Western Reserve Land Conservancy
Thriving Communities Institute
FROM VACANCY TO VITALITY

P3 Development Advisors, LLC

BORROWING IN THE CAPITAL MARKETS:

AN OPTION FOR RECENTLY-FORMED COUNTY LAND BANKS?

OHIO LAND BANK CONFERENCE

Second Convening of Ohio County Land Banks

November 27 & 28, 2012

FACTORS INFLUENCING PLAN OF FINANCE

- Flexibility in the governing statutes in Ohio
  - Ability to customize at the county level; no single “right” way
- Choice of service delivery vehicle
  - Stand-alone organization versus working through existing entity
  - Operating expenses
  - No precedents as to Board function or scope of “normal” activities
- “How fast” to act (capacity)
  - Pay-as-you-go versus debt issuance

FACTORS INFLUENCING PLAN OF FINANCE (cont.)

- Newly created revenue stream ("redirected" perhaps more accurate)
  - No financial history
  - Not necessarily tied to land bank activities (remotely generated)
- Planned disposition of acquired property and maturity of debt
- Credit support from county?
  - Comparison to other county-sponsored projects or initiatives
- Law governing use of tax-exempt proceeds

PROGRAM FOCUS AND IMPACT ON PLAN OF FINANCE

- "Which" program activities (discipline to prevent "mission creep")
  - Property acquisition (residential and commercial)
  - Demolition
  - Preservation services (security and maintenance)
  - Rehabilitation (property management and maintenance)
  - Development (residential and commercial)
  - Loans (second mortgages)
  - Outreach/grant activities
  - Foreclosure prevention

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POTENTIAL SOURCES OF REVENUE

- General Fund support
- Property tax levy
- Program-derived revenues
    - Create bond fund; fees on conduit financings
    - Joint redevelopment efforts with private sector
    - Reimbursement for demolition (ex., Fannie Mae)
- Local Foundation support
- Strategic alliances
- Increase in assessment on all delinquent tax collections (DTAC)
- Penalties/Interest on current year delinquent collections

CASE STUDY: CUYAHOGA COUNTY LAND BANK

OVERVIEW OF PLAN OF FINANCE

- Critical decisions:
  - Service delivery vehicle: stand-alone organization with appropriate staffing
  - "Which" program activities:
    1) Primary – Acquisition and demolition (and related preservation services)
    2) Secondary - Rehabilitation and outreach/grant activities
  - "How fast": front-loaded program expenditures
- Hybrid approach to property disposition
- "Two-prong" plan of finance
  - Short-term bond issue (tax-exempt) sold to capital markets coupled with line of credit with commercial bank

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CASE STUDY: CUYAHOGA COUNTY LAND BANK

ELEMENTS OF TRANSACTION

- Projected revenues of approximately $6 to $7 million annually
  - Not subject to appropriation but dependent on county actions
  - Special Tax Advances/DTANs/DTAC
  - Need for independent verification to satisfy potential lenders/investors
- Projected operating expenditures of approximately $2 million upon stabilization
- Projected net revenues available for debt service of $4 to $5 million
- Need for parity between bond issue and line of credit

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CASE STUDY: CUYAHOGA COUNTY LAND BANK

BOND ISSUE STRUCTURE DETAILS

- Par amount of tax-exempt bonds: $9 million
  - Extensive deliberations on proper sizing
- Seven-year final maturity
  - Minimize new issuer “premium” at short-end of yield curve
  - Allow for change in program priorities over time
- Method of sale: non-rated private placement with single institutional investor
- “Traditional” Bond Reserve Fund equal to 10% of par amount of issue (funded from bond proceeds)
- Net revenue pledge (i.e., after operating expenses)

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CASE STUDY: CUYAHOGA COUNTY LAND BANK

BOND ISSUE STRUCTURE DETAILS (cont.)

- Supplemental Bond Reserve Fund equal to maximum annual debt service (funded from cash on hand)
- Optional redemption provisions: prepay up to $1 million annually after one year
  - Provide maximum flexibility to address program changes or tax law concerns
- Operating Expense Covenant: not exceed 55% of revenues
- Additional Bonds Test: annual average of revenues for immediate two years prior to issuance not less than 175% of existing and proposed debt service
- Level annual debt service at an interest rate of 3.90% ($1.5 million/year)

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POST-CONFERENCE QUESTIONS?

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