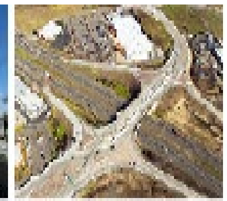
Center for Accelerating Innovation

U.S. Department of Transportation
Federal Highway Administration







On-Ramp to Innovation
every day counts

# *Value Capture Public Financing Tools*

*Disclaimer: The contents of this presentation do not have the force and effect of law and are not meant to bind the public in any way. This presentation is intended only to provide information and clarity to the public regarding existing requirements under the law or agency policies. Value capture techniques and policies are often implemented outside of Federal funding or regulatory requirements.*

# Presenters

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# Presentation Outline

1. Why link value capture and financing?
2. Key Value Capture Tools
3. Financing Definitions

→ **Poll & Questions**

4. The Bond Issuance Process
5. Examples
6. Rating Agency Frameworks
7. Structuring Considerations
8. Using VC - Considerations

→ **Poll & Questions**

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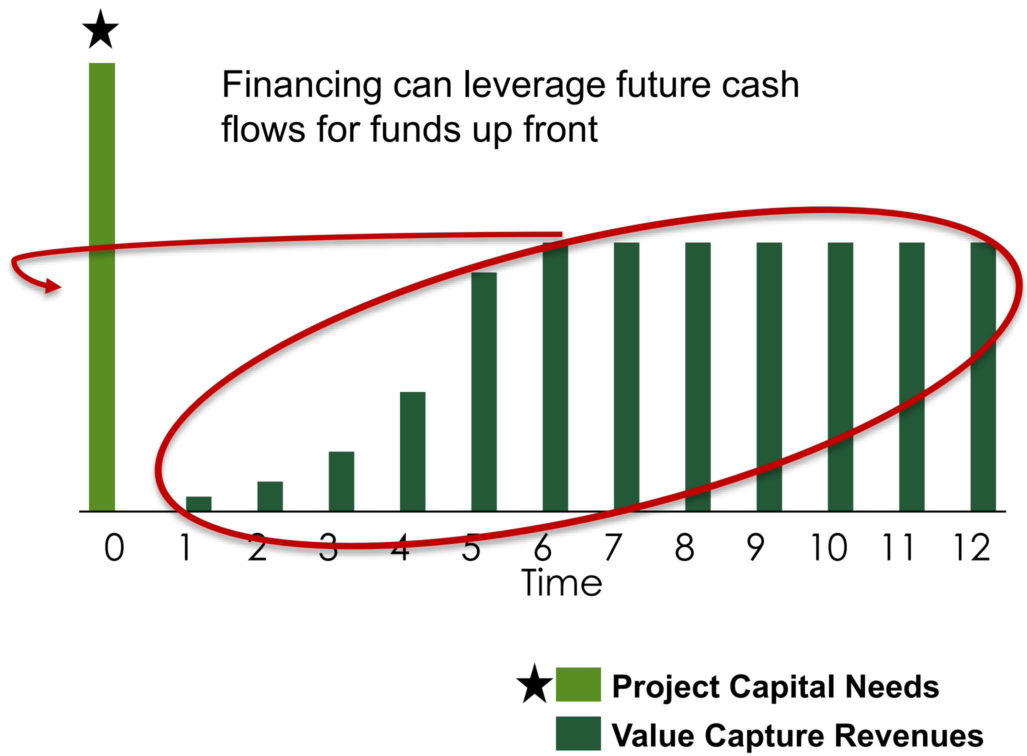
# Using financing with value capture (VC) enables access to upfront cash

1

- Often projects relying on VC funding sources (e.g. transit, roadway infrastructure) require upfront capital
- But VC funding sources typically come bit by bit over a longer period
- **A pledge of VC cashflows can raise financing**
- Other options to obtain cash in early years include grants, general obligation bonds, project phasing, early collection of TIF monies



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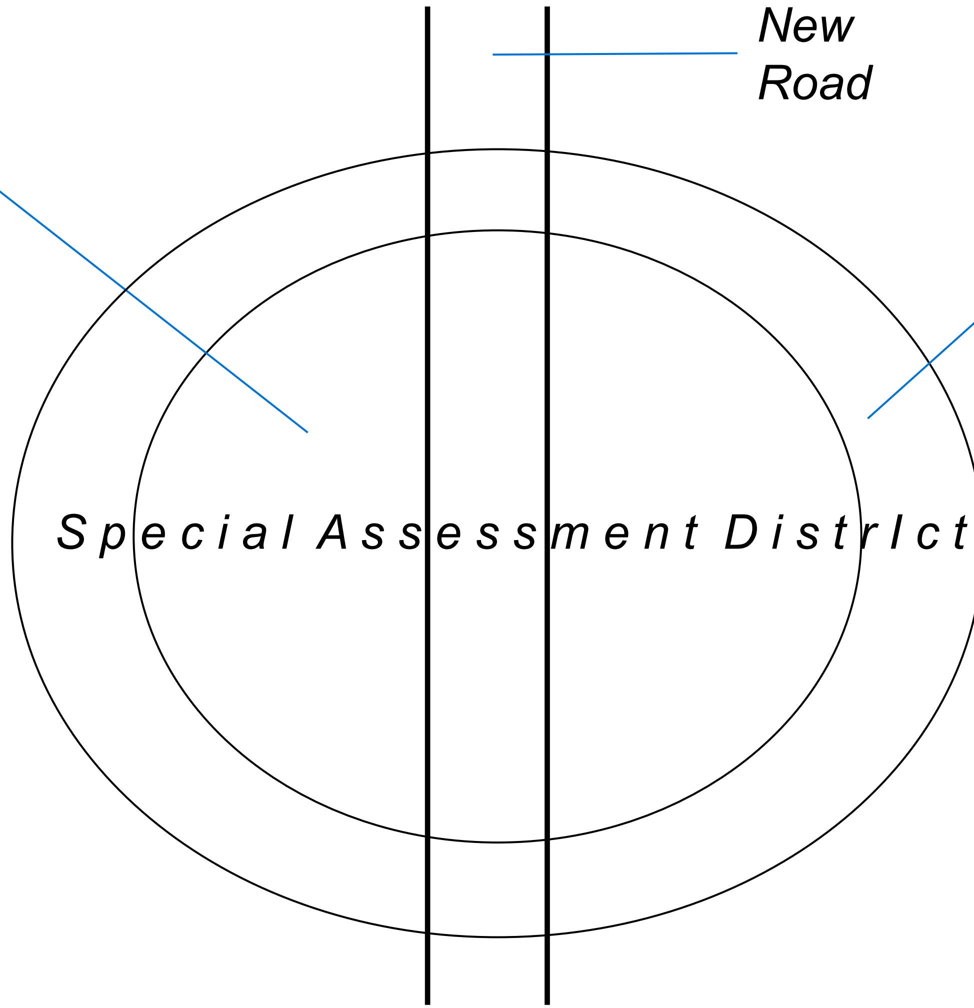
# Value capture techniques consist of six major categories and twelve mechanisms

2

| Category | Mechanism(s) | Discussed (re: financing) |
|---|---|---|
| 1. Developer Contributions | Impact Fees | |
| | Negotiated Exactions | |
| **2. Special Taxes and Fees** | **Special Assessment District (SAD)** | 1 |
| | Business Improvement District | |
| | Land Value Tax | |
| | **Sales Tax District** | 2 |
| **3. Tax Increment Financing** | **Tax Increment Financing (TIF)** | 3 |
| 4. Joint Development | At-Grade Joint Development | |
| | Above-Grade Joint Development | |
| | Utility Joint Development | |
| 5. Transportation Utility Fees | Transportation Utility Fees | |
| 6. Naming Rights | Naming Rights | |

# Special Assessment Districts (SADs) source revenues from existing properties

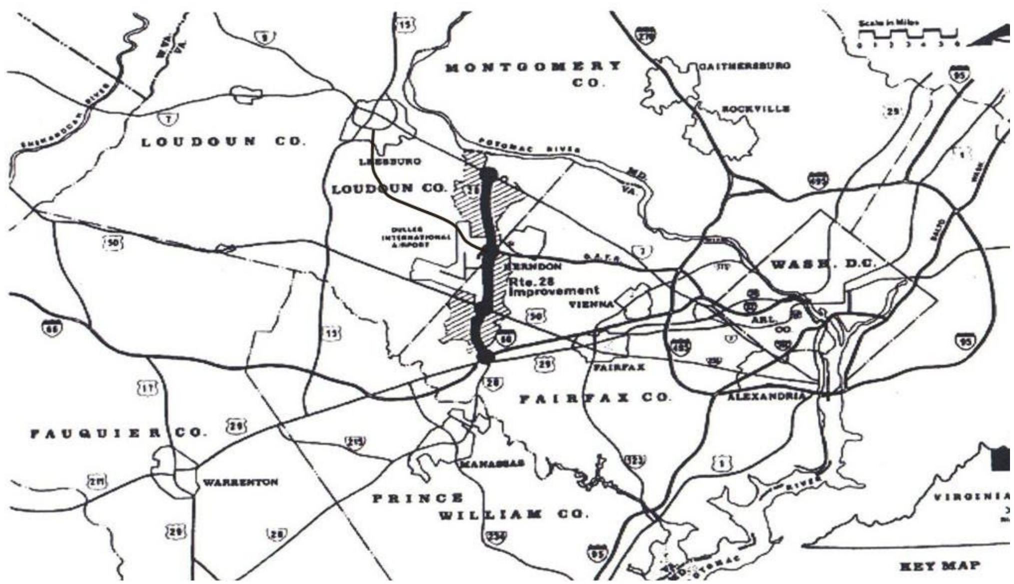
- Charged to **landowners** within district whose properties are primary beneficiaries of infrastructure
- Assessment fees are based on **property value, parcel size, street frontage and use,** or other characteristics




Fees are often **tiered** reflecting that properties closer to improvement experience greater benefit than those farther away

# DC-area’s Route 28 is earlier highway SAD, affected by real estate downturn

- SAD bonds issued for $480M project
- Initially, tax district had issues when property market weakened in 1988/1989 resulting in inadequate revenue to pay debt service
  - **Commonwealth of Virginia backstopped debt service payments**
  - Rebound of real estate 1992 allowed for bond refinancing to take advantage of lower interest rates
  - Has allowed additional construction
- Authorizing legislation **required approval of 51 percent of landowners,** requiring extensive coordination



# Sales tax districts define narrow areas where additional taxes are levied for infrastructure improvements

2

2

**What**

- "District" expected to benefit from infrastructure improvement, where additional sales taxes levied to pay for that infrastructure improvement
- Contrast with broader County-based sales tax financings

**Alternate Terms**

- Special Service Areas (Illinois); Transportation Development Districts (Missouri and Kansas)

**Uses**

- Highways and Roads
- Transit

# Co-Op District in Hutto, TX: Example of mixed-use, road-oriented development secured by TIFs and sales taxes

2

2

# Co-Op District in Hutto, TX is example of mixed-use road-oriented development secured by TIFs and sales taxes (cont'd)

<u>Key Development Statistics</u>

Commercial Development (699,000 Sq Ft.)

- City Hall: 40,000 square feet
- Hotel: 140 rooms
- Multi-Family Units: 200 units
- Entertainment/Restaurant/Office: 251,300 square feet

City Hall

2

2

# Sales taxes provide VC bonds' backstop

| | Item |
|---|---|
| **Financial Statistics** | Estimated value at buildout - $111.4 million |
| | Ad valorem tax revenues (35 years) - $82.0 million |
| | Sales tax revenues (35 years) - $47.0 million |
| | Infrastructure requirements - $13.0 million |

### Tax Increment Reinvestment Zones (TIRZ)*

**City** –60% incremental ad valorem, 35y yrs
**County** –50% incremental ad valorem, 20 yrs
**EDC** –50% incremental sales tax, 30 yrs
*all offset PID assessments

### Public Improvement District

Max funding - $17.4M

### Contract Revenue Bonds

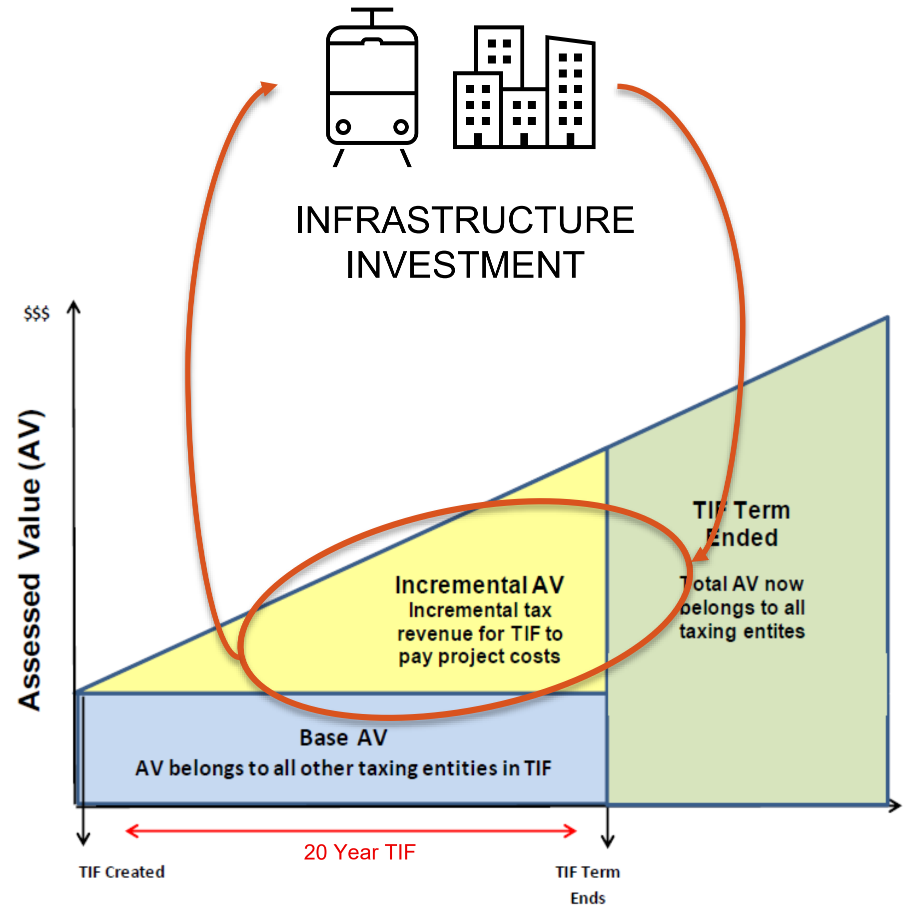
$17.4 Million gross bond amount
$13.0 Million net proceeds,
issued December 2018,
average interest rate: 6.25%

