

MIDWESTERN DISASTER AREA BONDS (MDA)



MIDWEST DISASTER AREA BONDS (MDA) - AGENDA

Introductions

Chris Sackett – Partner/BrownWinick – Moderator

Tax-Exempt Bond Incentives for Private Entities in the Heartland Disaster Tax Relief Act of 2008

David Grossklaus – Partner/Dorsey & Whitney

Summary of Application Process and Procedures

Lori Beary – Community Development Director/Iowa Finance Authority

Obtaining MDA Bonds (cash needs, financial analysis, credit criteria)

Adam Claypool – Managing Director/DeWaay Investment Banking

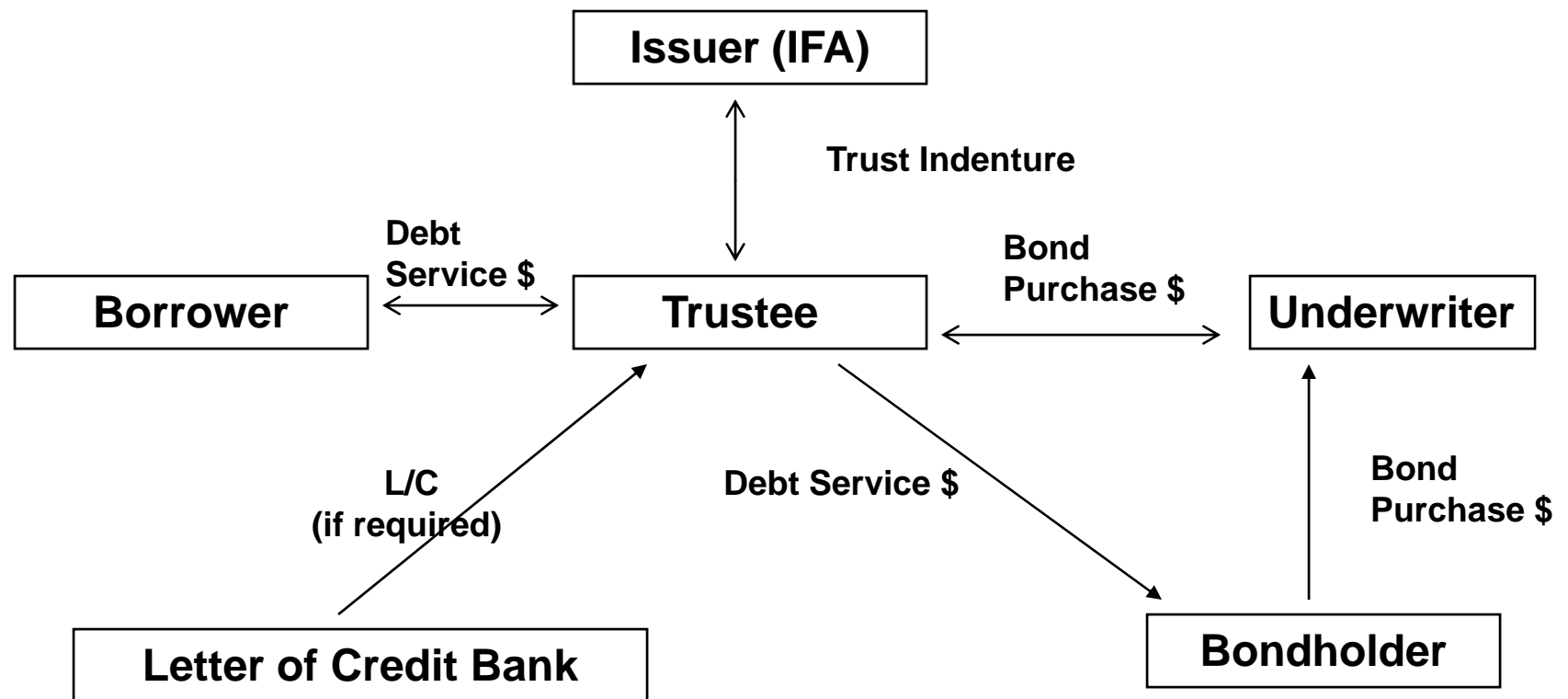
Underwriting/Rating and Sale/Distribution of Bonds

John May – Managing Director/Stern Brothers & Co.

