

Considerations in Capital Project Financing



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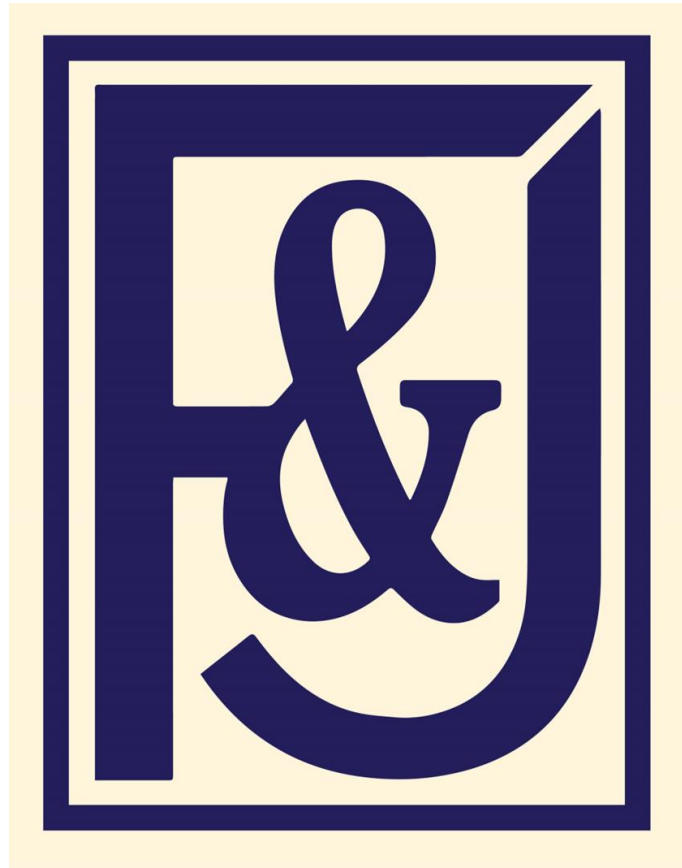


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THE BASICS



TYPICAL FINANCING TOOLS

- Federal Grants
- Louisiana Capital Outlay Program (HB2)
- Tax-Secured Bonds (for political subdivisions)
- Hospital Revenue Bonds
 - USDA Loans
 - HUD Section 242 Mortgage Guarantees
- New Markets Tax Credits
- Social Impact Bonds
- Leases (f/k/a Capital Leases)
- Public-Private Partnerships

VOCABULARY

- Bonds
- Issuer/Borrower
- Bond Counsel
- General Counsel
- Municipal Advisor
- Lender/Underwriter
- Redemption Provisions and Refundings
- Security/Pledged Revenues

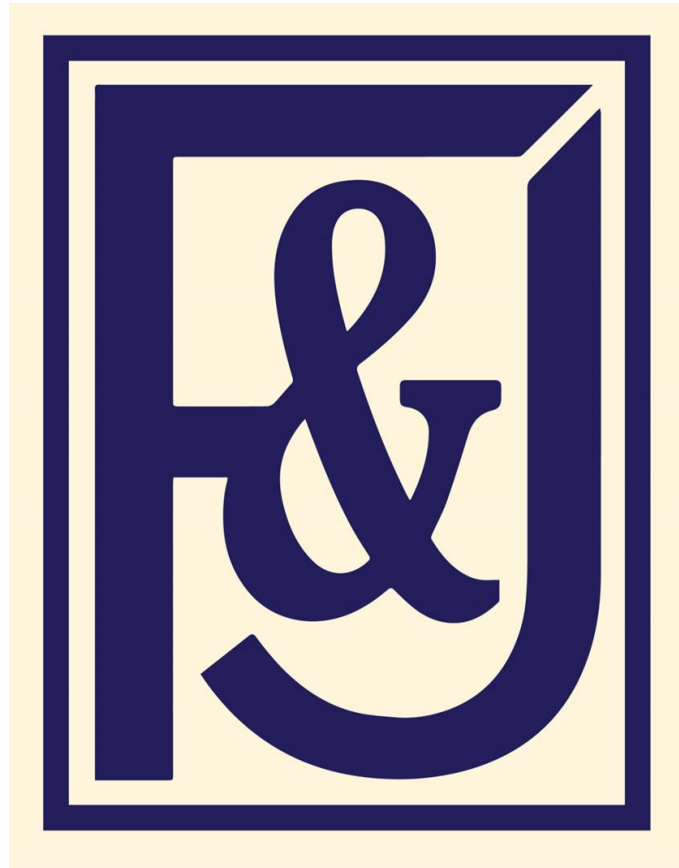
WHEN IS STATE BOND COMMISSION **APPROVAL REQUIRED?**

