOW.
- THE CONDUIT BORROWER (THE COMPANY) SHOULD ASK FOR A COST OF ISSUANCE BUDGET IN ADVANCE.
- THE COMPANY SHOULD EVALUATE COSTS RELATIVE TO AMOUNT RAISED OR PROPERTY TAXES SAVED- OR BOTH, IF BONDS ARE FUNDED AND PROPERTY TAX INCENTIVES PROVIDED

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SOME GUIDELINES FOR FUNDED BONDS

- "[T]he minimum issue size is a function of market conditions. Generally, the break-even point, below which conventional forms of financing may prove to be less expensive overall, is considered to be [I THINK THIS IS NOW $2 MILLION]. This is primarily a result of the fact that the issuance costs associated with this type of financing do not decrease proportionately as the size of the financing decreases." Pasco Economic Development Council (FL)
- "Typically, smaller issues (less than $3 million) are privately placed directly with a single financial institution, while larger issues may be sold through private placement or at public sale with the services of an underwriter." Lee County, FL

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SOME FEDERAL TAX RULES

IF THE BONDS ARE TAX-EXEMPT

- UP TO 2% OF THE PROCEEDS CAN BE SPENT FOR ISSUANCE COSTS (THIS 2% IS A PART OF THE 5% ALLOWABLE “BAD MONEY”)
- GENERALLY SPEAKING TAX-EXEMPT BONDS CAN'T HAVE A YIELD THAT'S MORE THAN 1/8 OF 1% ABOVE THE INTEREST RATE.
  - "YIELD" INCLUDES ANY PROFIT TO THE DEVELOPMENT AUTHORITY. SO, GENERALLY SPEAKING, WITH TAX-EXEMPT BONDS, ITS FINANCING FEE COULD NOT BE MORE THAN 1/8 OF 1% OF THE PRINCIPAL AMOUNT.

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DEVELOPMENT AUTHORITY FINANCING FEE

- TODAY, A ONE-TIME PAYMENT AT CLOSING EQUAL TO 1/8 OF 1% OF THE MAXIMUM BOND AMOUNT IS NORMAL AS A DEVELOPMENT AUTHORITY FINANCING FEE.
  - WITH TAX-EXEMPT BONDS, YIELD IS CALCULATED ON A PRESENT VALUE BASIS, SO THE ACTUAL PERCENTAGES COULD BE DIFFERENT WHEN AN ANNUAL FEE IS CHARGED.

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DEVELOPMENT AUTHORITY FINANCING FEE

- THE “1/8 OF 1%” RULE DOESN'T APPLY WITH TAXABLE BONDS, LIKE BONDS FOR TITLE THAT ARE USED FOR PROPERTY TAX SAVINGS.
  - IN THAT CASE, THE FINANCING FEE IS LEGALLY NEGOTIABLE, ALTHOUGH NEGOTIATIONS MAY BE PRECLUDED BY DEVELOPMENT AUTHORITY POLICIES.
  - SOME DEVELOPMENT AUTHORITIES HAVE, OR ARE CONSIDERING CHARGING, AN ANNUAL FEE.
    - WAS COMMON MANY YEARS AGO.
    - NOT COMMON NOW, BUT TRENDING.

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CONCLUSION

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MORE INFORMATION

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SCOPE

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