# TIF's challenge is early year revenue uncertainty…

2

3

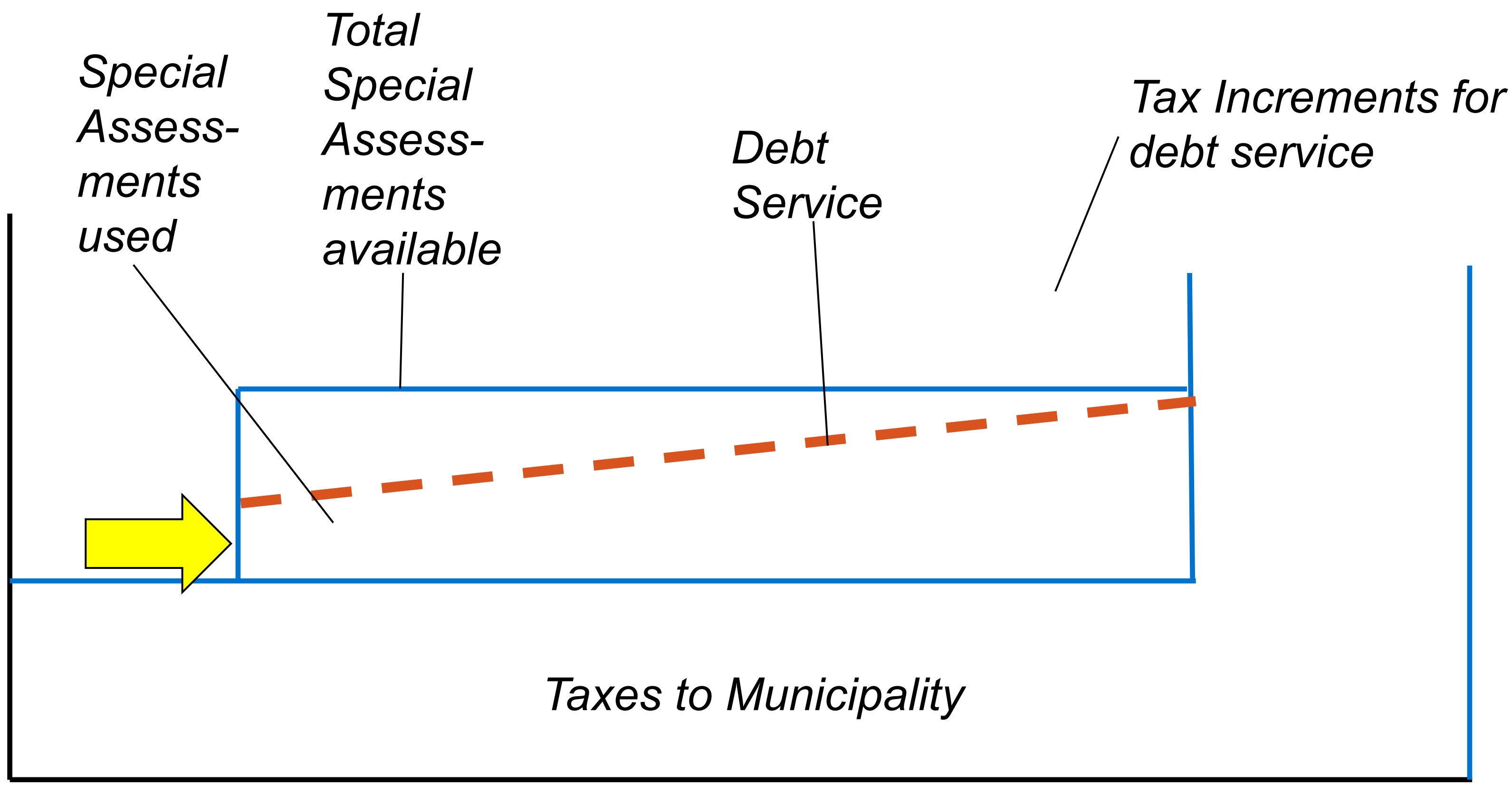
- **What?:** A TIF district is a geographic area administered by a special authority in which incremental property tax value increases from infrastructure investment are captured to fund or finance the infrastructure investment
- **Alternative Terms:** Tax allocation districts (TADs); Transportation Reinvestment Zones (TRZs)
- **Applications:** common in transit, but also used in roads



# . . . that can be overcome by employing SADs or sales tax districts to cover debt service in early years—if necessary

2

3



# Parole Town Center, Anne Arundel County, MD, is a TIF-only financing (discussed later)

2

3


Annapolis Towne Center

Westgate Annapolis Mall

Anne Arundel Medical Center

888 Bestgate Road

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→ Poll & Questions

# Goal is to leverage value capture funding sources for financing

| | Funding Sources: *Direct System Revenues* | Funding Sources: *Other, Indirect Sources* | Financing Instrument |
|---|---|---|---|
| **TRADITIONAL** | • Direct user-fees (tolls)<br>• Indirect Revenue:<br>  o Traditional advertising<br>  o Parking | • State/Local:<br>  o Appropriations<br>  o Sales taxes<br>  o Other local taxes (gas, lodging, rental car)<br>• Federal funds | • Pay-as-you-go<br>• Publicly-offered investment grade tax-exempt and taxable bonds<br>• Bank loans |
| **INNOVATIVE** | • Concessions<br>• Parking innovations<br>• Innovative advertising | • Value capture:<br>  o **Incremental growth techniques (TIF)**<br>  o **Special taxes & fees**<br>  o Joint development<br>  o Developer contributions<br>  o Transportation Utility Fees<br>  o Naming rights<br>• Partner agencies tolls | • **Nonrated tax-exempt bonds**<br>• **Private equity**<br>• **Innovative finance:**<br>  o TIFIA/RRIF<br>  o SIBs |

3

# Each financing instrument has different characteristics reflecting risks & regulations

| Financing Instrument | Key Characteristics |
|---|---|
| Tax-exempt Bonds | • Primary benefits go to investors with **taxable income and as per IRS regulations** (retail, tax-exempt mutual funds, banks, certain insurance cos)<br>• **Publicly-offered** tend to receive investment grade ratings<br>• **Private placements** tend to be non-rated/below-investment grade-rated sold to mutual funds and sometimes developers |
| Taxable Bonds | • Sometimes used in VC (Mosaic Target parking garage)<br>• Sold in publicly-offered & private placement markets |
| Innovative Finance (TIFIA/RRIF, SIBs) | • Follow federal/state eligibility rules<br>• Longer maturities, lowest costs, repayment flexibility<br>• Can take longer period to market |
| Loans | • Offer shorter terms & some flexibility in terms<br>• Used often as bridge financing |
| Equity | • Provided by developer with higher requirements<br>• Amount depends on financing requirements, if any |

3

# VC financings, forms of revenue bonds, occupy higher risk segment of muni market

MUNICIPAL BONDS

**General Obligation**

Backed by pledge of **total net revenue generated** by the relevant government entity or agency ("full faith and credit")

***

**Common Issuers:**
States, cities, towns

**Government Perspective:**
Less costly, can be subject to debt limit

**Rating Agency Perspective:**
Lower credit risk

**Revenue Bonds**

Secured **only by net operational revenue streams** generated by the agency/project

***

**Common Issuers:**
Transportation agencies, utilities, **TIF/SAD districts**

**Government Perspective:**
Costlier; not subject to debt limit

**Rating Agency Perspective:**
Higher credit risk

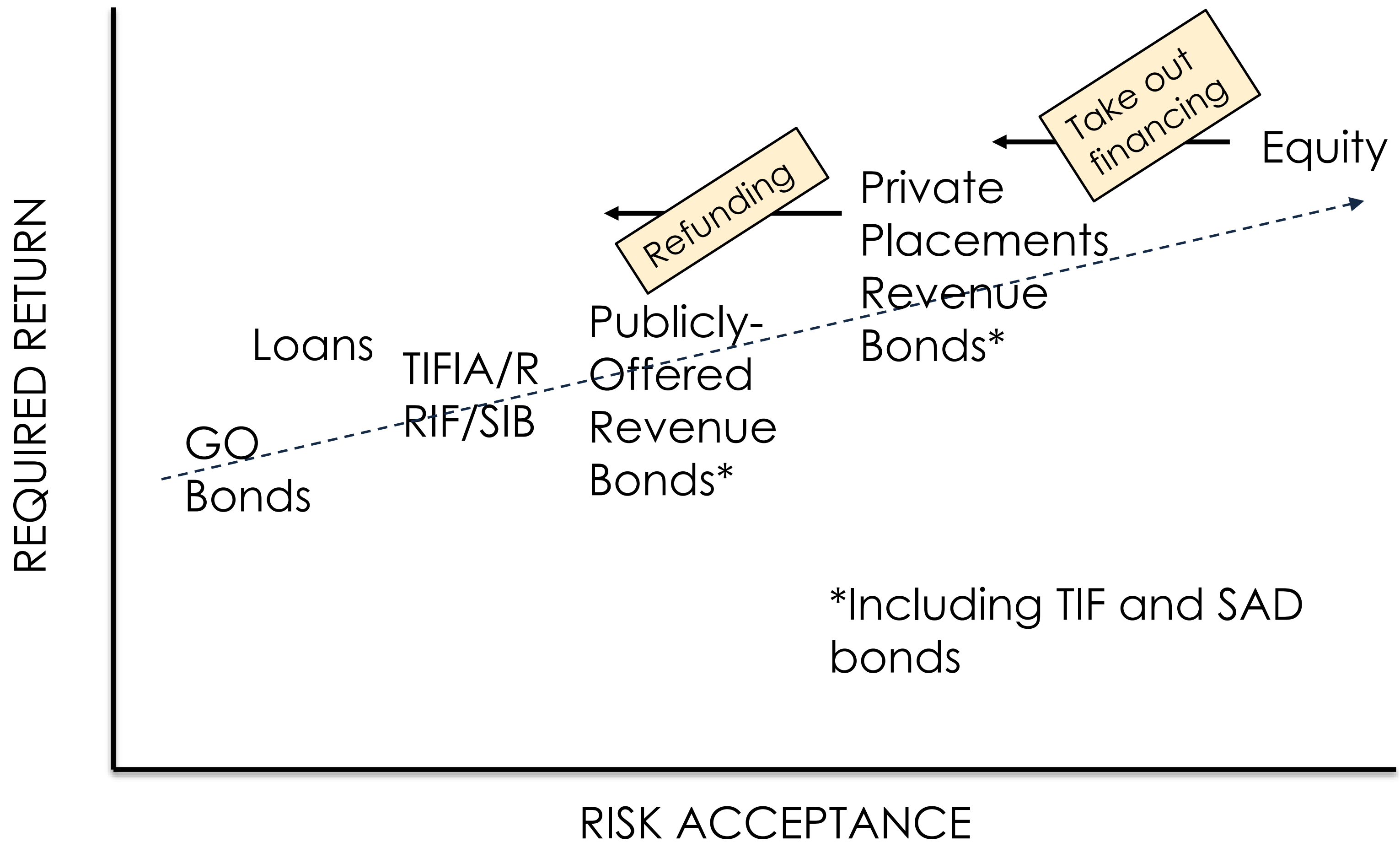
# While VC revenues are riskier, Federal and State lenders open to financing them

3

| | | | |
|---|---|---|---|
| PROGRAM | Railroad Rehabilitation and Improvement Financing (RRIF) | Transportation Infrastructure Finance and Innovation Act (TIFIA) | State Infrastructure Banks |
| PURPOSE | Direct loans and loan guarantees up to $35B to finance development of railroad infrastructure. | Credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to transportation projects of regional or national importance | Revolving infrastructure investment funds for surface transportation. Can offer a range of loans and credit enhancement products to public and private sponsors |
| EXAMPLES | 1. Denver Union Station (TIF, SAD, Land Sale) | 1. Denver Union Station (TIF, SAD, Land Sale)<br>2. Sales Force Transit Center (TIF, Land Sale, Naming Rights)<br>3. Moynihan Station (PILOT TIF) | 1. Potomac Station Project (VA) (TIF)<br>2. Panama City Airport (FL) (Land Sale) |

# Where possible, public agencies & developers refund/refinance initial VC bonds and equity once start-up risks have lessened

3



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**Poll & Questions**

# POLL 1

1. A key reason to use financing in conjunction with Value Capture for your project is (select all the apply):
   a) Value Capture sources will provide funding in the future, though your project needs money now
   b) Interest rates are super low right now and it is good to leverage
   c) You have projected stable value capture revenues and no other good options to pay for building the project now

2. Select all that are true:
   a) Revenue bonds are riskier than GO bonds
   b) GO bonds are secured only by net operational revenue streams generated by the agency/project
   c) Revenue bonds are secured only by net operational revenue streams generated by the agency/project
   d) GO bonds are commonly used with value capture-backed projects

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Poll & Questions

# Typical VC financing process entails several steps and numerous participants

4

PROCESS

Identify Project → Plan Project → Establish Finan-cing Program → Engage Finan-cing Team → Obtain Approvals, Issue Debt, Start Con-struction

PARTI-CIPANTS/ STAKE-HOLDERS

- Public Agency
- Developer
- Community
- Technical Advisors
- Financial Advisor
- Rating Agencies
- Bond Counsel
- Underwriter

# Public agencies and/or developers identify projects

4

Identify Project → Plan Project → Establish Financing Program → Engage Financing Team → Obtain Approvals, Issue Debt, Start Con-struction

PARTI-CIPANTS/ STAKE-HOLDERS

Public Agency | Developer | Community

STEPS

- Identify project that meets local community's development needs and ambitions
- Obtain site control

# Both advisors and—critically—community further shape project

4


PARTI-CIPANTS/ STAKE-HOLDERS

- Public Agency
- Developer
- Community
- Technical Advisors

STEPS

- Take necessary steps to evaluate and develop project:
  - Engage local stakeholders
  - Conduct studies (engineering, environment, etc.)