- Debt Obligation
- Governmental Ownership
- Private Ownership issuing tax-exempt bonds
- Exceptions

DOCUMENTATION

- Bond Resolution/Trust Indenture/Loan Agreement
- Term Sheet/Bond Purchase Agreement
- Tax Certificate
- Continuing Disclosure Agreement
- Continuing Covenant Agreement

COMMON REQUIREMENTS



COMMON REQUIREMENTS (TAX)

- Finance Capital Improvements
 - Working capital in limited circumstances
- Expenditure Rules
 - Reasonable expectations
 - Proceed with due diligence
 - Binding contract within 6 months
 - 85% allocated to expenditures within 3 years
- Economic Life of Bond-Financed Facilities
 - 120% rule

COMMON REQUIREMENTS (TAX)

- Use of Bond-Financed Facilities
 - Must be owned by a governmental entity or a 501(c)(3) organization for life of bonds
 - Must be careful with disposition or change in use
 - Private business use - actual or beneficial use of tax-exempt financial property by persons/organization other than the governmental or (c)(3) borrower
 - Mixed-Use Facilities
- Qualified Management Contracts

COMMON REQUIREMENTS (TAX)

- Examples of Private Business Use
 - Leases of space
 - Other use of space either by for-profit entities or in an unrelated trade or business
 - Use by concession and retail operators (food service, coffee shops, gift shop)
 - Use by for-profit entities, such as laboratory space or equipment, whether such use is under a facilities use agreement or otherwise
 - Lease agreements such as for parking space or other use of space (even if the lessee is another 501(c)(3))
 - Engagement in privately-sponsored research, under nonqualifying agreements (not for exempt purposes), utilizing bond-financed equipment or facilities
 - Improvements to central plant that benefit areas that have private use activity
 - Agreements that permit the location of cellular towers, solar panels, or other structures

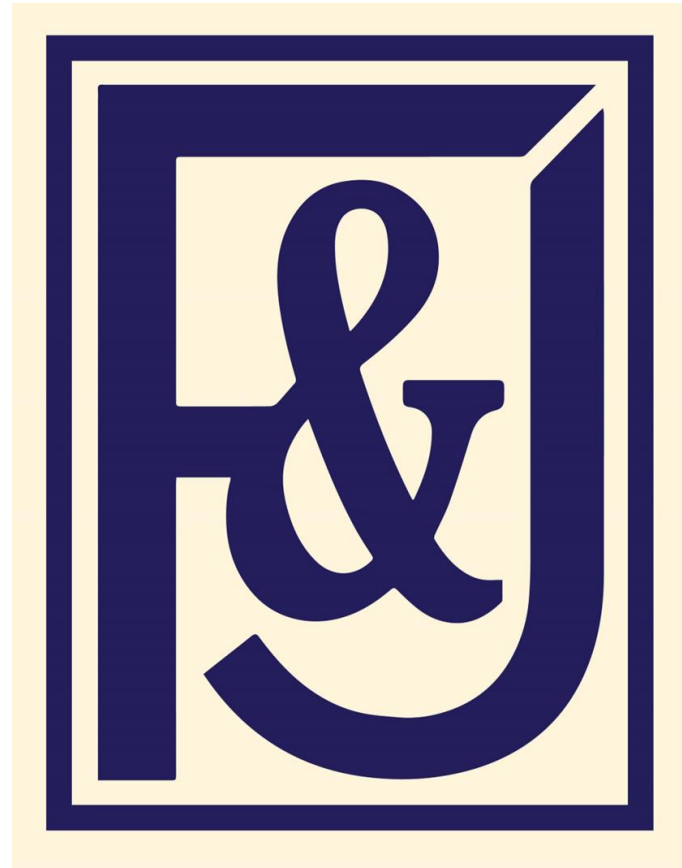
COMMON REQUIREMENTS (TAX)