# Financing program is set by market needs, often via rating agency frameworks

4


PARTI-CIPANTS/ STAKE-HOLDERS

- Public Agency
- Developer
- Financial Advisors
- Technical Advisor

STEPS

- Engage some financing team members
- Identify funding needs, repayment sources, and appropriate bond structure
- Apply rating agency framework, if appropriate

# Preparing for financing necessitates studies, advisor inputs, rating agency engagement

4

Identify Project → Plan Project → Establish Financing Program → **Engage Financing Team** → Obtain Approvals, Issue Debt, Start Con-struction

PARTI-CIPANTS/ STAKE-HOLDERS

| Public Agency | Underwriter | Financial Advisor | Rating Agency | Bond Counsel |
|---|---|---|---|---|

STEPS

- Appoint underwriter and counsel
- Introduce rating agency to issuer's (government entity) credit (if available)
- Structure financing
- Secure rating

# Good planning will make final approvals and market access go smoothly

4

Identify Project → Plan Project → Establish Financing Program → Engage Financing Team → Obtain Approvals, Issue Debt, Start Con-struction

PARTI-CIPANTS/ STAKE-HOLDERS

Public Agency | Underwriter | Developer

STEPS

- Obtain legislative approvals for financing terms
- Issue debt in respective market
- Commence construction

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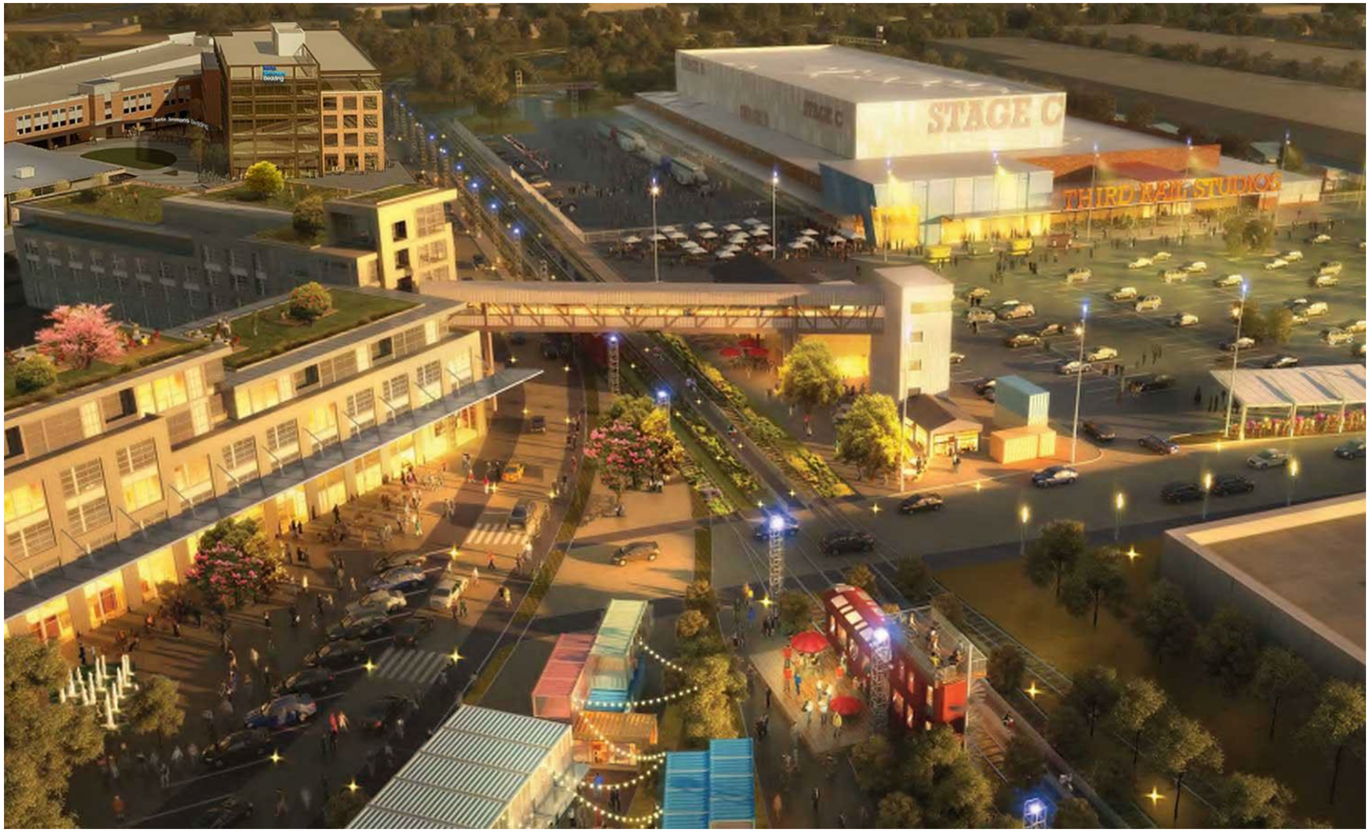
# Assembly Yards (Doraville, GA) mixed-use highway/transit-oriented development…

5




## …financed with TIF, special assessments, other taxes

# Assembly seeks to be retail, entertainment, and lifestyle center . . .

5

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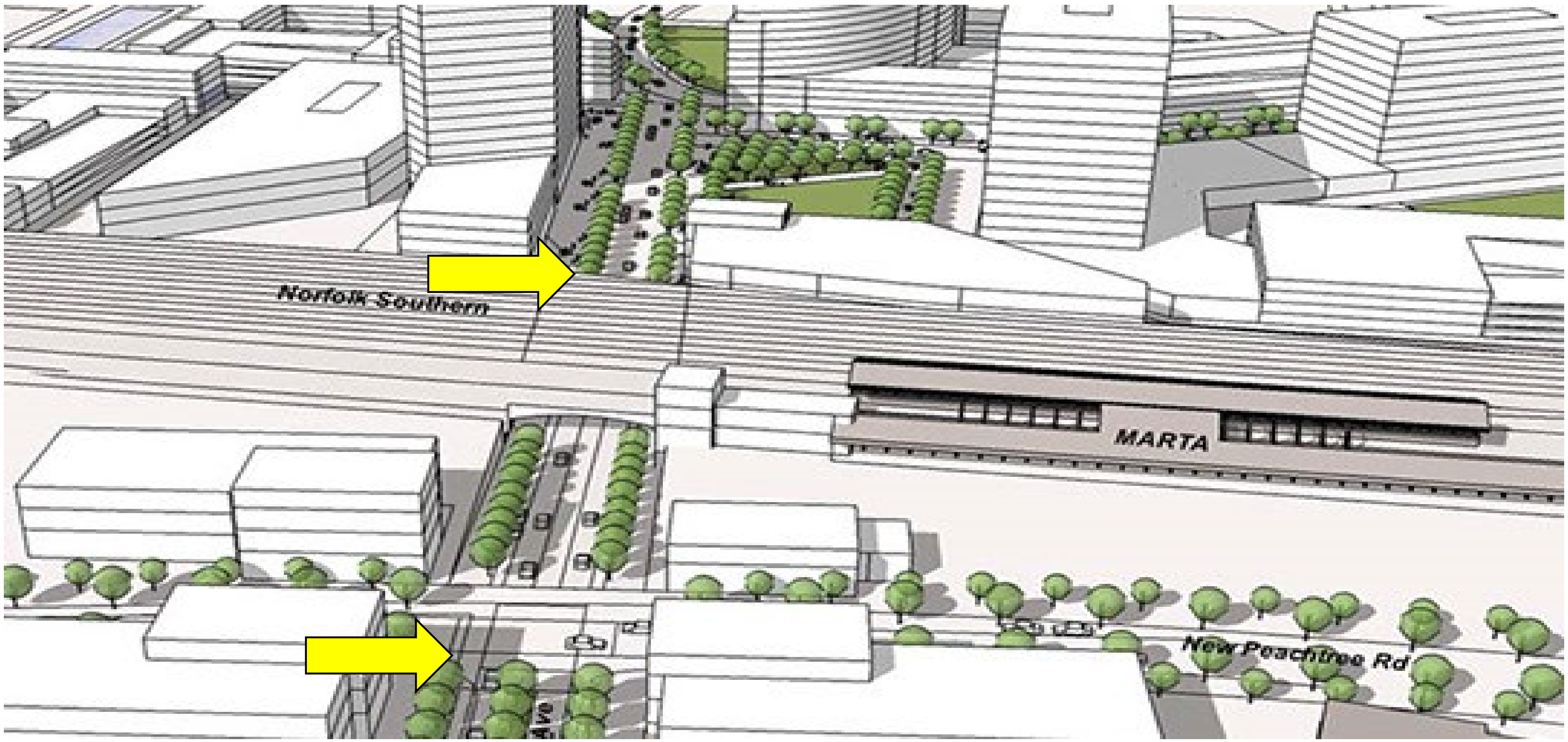
# . . . offering numerous amenities . . .

# . . . including leveraging existing movie studio

5

# Critical VC-financed infrastructure is "covered street" connecting station to development

5



# To minimize development risk & respond to market, Assembly was developed in phases

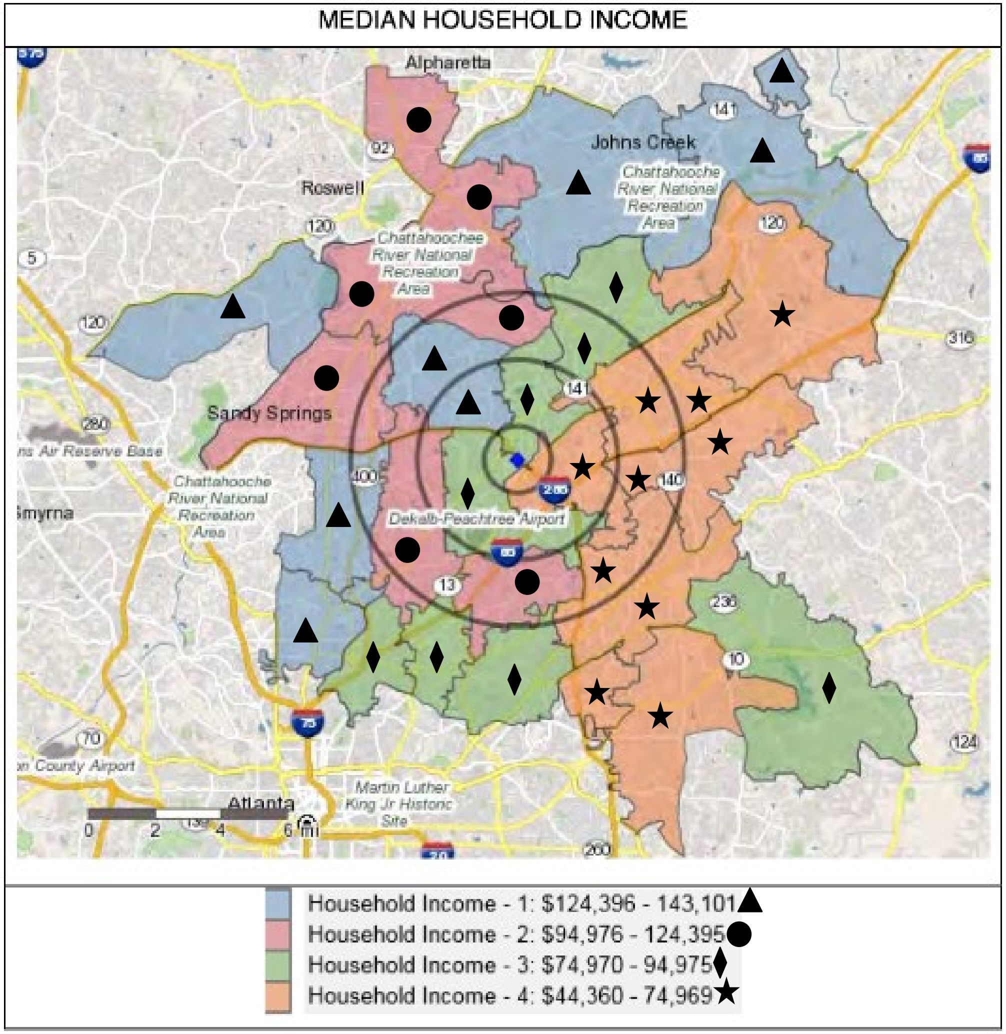
5


Integral

EDC

# Assembly area's 2015 household incomes > US' $76,502, exceeding rating agency bar

5



# Most Assembly area property owners paid taxes, another rating agency criterion

5

## County Property Tax Levies and Collections (in thousands of dollars)

| Fiscal Year | Total Tax Levy | Collection of Current Year's Taxes | Percent of Levy Collected | Delinquent Tax Collected | Total Tax Collected | Percent of Total Collections to Tax Levy | Outstanding Delinquent Taxes | Outstanding Delinquent Taxes as Percent of Current Levy |
|---|---|---|---|---|---|---|---|---|
| 2011 | 320,703 | 297,522 | 92.77 | 16,270 | 313,792 | 97.85 | 15,985 | 4.98 |
| 2012 | 282,516 | 254,394 | 90.05 | 12,065 | 266,459 | 94.32 | 19,275 | 6.82 |
| 2013 | 256,726 | 233,655 | 91.01 | 17,439 | 251,094 | 97.81 | 14,212 | 5.54 |
| 2014 | 262,809 | 238,877 | 90.89 | 13,641 | 252,518 | 96.08 | 14,239 | 5.42 |
| 2015 | 305,026 | 284,882 | 93.40 | 9,871 | 294,753 | 96.63 | 15,424 | 5.06 |

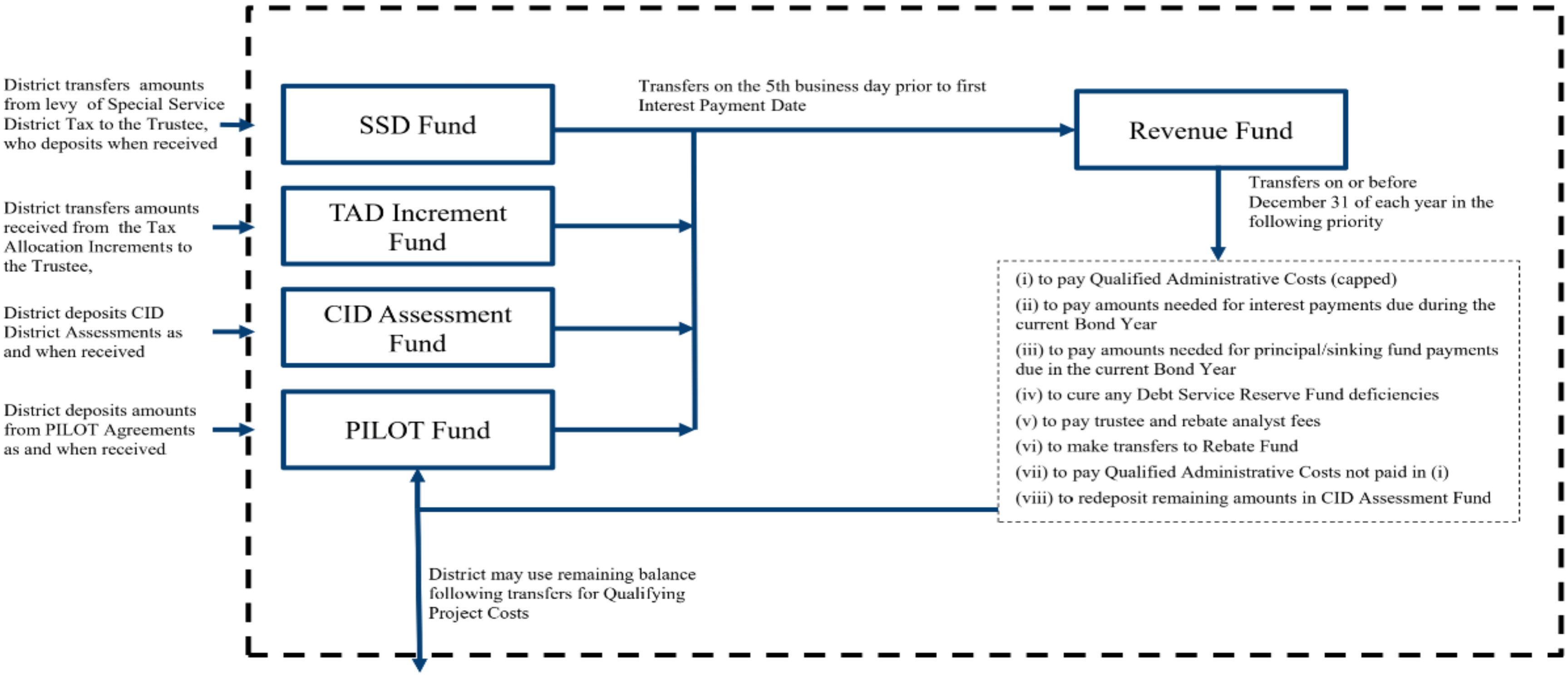
# Assembly VC bonds funded covered street, green space, utilities, other streets