- Arbitrage Rebate Requirements
 - Rules that limit the amount of investment earnings that can be realized (or retained) with respect to the proceeds of a tax-exempt bond issue
 - Funds subject to rebate include construction funds, debt service funds, and debt service reserve funds
 - Must be calculated at least every 5 years and again upon final maturity or redemption of the bonds
 - Possible ramification: loss of tax exemption
 - Solutions:
 - Exemptions to Rebate
 - Rebate Payments
 - Yield Reduction Payments

COMMON REQUIREMENTS **(COVENANTS)**

- Continued Operation of Facility
- Compliance with Federal, State and Local laws
- Respect the Flow of Funds
- Maintain Reserve Funds and Contingency Funds
- Maintain Required Days Cash on Hand
- Rate Covenant
- Restrictions on future debt/Additional Parity Bonds
- Annual preparation of Budget/Audit
- Continuing Disclosure

OTHER FINANCING OPPORTUNITIES



FEDERAL LOAN PROGRAMS

- USDA Community Facilities Loans
 - Limited to smaller communities (usually 20,000 people or less)
 - Usually a combination of a direct loan and a guaranteed loan
 - Loan repayment terms may not be longer than the useful life of the facility or 40 years which is ever less
 - Direct loan terms are set by USDA, and the interest rate is fixed for the entire term of the loan; Guaranteed loan terms and interest rate are set by lender
 - Application process includes:
 - Preapplication
 - Financial Feasibility Report
 - Architect drawing and cost estimate
 - Examination Opinion

FEDERAL LOAN PROGRAMS

- USDA Business and Industry (B&I) Loans
 - Bolsters the availability of private credit by guaranteeing loans for qualifying rural businesses, including healthcare
 - Limited to communities of 50,000 people or less
 - Maximum term varies by property financed, but loans are fully amortized over allowable term
 - Permits interest-only payments for 3 years (delayed amortization)