5

## CIP AND SERIES 2017 PROJECTS PRELIMINARY BUDGET FOR THE DISTRICT

| Budgetary Line Item | Conceptual Budget | Phase I Cost | Phase II Cost | Phase III Cost | Total Budgeted Cost |
|---|---|---|---|---|---|
| Concrete Demolition and Foundation Removal | $6,875,000 | $1,925,000 | - | $4,950,000 | $6,875,000 |
| Mass Grading: Bio Swales and Water Detention | 18,061,475 | 9,986,475 | - | 8,075,000 | 18,061,475 |
| Remediation of Primary Insurance Amounts | 4,000,000 | 1,200,000 | $75,000 | 2,725,000 | 4,000,000 |
| West Avenue | 5,450,000 | 350,000 | - | 5,100,000 | 5,450,000 |
| Campus/Station Square | 13,410,000 | | 2,000,000 | 11,410,000 | 13,410,000 |
| Covered Street | 55,500,000 | 2,775,000 | 52,725,000 | - | 55,500,000 |
| Park Furnishings Amenities | 2,000,000 | 1,000,000 | - | 1,000,000 | 2,000,000 |
| Public Parking (1500 space) | 26,712,450 | - | - | 26,712,450 | 26,712,450 |
| Site Streets and Utilities | 31,550,000 | 12,384,700 | 2,910,800 | 16,254,500 | 31,550,000 |
| Engineering, Design Fees | 4,340,000 | 1,910,000 | 1,320,000 | 1,110,000 | 4,340,000 |
| Developer Services | 3,450,000 | 825,000 | 1,125,000 | 1,500,000 | 3,450,000 |
| CM Fee | 3,580,000 | 700,000 | 1,240,000 | 1,640,000 | 3,580,000 |
| Contingency | 5,435,075 | 1,943,825 | 2,636,250 | 855,000 | 5,435,075 |
| **Grand Total** | **$180,364,000** | **$35,000,000** | **$64,032,050** | **$81,331,950** | **$180,364,000** |

# Several Assembly sources—SSD (special assessment), TAD (TIF), CID (other taxes), and PILOT (Serta HQ)—paid debt service



# Special Service District supported projects in downside scenarios

5

**Projected Pledged Revenues (Midway to Scheduled Maturity and Cumulative)**

| *Scenario* | *Annual Pledged Revenue as of Bond Year Ending January 1, 2032[a]* | *Cumulative Pledged Revenue Through Bond Year Ending January 1, 2047* |
|---|---|---|
| **Scenario A (Base Scenario)** | | |
| Tax Allocation Increment | $4,508,031 | $124,338,906 |
| District CID Assessments | $4,810,868 | $132,635,064 |
| PILOT Payments | $226,549 | $8,726,184 |
| Special Service District Taxes | $0 | $0 |
| **Total (Scenario A)** | $9,545,449 | $265,700,155 |
| **Scenario B (No Inflation)** | | |
| Tax Allocation Increment | $3,279,104 | $83,806,469 |
| District CID Assessments | $3,713,283 | $96,384,807 |
| PILOT Payments | $175,130 | $6,842,567 |
| Special Service District Taxes | $0 | $0 |
| **Total (Scenario B)** | $7,167,517 | $187,033,843 |
| **Scenario C (Phase I Only)** | | |
| Tax Allocation Increment | $1,329,699 | $38,474,765 |
| District CID Assessments | $1,640,373 | $46,383,463 |
| PILOT Payments | $226,549 | $8,726,184 |
| Special Service District Taxes | $1,776,496 | $38,812,359 |
| **Total (Scenario C)** | $4,973,116 | $132,396,772 |
| **Scenario D (Under Contract)** | | |
| Tax Allocation Increment | $745,359 | $21,825,255 |
| District CID Assessments | $690,740 | $19,325,682 |
| PILOT Payments | $226,549 | $8,726,184 |
| Special Service District Taxes | $3,310,468 | $82,519,650 |
| **Total (Scenario D)** | $4,973,116 | $132,396,772 |

[a] Fifteen years from date of issuance of the Series 2017A Bonds.

(Portions of Phase 1)

# With Special Service District taxes, coverages rose to110% in downside cases

5

Projected Debt Service Coverage – Bond Year Ending January 1, 2032
(Tax Allocation Increment, District CID Assessments, and PILOT Payments)

| *Scenario* | *Annual Obligations*[a] | *Annual Pledged Revenues* | *Debt Service Coverage* |
|---|---|---|---|
| Scenario A | $4,521,015 | $9,545,449 | 211% |
| Scenario B | $4,521,015 | $7,167,517 | 159% |
| Scenario C | $4,521,015 | $3,196,621 | 71% |
| Scenario D | $4,521,015 | $1,662,648 | 37% |

[a]Includes projected principal, interest, administrative expenses, and District fees.

TABLE I-D
Projected Debt Service Coverage – Bond Year Ending January 1, 2032
(Including Special Service District Taxes)

| *Scenario* | *Annual Obligations*[a] | *Annual Pledged Revenues* | *Debt Service Coverage* |
|---|---|---|---|
| Scenario A | $4,521,015 | $9,545,449 | 211% |
| Scenario B | $4,521,015 | $7,167,517 | 159% |
| Scenario C | $4,521,015 | $4,973,116 | 110% |
| Scenario D | $4,521,015 | $4,973,116 | 110% |

[a]Includes projected principal, interest, administrative expenses, and District fees.

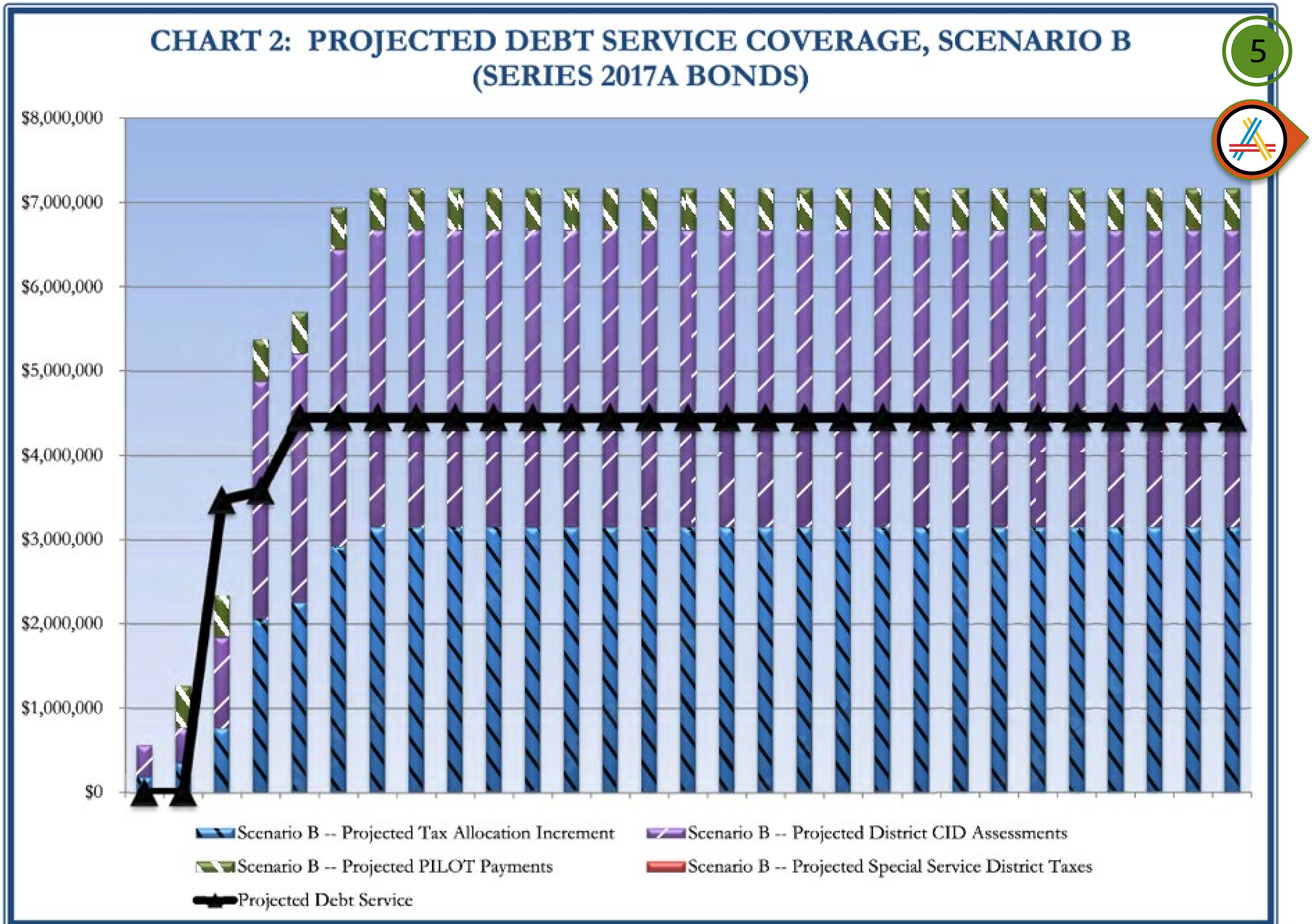


CHART 2: PROJECTED DEBT SERVICE COVERAGE, SCENARIO B
(SERIES 2017A BONDS)
5
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
Scenario B -- Projected Tax Allocation Increment
Scenario B -- Projected District CID Assessments
Scenario B -- Projected PILOT Payments
Scenario B -- Projected Special Service District Taxes
Projected Debt Service

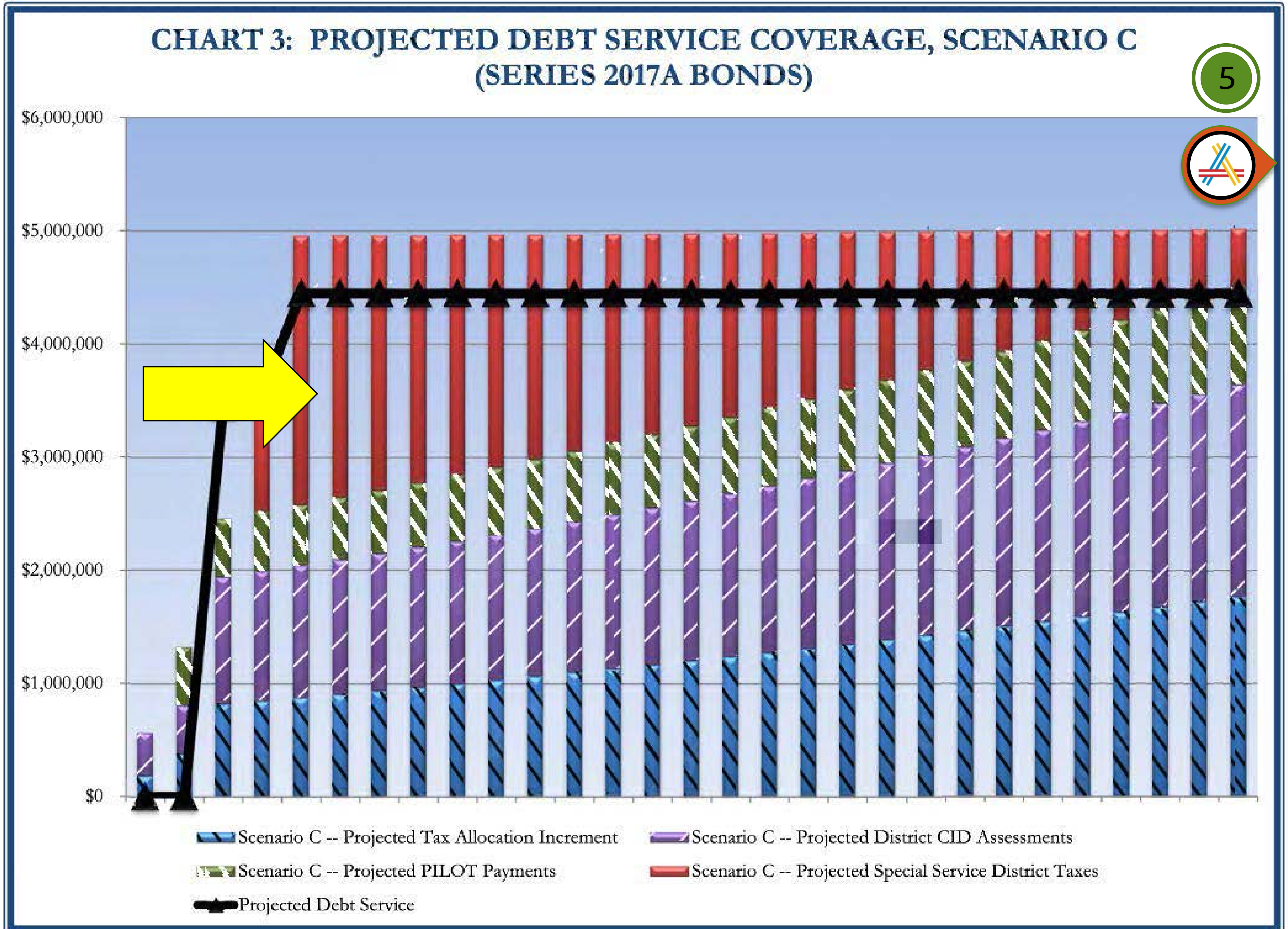
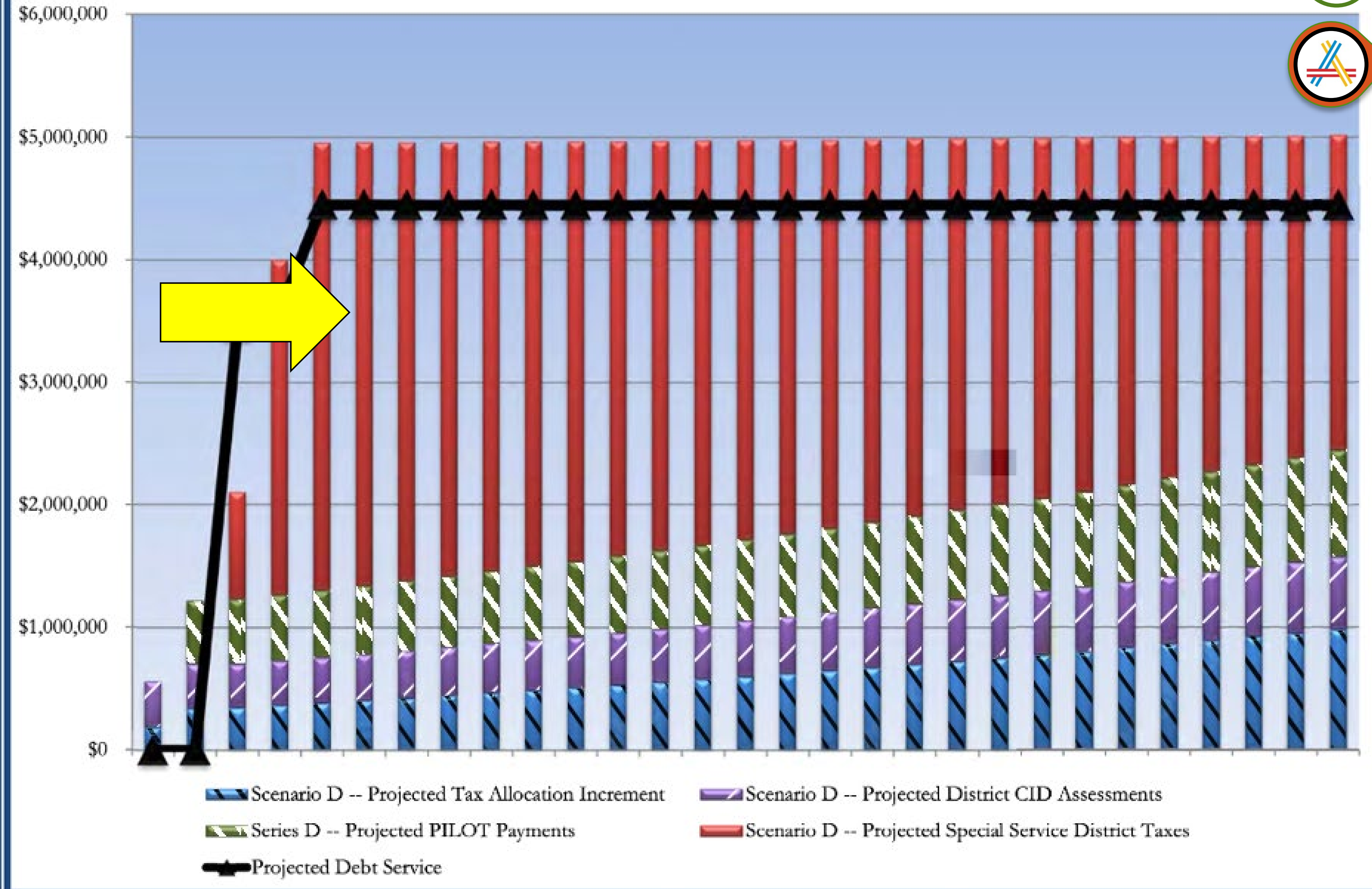
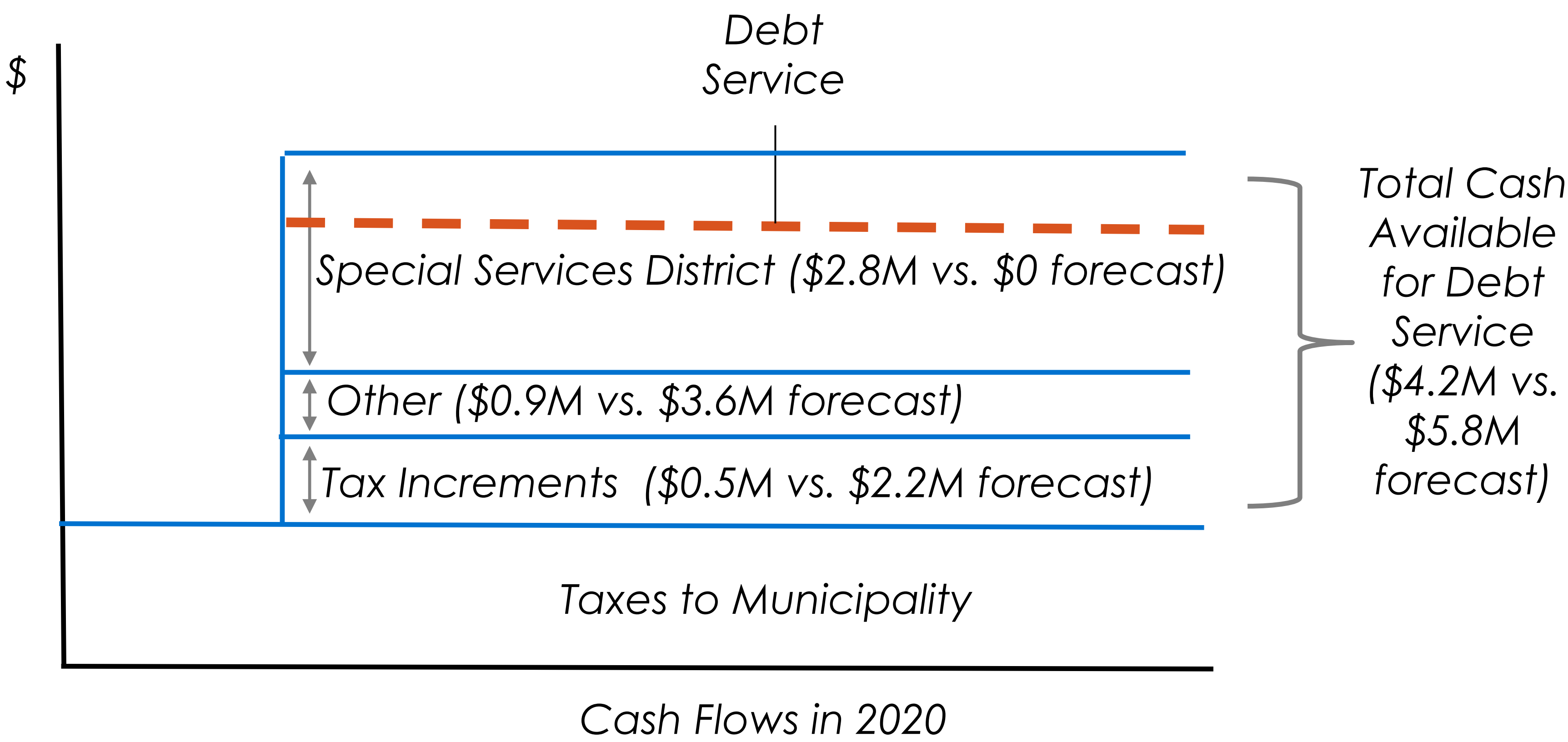