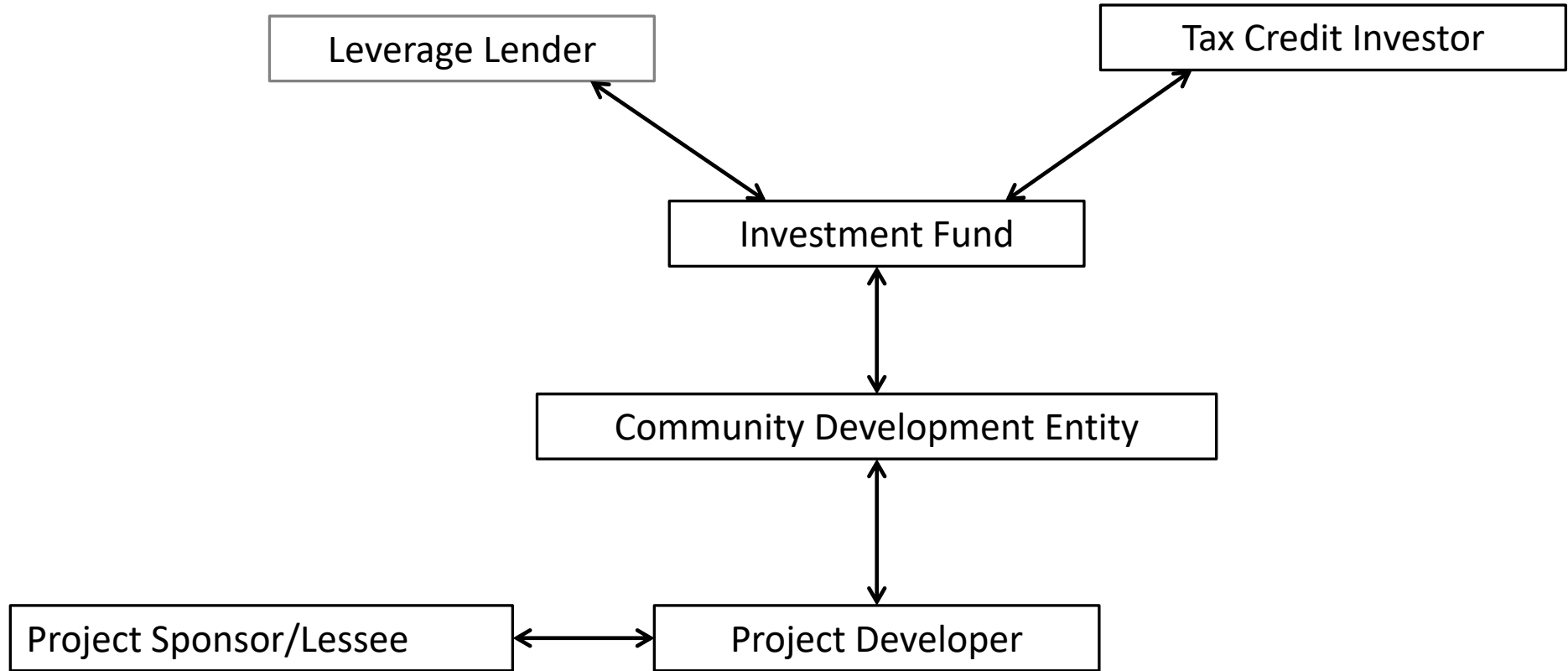
FEDERAL LOAN PROGRAMS

- HUD Section 242 Loan
 - Since the Section 242 program's inception in 1968, HUD has issued over 400 mortgage insurance commitments for hospitals in 42 states and Puerto Rico
 - The Loan is not really a loan; Section 242 is a credit enhancement program through which the Federal Housing Administration guarantees the payment of debt service
 - The FHA guaranty is exempt from the usual prohibition on federally guaranteed bonds, so the bonds can be issued on a tax-exempt basis
 - Allows refinancings of existing debt in connection with new construction project (at least 20% of the loan amount must be used for a construction project)
- Section 232 Loans are a similar program for Residential Care Facilities

NEW MARKETS TAX CREDITS

- “Mezzanine Financing” tool for projects located in census tracts with income at or lower than 80 percent area median income or poverty greater than 20 percent
- Investors offer low-interest rate loans and/or forgivable equity contributions to projects in exchange for federal tax credits
 - Federal Tax Credits = 39% over 7 years
 - State Tax Credit = 43% over 4 years (but still a 7-year compliance period)
- Originally only available for private sector projects ... 2 recent developments expanded availability:
 - La. R.S. § 39:1051 authorizes use for public entities
 - 2017 USDA Release authorizing use of NMTC with certain USDA programs

NEW MARKETS TAX CREDITS



SOCIAL IMPACT BONDS

- Loan construct that permits civic-minded investors to make “equity contributions” to Projects that hope to achieve certain social gains
- If Project achieves pre-established goals, rate of return to investors is higher; but if Project fails to achieve pre-established goals, rate of return to investors is lower
- Better option for programs, not necessarily physical plant improvements

PUBLIC-PRIVATE PARTNERSHIPS

- Public-private partnerships involve collaboration between a government entity and a private-sector company
- Common attributes
 - Design
 - Build
 - Operate
 - Maintain
 - Finance
- Is State Bond Commission approval required?
- Benefit-Cost Analysis

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THANK YOU!