CHART 3: PROJECTED DEBT SERVICE COVERAGE, SCENARIO C
(SERIES 2017A BONDS)
5
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
Scenario C -- Projected Tax Allocation Increment
Scenario C -- Projected District CID Assessments
Scenario C -- Projected PILOT Payments
Scenario C -- Projected Special Service District Taxes
Projected Debt Service

# CHART 4: PROJECTED DEBT SERVICE COVERAGE, SCENARIO D (SERIES 2017A BONDS)



# In 2020, Assembly disclosed COVID risks to bondholders and took advantage of SSD backstop



# Mosaic is mixed-use "road-oriented" development in northern VA, financed with TIF and supported by special assessments

5

# Like Assembly, Mosaic fosters a mix of uses

5

# Financed in 2011, Mosaic projected significant incremental value—over $400M—over base value even in downside cases

5

**Projected Assessed Values**

| *Mosaic CDA District (Expressed in 2011 Dollars)* | *Projected Value* | *Base Value*[1] | *Incremental Value* |
|---|---|---|---|
| Scenario A *(approved development plan)* | $462,606,838 | $38,271,740 | $424,335,098 |
| Scenarios B & C *(proposed development plan)* | $449,668,328 | $38,271,740 | $411,396,588 |
| Scenario D *(market study assumptions)* | $475,378,529 | $38,271,740 | $437,106,789 |
| [1]Value as of tax year 2007. | | | |

| Scenario | Inflation/ Tax Rate Growth | Retail (Sq Ft) | Restaurant (Sq Ft) | Hotel Rooms | Theater (Sq Ft) |
|---|---|---|---|---|---|
| A | 3%/(0.75%) | 450,063 | 52,600 | 375 | 120,000 |
| B | 3%/(0.75%) | 403,300 | 60,700 | 300 | 40,100 |
| C | 0%/0% | 403,300 | 60,700 | 300 | 40,100 |
| D | 3%/(0.75%) | 403,300 | 60,700 | 300 | 40,100 |

# Downside cases, especially Scenario C, showed significant deficits

5

**Projected Special Assessments – Life of Tax Revenue Bonds**[7]

| *Scenario* | *Total Projected Special Assessments Through Bond Year Ending 2041* |
| --- | --- |
| Scenario A | $0 |
| Scenario B | $1,160,244 |
| Scenario C | $39,820,889 |
| Scenario D | $0 |

# Special assessments would fill debt service gap in Scenario B

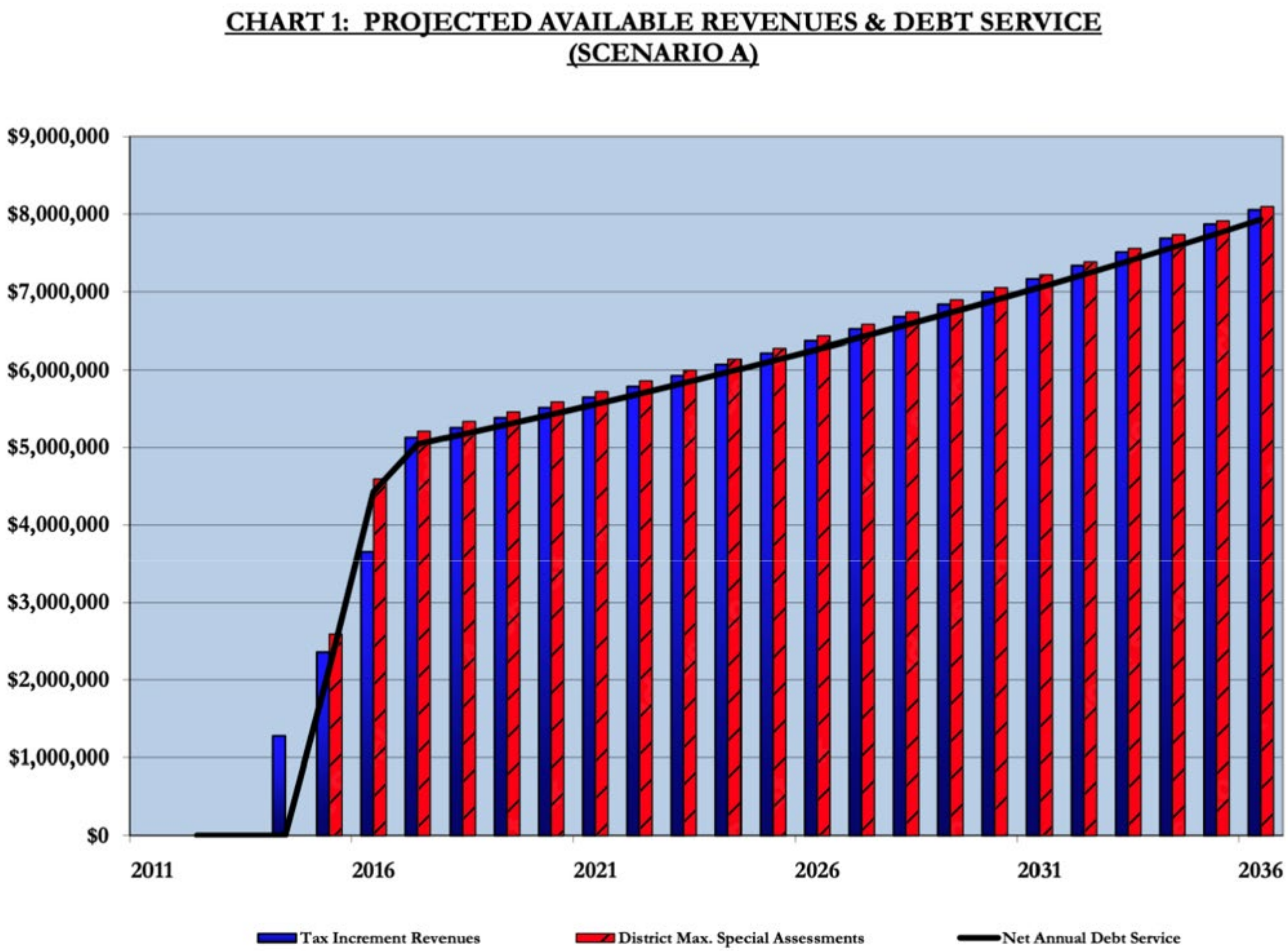
5

Estimated Tax Revenues, Special Assessments, and Debt Service Coverage - Scenario B

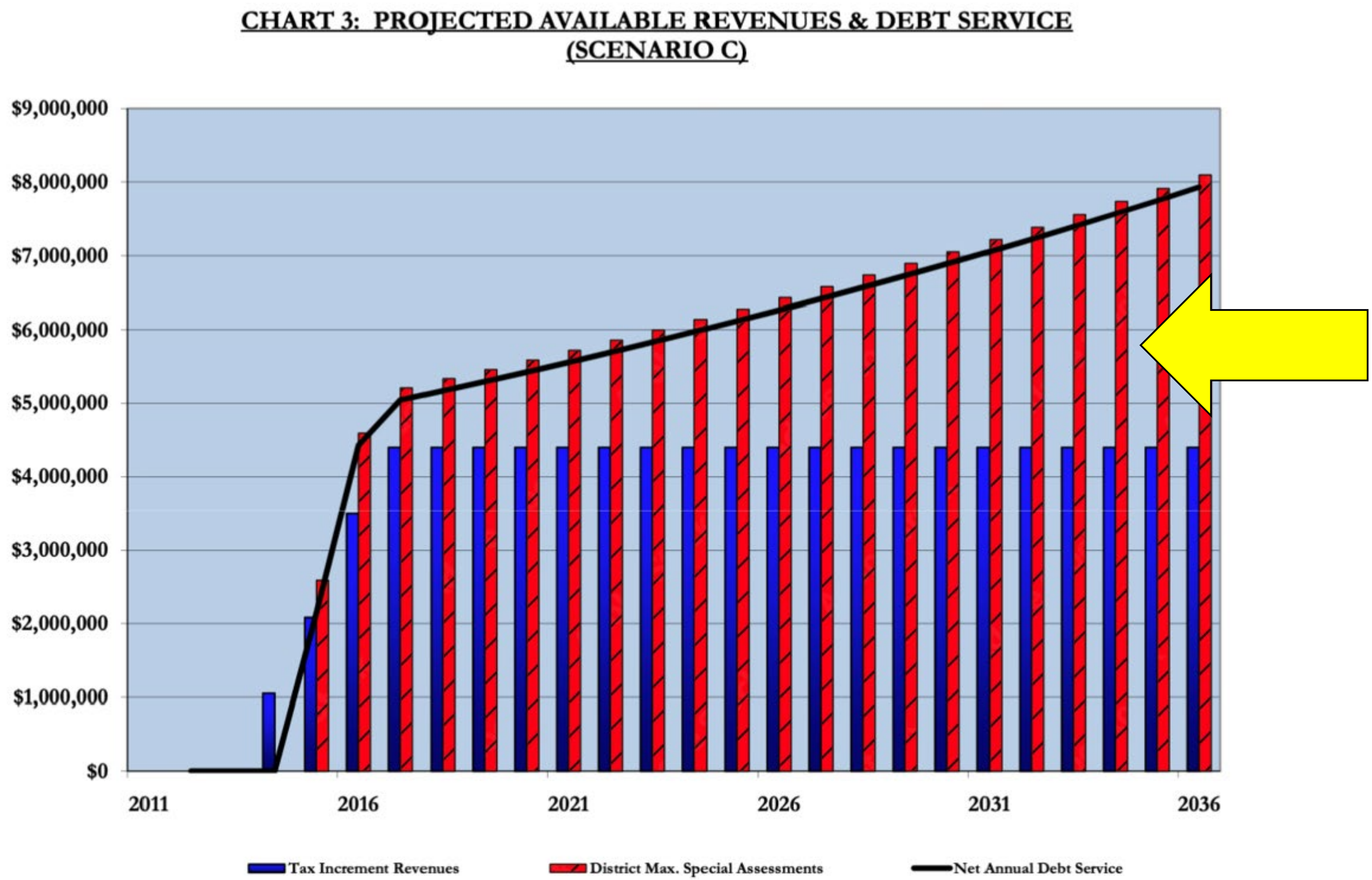
| Bond Year Ending | Series A Net Annual Debt Service[1] | Total Tax Increment Revenues[2] | Surplus/ (Deficit) | Debt Service Coverage[4] | Advances from the Surplus Fund[2] | Special Assmt. Requirement[2] | Debt Service Coverage[5] | District Max. Special Assessments | Max. Special Assessments Plus Increment | Combined Debt Service Coverage[6] |
|---|---|---|---|---|---|---|---|---|---|---|
| 1-Mar-12[3] | $0 | $0 | $0 | NA | $0 | $0 | NA | $0 | $0 | NA |
| 1-Mar-13[3] | $0 | $0 | $0 | NA | $0 | $0 | NA | $0 | $0 | NA |
| 1-Mar-14[3] | $0 | $1,123,949 | $1,123,949 | NA | $0 | $0 | NA | $0 | $1,123,949 | NA |
| 1-Mar-15 | $2,157,919 | $2,263,384 | $105,465 | 104.9% | $0 | $0 | 104.9% | $2,589,303 | $4,852,687 | 224.9% |
| 1-Mar-16 | $4,429,983 | $3,873,620 | ($556,362) | 87.4% | $556,362 | $0 | 100.0% | $4,594,108 | $8,467,728 | 191.1% |
| 1-Mar-17 | $5,046,023 | $4,977,358 | ($68,665) | 98.6% | $68,665 | $0 | 100.0% | $5,210,148 | $10,187,506 | 201.9% |
| 1-Mar-18 | $5,172,147 | $5,099,971 | ($72,176) | 98.6% | $72,176 | $0 | 100.0% | $5,336,272 | $10,436,243 | 201.8% |
| 1-Mar-19 | $5,297,479 | $5,225,227 | ($72,252) | 98.6% | $72,252 | $0 | 100.0% | $5,461,604 | $10,686,832 | 201.7% |
| 1-Mar-20 | $5,426,396 | $5,353,187 | ($73,209) | 98.7% | $73,209 | $0 | 100.0% | $5,590,521 | $10,943,707 | 201.7% |
| 1-Mar-21 | $5,557,909 | $5,483,909 | ($74,000) | 98.7% | $74,000 | $0 | 100.0% | $5,722,034 | $11,205,944 | 201.6% |
| 1-Mar-22 | $5,696,083 | $5,617,458 | ($78,625) | 98.6% | $78,625 | $0 | 100.0% | $5,860,208 | $11,477,666 | 201.5% |
| 1-Mar-23 | $5,835,223 | $5,753,895 | ($81,328) | 98.6% | $81,328 | $0 | 100.0% | $5,999,348 | $11,753,244 | 201.4% |
| 1-Mar-24 | $5,977,718 | $5,893,287 | ($84,431) | 98.6% | $71,921 | $12,510 | 100.0% | $6,141,843 | $12,035,131 | 201.3% |
| 1-Mar-25 | $6,117,181 | $6,035,700 | ($81,481) | 98.7% | $0 | $81,481 | 100.0% | $6,281,306 | $12,317,007 | 201.4% |
| 1-Mar-26 | $6,267,618 | $6,181,202 | ($86,417) | 98.6% | $0 | $86,417 | 100.0% | $6,431,743 | $12,612,945 | 201.2% |
| 1-Mar-27 | $6,416,949 | $6,329,861 | ($87,088) | 98.6% | $0 | $87,088 | 100.0% | $6,581,074 | $12,910,936 | 201.2% |
| 1-Mar-28 | $6,573,461 | $6,481,750 | ($91,711) | 98.6% | $0 | $91,711 | 100.0% | $6,737,586 | $13,219,337 | 201.1% |
| 1-Mar-29 | $6,729,493 | $6,636,941 | ($92,553) | 98.6% | $0 | $92,553 | 100.0% | $6,893,618 | $13,530,559 | 201.1% |
| 1-Mar-30 | $6,888,327 | $6,795,507 | ($92,820) | 98.7% | $0 | $92,820 | 100.0% | $7,052,452 | $13,847,959 | 201.0% |
| 1-Mar-31 | $7,052,843 | $6,957,525 | ($95,319) | 98.6% | $0 | $95,319 | 100.0% | $7,216,968 | $14,174,493 | 201.0% |
| 1-Mar-32 | $7,220,600 | $7,123,072 | ($97,528) | 98.6% | $0 | $97,528 | 100.0% | $7,384,725 | $14,507,796 | 200.9% |
| 1-Mar-33 | $7,394,153 | $7,292,227 | ($101,926) | 98.6% | $0 | $101,926 | 100.0% | $7,558,278 | $14,850,505 | 200.8% |
| 1-Mar-34 | $7,570,716 | $7,465,071 | ($105,645) | 98.6% | $0 | $105,645 | 100.0% | $7,734,841 | $15,199,912 | 200.8% |
| 1-Mar-35 | $7,747,465 | $7,641,688 | ($105,777) | 98.6% | $0 | $105,777 | 100.0% | $7,911,590 | $15,553,277 | 200.8% |
| 1-Mar-36 | $7,931,630 | $7,822,161 | ($109,470) | 98.6% | $0 | $109,470 | 100.0% | $8,095,755 | $15,917,916 | 200.7% |
| Total | $134,507,317 | $133,427,949 | ($1,079,368) | | $1,148,537 | $1,160,244 | | $138,385,326 | $271,813,276 | |

[1]Based on debt service as shown in the LOM. Assumes reinvestment rates on the debt service reserve fund and estimated administrative expenses.
[2]Please see Appendix B to the Tax Increment and Special Assessment Revenue Report attached as Appendix G for additional information on these projections.
[3]Capitalized interest period. Interest is to be paid from proceeds of 2011A Bonds.
[4]Represents projected debt service coverage from total estimated tax increment revenues.
[5]Represents projected debt service coverage from estimated tax increment revenues, advances from surplus fund, and required special assessments.
[6]Represents projected debt service coverage from total estimated tax increment revenues and district maximum special assessments. Special assessments are reduced for tax increment revenues, so revenues in this amount cannot be collected.

# In Scenario A, TIF revenues covered debt service; it doubled with special assessments



# In Scenario C, special assessments would be necessary within five years



# Mosaic was real estate and financial success and in 2020 sought refunding






# Actual increments exceeded projected increments in 2011's Scenario A

5

| Year | 2011 Projections ($M) | Actual Increment Revenues ($M) |
|---|---|---|
| 2012 | - | 1.5 |
| 2013 | 1.3 | 2.2 |
| 2014 | 2.4 | 3.9 |
| 2015 | 3.7 | 4.5 |
| 2016 | 5.1 | 5.5 |
| 2017 | 5.3 | 5.9 |
| 2018 | 5.4 | 6.6 |
| 2019 | 5.5 | 7.0 |
| 2020 | 5.7 | 7.3 |

5

# In 2020 refunding downside, Scenario B, assumed 2-year impact of COVID-19

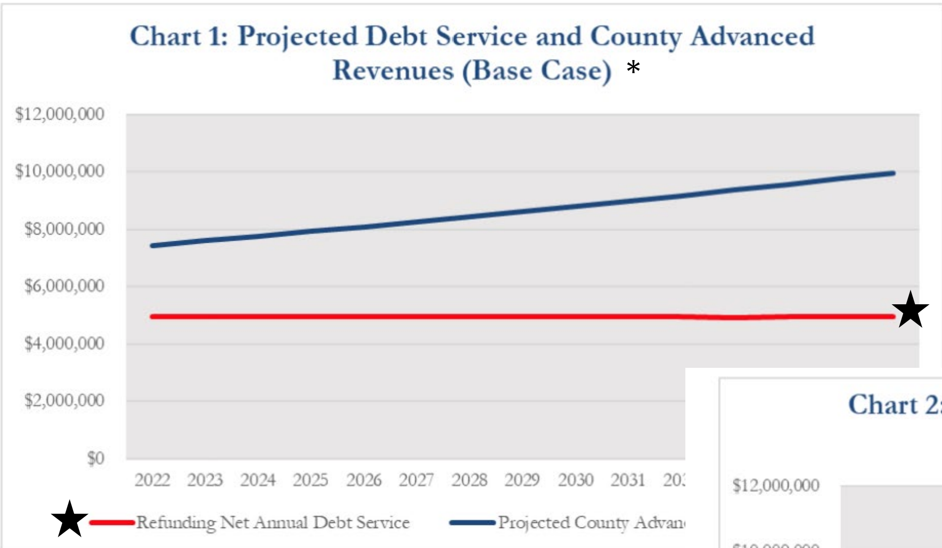
| | Projection upon Issuance of Series 2011 Bonds[(a)] | Actual/Calculated | | Actual as % of Original Projection | |
|---|---|---|---|---|---|
| | | Scenario A (Base Case) | Scenario B (Sensitivity) | Scenario A (Base Case) | Scenario B (Sensitivity) |
| Incremental value | $583,433,167 | $647,778,975 | $567,067,126 | 111.0% | 97.2% |
| County Advanced Revenue | $5,790,020 | $7,449,458 | $6,521,272 | 128.7% | 112.6% |

[(a)] *Mosaic District Community Development Authority, Fairfax County, Virginia, Tax Increment and Special Assessment Revenue Report*. MuniCap, Inc. (June 3, 2011).

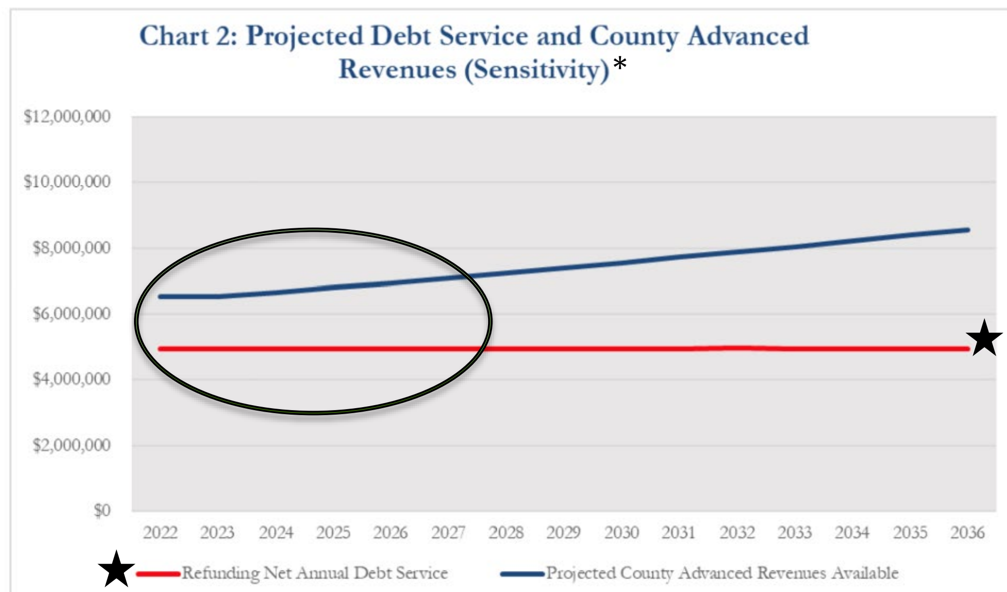
| Scenario | Real property assessed values in district based on actual 2020 values | Real property assessed values of 2021 uniformly decrease by 10% from 2020 values until 2022 | Real property values increase at a 2% annual rate of inflation |
|---|---|---|---|
| A | ✓ | | Commencing 2020 |
| B | ✓ | ✓ | Commencing 2022 |

# 2020 forecasts show stability even with COVID possible impacts

*Scenario A*




*Scenario B*




* TIF Revenues

# Mosaic received Moody's A2 rating in September 2020

5

- A2 rating reflects **moderately-sized and growing tax base** within Mosaic District, fully developed mixed-use residential & commercial tax increment financing (TIF) district in Fairfax County, VA
  - Rating also reflects **above-average top taxpayer concentration, strong resident income levels, and adequate debt service coverage** provided by growing TIF revenues
  - Rating **also incorporates special assessment back-stop**, cash-funded debt service reserve fund, additional available liquidity in surplus fund of excess TIF revenues
- Stable outlook reflects expectation that debt service coverage will remain adequate, supported by continued strong incremental property tax revenue growth as well as the special assessment back-stop and **strong oversight of Fairfax County**

# Presentation Outline

1 Why link value capture and financing?

2 Key Value Capture Tools

3 Financing Definitions

Poll & Questions

4 The Bond Issuance Process

5 Examples

6 Rating Agency Frameworks

7 Structuring Considerations

8 Using VC - Considerations

Poll & Questions

# Rating agencies play critical role in VC financing, even when bonds are not rated

6

| No | S&P | Moody's | Fitch | Meaning and Color |
|---|---|---|---|---|
| 1 | AAA | Aaa | AAA | Prime |
| 2 | AA+ | Aa1 | AA+ | High Grade |
| 3 | AA | Aa2 | AA | |
| 4 | AA- | Aa3 | AA | |
| 5 | A+ | A1 | A+ | Upper Medium Grade |
| 6 | A | A2 | A | |
| 7 | A- | A3 | A- | |
| 8 | BBB+ | Baa1 | BBB+ | Lower Medium Grade |
| 9 | BBB | Baa2 | BBB | |
| 10 | BBB- | Baa3 | BBB- | |
| 11 | BB+ | Ba1 | BB+ | Non Investment Grade Speculative |
| 12 | BB | Ba2 | BB | |
| 13 | BB- | Ba3 | BB- | |
| 14 | B+ | B1 | B+ | Highly Speculative |
| 15 | B | B2 | B | |
| 16 | B- | B3 | B- | |
| 17 | CCC+ | Caa1 | CCC+ | Substantial Risks |
| 18 | CCC | Caa2 | CCC | Extremely Speculative |

INVESTMENT GRADE

BELOW INVESTMENT GRADE

https://www.researchgate.net/figure/International-Credit-Rating-Agencies-Scores-Meanings-and-Color-Coding_tbl3_332126048

# Investors and rating agencies rely on several key statistics

6

1. Debt Service Coverage Ratio (DSCR):

Cash "Waterfall"

A. TIF/SAD Gross Revenue

- B. Operating Cost

= C. Cash Available for Debt Service

- D. Debt Service

**DSCR = C./D.**

# Debt service coverage ratios should generally exceed 1.10 (110%) & ideally be between 1.5 & 2.0 (150%-200%) (Assembly)

6

**Projected Debt Service Coverage – Bond Year Ending January 1, 2032**
**(Tax Allocation Increment, District CID Assessments, and PILOT Payments)**

| *Scenario* | *Annual Obligations*[a] | *Annual Pledged Revenues* | *Debt Service Coverage* |
|---|---|---|---|
| Scenario A | $4,521,015 | $9,545,449 | 211% |
| Scenario B | $4,521,015 | $7,167,517 | 159% |
| Scenario C | $4,521,015 | $3,196,621 | 71% |
| Scenario D | $4,521,015 | $1,662,648 | 37% |

[a]Includes projected principal, interest, administrative expenses, and District fees.

**Projected Debt Service Coverage – Bond Year Ending January 1, 2032**
**(Including Special Service District Taxes)**

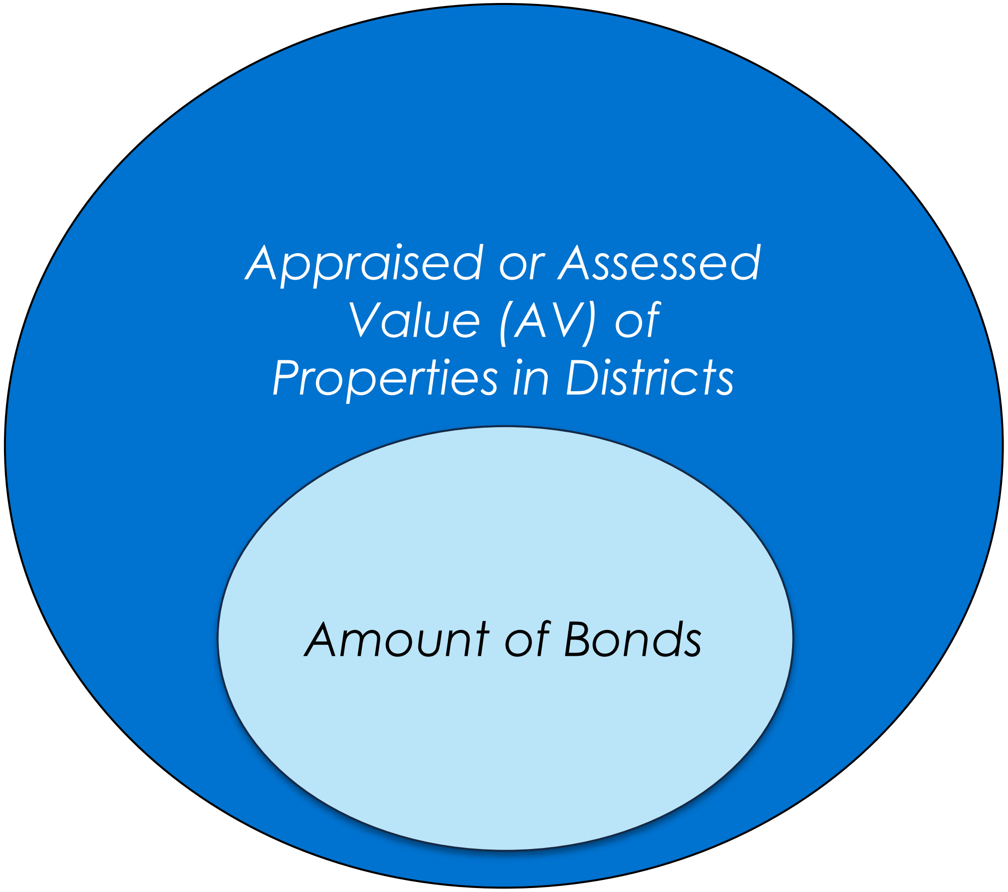
| *Scenario* | *Annual Obligations*[a] | *Annual Pledged Revenues* | *Debt Service Coverage* |
|---|---|---|---|
| Scenario A | $4,521,015 | $9,545,449 | 211% |
| Scenario B | $4,521,015 | $7,167,517 | 159% |
| Scenario C | $4,521,015 | $4,973,116 | 110% |
| Scenario D | $4,521,015 | $4,973,116 | 110% |

[a]Includes projected principal, interest, administrative expenses, and District fees.

6

# Investors and rating agencies rely on several key statistics (cont'd)

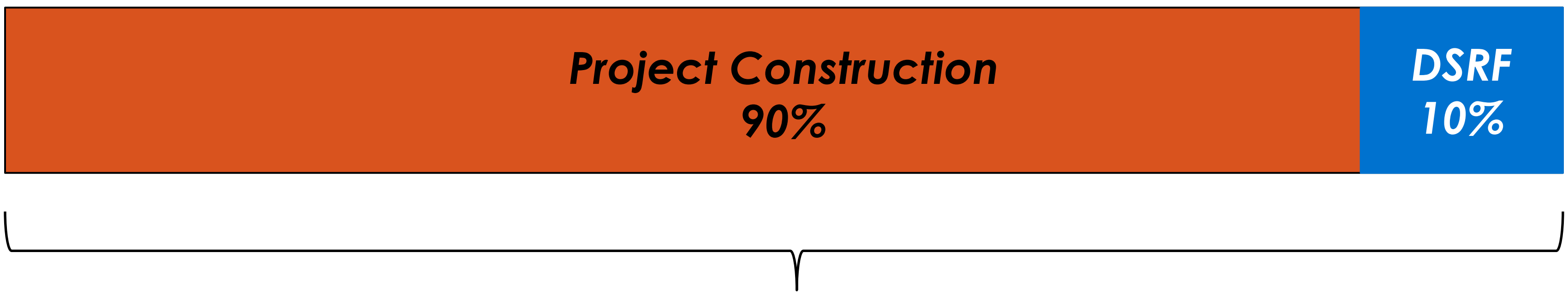
2. Value to Bond (or Lien) Ratio



# Investors and rating agencies rely on several key statistics (cont'd)

6

3. Debt Service Reserve Fund (DSRF)




*Bond Issue Uses*

DSRF sized as:

- 10% of the aggregate principal amount, or
- 125% of the average annual debt service
- Maximum Annual Debt Service

# Mosaic demonstrated value/lien ratio well over 3.0 in 2011

6

| SCENARIO | ESTIM. MARKET VALUE | VALUE TO LIEN |
|---|---|---|
| "As Is" | **$89.7M** | **1.3x** |
| "Estimated Stabilized Valuation for Contractually Obligated Construction" | **$275.4M** | **4.9x** |
| "Estimated Valuation for Remaining Parcels" | **$48.4M** | |
| Combo of "Estimated Valuation for Contractually Obligated Construction" & "Estimated Valuation for Remaining Parcels | **$323.75M** | |
| "Stabilized Valuation of Real Property in District" | **$567.7M** | **8.6x** |

# TIF & SAD rating criteria overlap; TIFs focused on AV, increment growth, new bond limits

6

| TYPE | DEFINITION | TIF | SAD |
|---|---|---|---|
| Size of Tax Base | Increment Assessed Value (AV) | ✓ | |
| Volatility of TIF Tax Base | Incremental AV/to Total AV | ✓ | |
| District Size | Number of parcels | | ✓ |
| Taxpayer Concentration | Top Ten Taxpayers' Assessments/Taxes as % of Total District Levy | ✓ | ✓ |
| Tax Delinquencies | Delinquency Trend | | ✓ |
| Debt Service Coverage | Debt Service Coverage | ✓ | ✓ |
| Growth Trends | Three-Year CAGR of Tax Increment Revenue | ✓ | |
| Leverage | Value to Lien Ratio | | ✓ |
| Unemployment | Monthly Unemployment Rate | | ✓ |
| Income Level | Median Family Income as % of US Median | ✓ | ✓ |
| Additional Bonds | Legal structure allowing for additional debt (additional bonds test of ABT) | ✓ | |

6

# Mosaic 2020 and Parole Town Center met rating criteria in various ways

| | Moody's Weight | Low Investment Grade | Parole Town Center | Mosaic 2011 | Mosaic 2020 |
|---|---|---|---|---|---|
| Bond Amount | | | $8,300,000 | $65,650,000 | $55,650,000 |
| Issue Date | | | 7/25/02 | 7/6/11 | 12/3/20 |
| Moody's Rating | | | Non-Rated | Non-Rated | A2 |
| | | | | | |
| Max Annual DSCR - Historic Revs. | 25% | 1.3x - 2x | 1.3x | 0.0x | 1.5x |
| Max Annual DSCR - Projected TIF | | | NA | 1.0x | NA |
| Incremental Assess. Value (AV) ($M) Historic | 10% | $120-$240 | $1,372 | NA | $673 |
| Incremental AV ($M) Projected | | | NA | $450 | NA |
| Top 10 Taxpayers' AV as % Incremental AV | 15% | 10% - 20% | 84% | 100% | 100% |
| Local Median Family Income as % of US | 5% | 50% - 75% | 164% | 269% | 192% |
| Ratio of Incremental AV to Total AV | 15% | 80% - 85% | 18% | 91% | 94% |
| 3-Yr. Compound Growth of Increment | 10% | (2%) - 0% | 7.0% | NA | 6.5% |
| Additional Bonds Test | 20% | 1.2x - 1.25x | No permitted dilution | No permitted dilution | No permitted dilution |
| | 100% | | | | |
| | | | | | |
| Backup Security | | | None | Sp. Assmt. | Sp. Assmt. |
| Value:Bond | | | NA | 1.3:1 | 12.1:1 |

EDC

# Presentation Outline

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2. Key Value Capture Tools
3. Financing Definitions

Poll & Questions

4. The Bond Issuance Process
5. Examples
6. Rating Agency Frameworks
7. **Structuring Considerations**
8. Using VC - Considerations

Poll & Questions

# Certain structuring approaches help make VC financing more viable

| Scenario | Real property assessed values in district based on actual 2020 values |
|---|---|
| **Amortization structure** | How repayment of principal is structured, including delaying principal in early years and/or paying more principal later in repayment period |
| **Capitalized interest** | Interest that is added to long-term balance of loan and not paid current, thereby allowing for greater "breathing room" in early years of bond (used in Assembly and Mosaic 211); this amount is drawn down with initial bond issuance |
| **Take-out financing** | Financing used to replace construction period and/or short-term financing once project has been completed and/or reaches stable revenue condition;<br>• Not all projects require take out financing<br>• Other financial instruments, such as capitalized interest, address short-term cash flow requirements, reducing need for take out financing |

# Amortization—repaying principal—can vary from "mortgage style" or level debt service as in Assembly

| Bond Year Ending January 1 | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2018 | - | $ 1,898,241.56 | $ 1,898,241.56 |
| 2019 | - | 3,577,837.50 | 3,577,837.50 |
| 2020 | - | 3,577,837.50 | 3,577,837.50 |
| 2021 | - | 3,577,837.50 | 3,577,837.50 |
| 2022 | - | 3,577,837.50 | 3,577,837.50 |
| 2023 | $ 870,000.00 | 3,577,837.50 | 4,447,837.50 |
| 2024 | 930,000.00 | 3,519,112.50 | 4,449,112.50 |
| 2025 | 990,000.00 | 3,456,337.50 | 4,446,337.50 |
| 2026 | 1,055,000.00 | 3,389,512.50 | 4,444,512.50 |
| 2027 | 1,130,000.00 | 3,318,300.00 | 4,448,300.00 |
| 2028 | 1,205,000.00 | 3,242,025.00 | 4,447,025.00 |
| 2029 | 1,285,000.00 | 3,160,687.50 | 4,445,687.50 |
| 2030 | 1,370,000.00 | 3,073,950.00 | 4,443,950.00 |
| 2031 | 1,465,000.00 | 2,981,475.00 | 4,446,475.00 |
| 2032 | 1,565,000.00 | 2,882,587.50 | 4,447,587.50 |
| 2033 | 1,670,000.00 | 2,776,950.00 | 4,446,950.00 |
| 2034 | 1,780,000.00 | 2,664,225.00 | 4,444,225.00 |
| 2035 | 1,900,000.00 | 2,544,075.00 | 4,444,075.00 |
| 2036 | 2,030,000.00 | 2,415,825.00 | 4,445,825.00 |
| 2037 | 2,170,000.00 | 2,278,800.00 | 4,448,800.00 |
| 2038 | 2,315,000.00 | 2,132,325.00 | 4,447,325.00 |
| 2039 | 2,470,000.00 | 1,976,062.50 | 4,446,062.50 |
| 2040 | 2,635,000.00 | 1,809,337.50 | 4,444,337.50 |
| 2041 | 2,815,000.00 | 1,631,475.00 | 4,446,475.00 |
| 2042 | 3,005,000.00 | 1,441,462.50 | 4,446,462.50 |
| 2043 | 3,205,000.00 | 1,238,625.00 | 4,443,625.00 |
| 2044 | 3,425,000.00 | 1,022,287.50 | 4,447,287.50 |
| 2045 | 3,655,000.00 | 791,100.00 | 4,446,100.00 |
| 2046 | 3,900,000.00 | 544,387.50 | 4,444,387.50 |
| 2047 | 4,165,000.00 | 281,137.50 | 4,446,137.50 |
| **Totals** | **$53,005,000.00** | **$74,359,491.56** | **$127,364,491.56** |

# Or backloading debt service as in Mosaic (or front loading as in Parole, as discussed)

| Total | | |
|---|---|---|
| Principal | Interest | Total |
| $ - | $3,204,112.22 | $3,204,112.22 |
| - | 4,542,087.50 | 4,542,087.50 |
| - | 4,542,087.50 | 4,542,087.50 |
| - | 4,542,087.50 | 4,542,087.50 |
| - | 4,542,087.50 | 4,542,087.50 |
| 615,000 | 4,542,087.50 | 5,157,087.50 |
| 780,000 | 4,502,150.00 | 5,282,150.00 |
| 955,000 | 4,451,400.00 | 5,406,400.00 |
| 1,145,000 | 4,389,212.50 | 5,534,212.50 |
| 1,350,000 | 4,314,600.00 | 5,664,600.00 |
| 1,575,000 | 4,226,625.00 | 5,801,625.00 |
| 1,820,000 | 4,119,593.76 | 5,939,593.76 |
| 2,085,000 | 3,995,893.76 | 6,080,893.76 |
| 2,365,000 | 3,854,137.50 | 6,219,137.50 |
| 2,675,000 | 3,693,331.26 | 6,368,331.26 |
| 3,005,000 | 3,511,393.76 | 6,516,393.76 |
| 3,370,000 | 3,301,612.50 | 6,671,612.50 |
| 3,760,000 | 3,066,325.00 | 6,826,325.00 |
| 4,180,000 | 2,803,812.50 | 6,983,812.50 |
| 4,635,000 | 2,511,956.26 | 7,146,956.26 |
| 5,125,000 | 2,188,312.50 | 7,313,312.50 |
| 5,655,000 | 1,830,437.50 | 7,485,437.50 |
| 6,225,000 | 1,435,543.76 | 7,660,543.76 |
| 6,835,000 | 1,000,806.26 | 7,835,806.26 |
| 7,495,000 | 523,456.26 | 8,018,456.26 |

Based on 2% increase in total debt service each year

# VC financing requirement is to ensure that all funding sources are available at financial close (Mosaic)

Sources of 2011 Bond Proceeds

| | |
|---|---|
| Principal Amount of 2011A Bonds | $46,980,000.00 |
| Original Issue Discount (2011A Bonds) | (276,544.80) |
| Principal Amount of 2011A-T Bonds | $18,670,000.00 |
| Total Sources of 2011A Bond Proceeds | $65,373,455.20 |

Application of 2011 Bond Proceeds

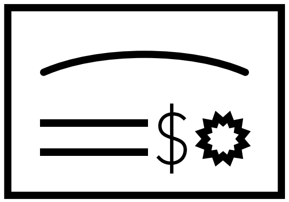
| | |
|---|---|
| Acquisition and Construction of CDA Facilities | $42,000,000.00 |
| Initial Administrative Expenses for 2011 Bonds[1] | 147,472.78 |
| Construction Period Interest[1] | 14,294,598.75 |
| Debt Service Reserve Fund deposit | 6,565,000.00 |
| Issuance Expenses of 2011 Bonds (including Underwriters' Discount) | 2,366,383.67 |
| Total Application of 2011 Bond Proceeds | $65,373,455.20 |

# . . . yet it is not unusual for project to be developed over years (Assembly), to address risks

HISTORICAL AND PRO FORMA SOURCES AND USES OF FUNDS RELATING TO THE SERIES 2017 PROJECTS AND THE PHASE I DEVELOPMENT PROJECTS

| | Pre-2017 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|
| Sources of Funds | | | | | | |
| In Place / Committed | | | | | | |
| Equity Contributions[1] | 17,850,000 | - | - | - | - | 17,850,000 |
| Acquisition Debt[2] | 35,000,000 | - | - | - | - | 35,000,000 |
| Salvage Proceeds[3] | 13,750,000 | - | - | - | - | 13,750,000 |
| Acquisition / Infrastructure Debt[4] | 33,100,000 | | | | | 33,100,000 |
| Land / Lot Sales[5] | 23,270,000 | 14,888,250 | 36,092,250 | 4,805,000 | 7,700,000 | 86,755,500 |
| Land Rent[6] | 100,010 | 120,000 | - | - | - | 220,010 |
| Other Public Grants / Funds[7] | 2,002,057 | 1,500,000 | 2,000,000 | 2,000,000 | 2,000,000 | 9,502,057 |
| CID Bond Construction Account[8] | - | 8,279,250 | 18,095,000 | 6,875,750 | 1,750,000 | 35,000,000 |
| Total | 125,072,067 | 24,787,500 | 56,187,250 | 13,680,750 | 3,750,000 | 231,177,567 |
| | | | | | | |
| Uses of Funds | | | | | | |
| Phase I Development Budget | | | | | | |
| Land Acquisition[9] | 50,000,000 | - | - | - | - | 50,000,000 |
| Remediation Reserve[10] | 5,000,000 | - | - | - | - | 5,000,000 |
| Land / Lot Preparation[11] | 5,015,492 | 744,413 | 1,804,613 | 240,250 | 385,000 | 8,189,768 |
| Predevelopment Expenses[12] | 19,251,009 | 200,000 | 200,000 | 200,000 | 200,000 | 20,051,009 |
| Transaction Cost / Interest for Loans[13] | 5,045,497 | - | - | - | - | 5,045,497 |
| Commissions and other costs of Land Sales[14] | 1,129,105 | 1,191,060 | 2,887,380 | 384,400 | 616,000 | 6,207,945 |
| Public Improvements[15] | 2,880,963 | 9,779,250 | 20,095,000 | 8,875,750 | 3,750,000 | 45,380,963 |
| | 88,322,066 | 11,914,723 | 24,986,993 | 9,700,400 | 4,951,000 | 139,875,182 |
| | | | | | | |
| Debt Repayment | | | | | | |
| Repayment of Debt[16] | 36,750,000 | 11,166,188 | 20,083,813 | - | - | 68,000,000 |
| | | | | | | |
| Total | 125,072,067 | 23,080,910 | 45,070,805 | 9,700,400 | 4,951,000 | 207,875,182 |
| | | | | | | |
| Deposits / Withdrawals from Cash Balance | - | (1,706,590) | (11,116,445) | (3,980,350) | (6,499,000) | (14,597,882) |
| Ending Balance | - | - | - | - | - | - |

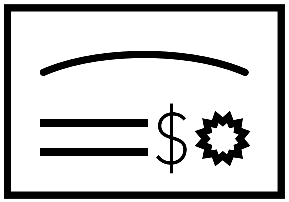
# Special assessments face prepayment risk



Special Assessment Bonds

- ✓ Provide knowledgeable investors (e.g. **institutional investors**) with higher risk-adjusted return
- ✓ Returns attractive for yield and bond term
- ✓ State laws governing special assessments usually provide for prepayment of assessments without penalty at any time = prepayment risk for bond holder
- ✓ Due to prepayment risk bond holder charge **additional premium**

# Special payments require refunding considerations




Special Assessment Bonds

- ✓ Once beyond call period, issuer can seek to **refinance (refunding)** the bonds
- ✓ A refunding bond can result in a lower rate (typical) or extended term (less typical)
- ✓ Depending on performance of underlying collateral, refunding bonds may be eligible for investment grade rating which expands pool of purchasers and further reduces interest rate

# Value capture bonds require partnering with municipalities

Value capture bonds are true partnership between private entity and public jurisdiction. Most issuers remain concerned regarding perceived **political risks**

Major challenge with use of value capture bonds is that bonds are are needed to construct project **before there is solid evidence that project is successful**

# Most VC financings have unusual risks that are disclosed in bond documents

| TYPE | Risks |
|---|---|
| District | • Concentration of ownership |
| Real estate/Project | • Failure to develop to district<br>• Environmental risk<br>• Dependence on developer<br>• General real estate risk |
| Appraisal and valuation | • Uncertainty of tax increment calculation<br>• Appraisal limitations<br>• Bankruptcy |
| Taxes | • Collection risk<br>• Exempt properties |
| Financial | • Limited obligation<br>• Loss of tax exemption<br>• Limited secondary market<br>• Overlapping indebtedness |
| Legal | • Termination of ground lease<br>• No acceleration provision |

# Parole Town Center (Anne Arundel County, MD) is example of TIF-only financing

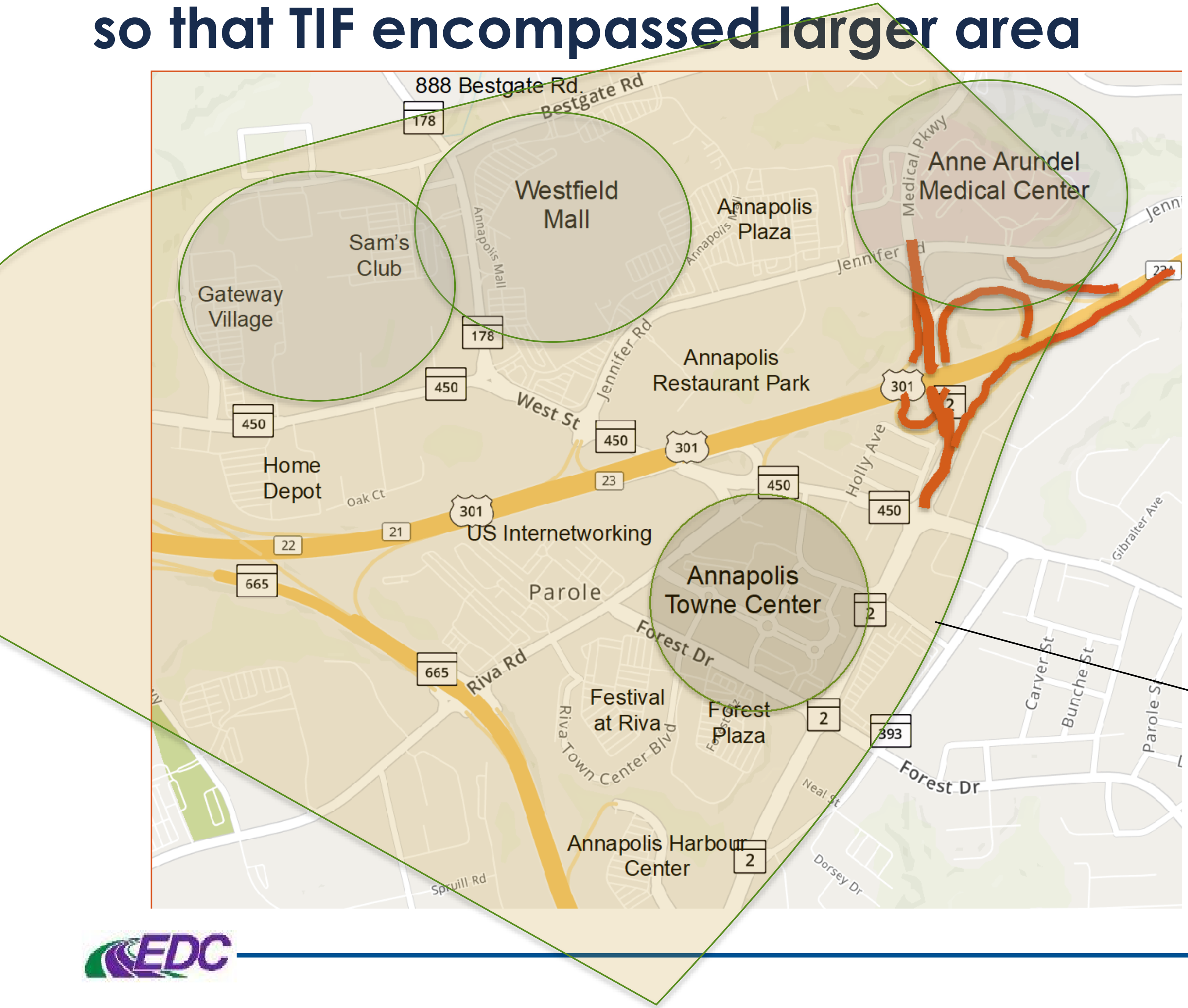
Annapolis Towne Center

Westgate Annapolis Mall

Anne Arundel Medical Center

888 Bestgate Road

# Interchange benefited several activity generators so that TIF encompassed larger area




Roads Funded By Bonds

Note: rough approximation of TIF; not drawn to scale

# Early TIF district establishment 3 years before financing, provided increments "head start"

| | FY 1999 TIF Base Year | FY 2000 | FY 2001 | FY 2002 | FY 2003 (Projected) (2)(3) |
|---|---|---|---|---|---|
| Total Adjusted Assessment(1) | $647,950,635 | $686,873,900 | $734,755,875 | $790,898,015 | $844,731,563 |
| Less Original Assessment | | | 647,950,635 | 647,950,635 | 647,950,635 |
| Increase in Assessment | | | 86,805,240 | 142,947,380 | 196,780,928 |
| Current Tax Rate | 0.944 | 0.944 | 0.960 | 0.960 | 0.950 |
| Tax Increment | | | 833,330 | 1,372,295 | 1,869,419 |
| Growth in Assessments Over Prior Year | | 6.01% | 6.97% | 7.64% | 6.81% |

(1) Assessment and tax rate before FY 2002 were based upon 40% of Market Value, but are shown here at 100%.
(2) FY 2003 final property tax rate was determined when the County's Operating Budget was approved in May, 2002.
(3) Property assessments for the FY 2003 are subject to appeal. Properties #1, 9, 10, 13, 30 and 31 identified on the chart of Historical Assessed Values for Largest Taxpayers are under appeal as of March, 2002.

# Parole bondholders benefited from special mandatory redemptions (frontloading), repaying bonds 4 years earlier if all went well

**PRO FORMA DEBT SERVICE AND DEBT SERVICE COVERAGE BASED UPON MAXIMUM SPECIAL MANDATORY REDEMPTIONS**

| | Scheduled Principal (1) | Special Mandatory Redemptions | Interest (2) | Outstanding Balance | Projected Revenues(3) | Projected Debt Service Coverage (4) |
|---|---|---|---|---|---|---|
| 2003 | 660,000 | 850,000 | 387,333 | 6,790,000 | 1,900,000 | 1.81 |
| 2004 | 620,000 | 940,000 | 339,500 | 5,230,000 | 1,900,000 | 1.98 |
| 2005 | 545,000 | 1,090,000 | 261,500 | 3,595,000 | 1,900,000 | 2.36 |
| 2006 | 440,000 | 1,280,000 | 179,750 | 1,875,000 | 1,900,000 | 3.07 |
| 2007 | 275,000 | 1,530,000 | 93,750 | 70,000 | 1,900,000 | 5.15 |
| 2008 | 15,000 | 55,000 | 3,500 | - | 1,900,000 | 102.70 |

(1) As reduced by Special Mandatory Redemptions.
(2) Assumes an interest start date of July 25, 2002.
(3) Assumed revenues based on Anne Arundel County's calculation of $1,869,419 in revenues in fiscal year 2003 (plus additional amounts deposited in prior years) and a 1.6% increase to $1,900,000 in fiscal year 2004 and later.
(4) Projected Debt Service Coverage is calculated on scheduled principal and interest payments.

# Presentation Outline

1. Why link value capture and financing?
2. Key Value Capture Tools
3. Financing Definitions

→ **Poll & Questions**

4. The Bond Issuance Process
5. Examples
6. Rating Agency Frameworks
7. Structuring Considerations
8. **Using VC - Considerations**

→ **Poll & Questions**

# Using Value Capture - Considerations

7

Examine revenues

Decide how revenues are collected

Check legislation

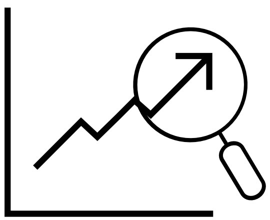
Set up governance structure

Manage transaction

Allocate Adequate Time

7

# Using Value Capture - Considerations



Examine revenues

- ✓ Collect key data that affects value capture revenues to determine "expected revenue" from VC, e.g.:
  - ✓ number and value of properties
  - ✓ expected growth in that value
  - ✓ property tax rate
  - ✓ district lines
  - ✓ percent of value capture revenue applied to project
- ✓ Perform sensitivity analysis to understand how key variables are affected by shocks/risks

7

# Using Value Capture - Considerations

Decide how revenues are collected

- ✓ Do this prior to applying value capture technique, especially when financing needed
- ✓ For special assessment and TIF districts, customary to establish “ring-fenced” or “fire-walled” account for VC monies

7

# Using Value Capture - Considerations

Check legislation

- ✓ VC monies used for purposes as dictated by statutes
- ✓ Generally, monies able to be used for eligible costs for typical highway or transit projects as defined by Federal, State and local statutes, e.g.:
  - ✓ Planning, design, engineering, land acquisition construction, finance, and mobilization
  - ✓ Project debt, O&M

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# Using Value Capture - Considerations

Set up governance structure

- ✓ The objective is to have as streamlined an operating structure as possible
- ✓ Ensure that you provide for significant public input but do so in a way to not limit the implementation of a given project
- ✓ "Advisory Boards" can be double-edged in their use

7

# Using Value Capture - Considerations

Manage transaction

- ✓ Document everything (or as much as possible) upfront as there is always turnover of public and private participants
- ✓ Do not rely upon anyone's "historical" memories
- ✓ Create an ongoing process that is administrative in nature and minimizes the need to go back and get legislative approvals

7

# Using Value Capture - Considerations

Allocated Adequate Time

- ✓ As much time as you think you will need to implement project, plan for more
- ✓ Public staff are limited in their time and resources and cannot devote their time to your project
- ✓ Unexpected events (pandemic for example) always come up—don't be surprised

# POLL 2

1. Which of the following structuring approaches help make VC financing more viable? (Select all that apply):
   a) Backloading debt repayment
   b) Depreciation
   c) Take-out financing
   d) Capitalized interest
   e) Non-capitalized interest

2. Rating agency evaluation criteria that are the same for both TIF and SAD issuances:
   a) Taxpayer concentration; Debt Service Coverage Ratio; Income Level
   b) Tax delinquencies; Debt Service Coverage Ratio; Income Level
   c) Growth rate; Leverage; Income Level
   d) Growth rate; Debt Service Coverage Ratio; Income Level

# Questions?

# Links to Resources