Q&A Session

Discussion of Hypothetical Deals

FLOW CHART – PLAYERS/PROCESS OF A TYPICAL DEAL

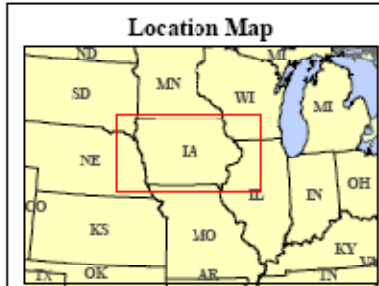
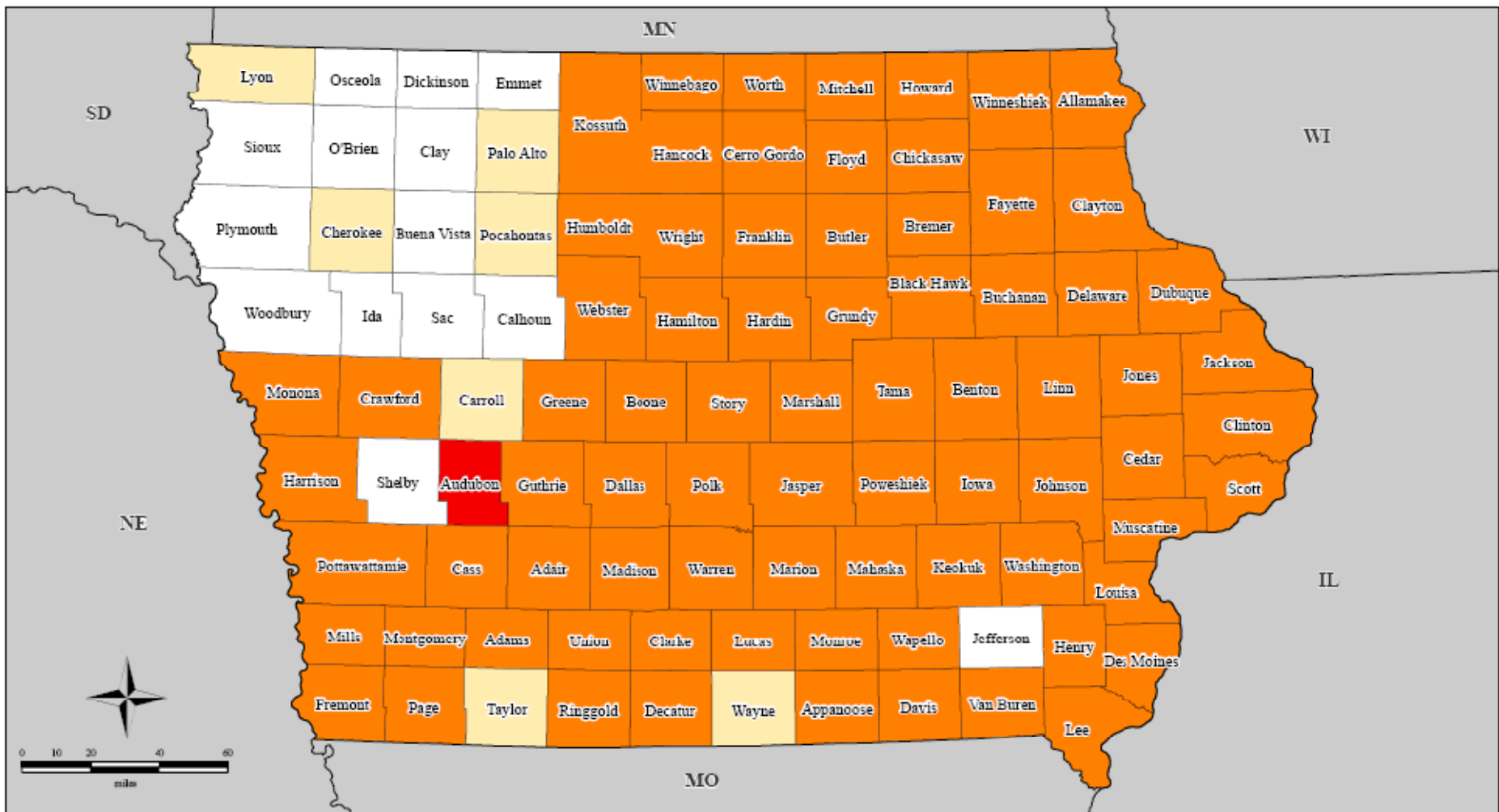


Tax-Exempt Bond Incentives for Private Entities in the Heartland Disaster Tax Relief Act of 2008

David Grossklaus / Dorsey & Whitney

- The Heartland Disaster Tax Relief Act of 2008 (the “Act”) was signed into law as part of the Emergency Economic Stabilization Act of 2008 on October 3, 2008. The Act provides temporary tax relief for areas in the Midwestern Disaster Area similar to the relief given to areas impacted by Hurricane Katrina in 2005.
- The Midwestern Disaster Area includes certain counties within Iowa that were declared major disaster areas by the President on or after May 20, 2008 and before August 1, 2008 by reason of the severe storms, tornados or flooding (the “Disaster Events”). A map of the portions of the Midwestern Disaster Area for the Iowa which qualify for such bonds (areas shown in red, light orange or orange) follows.

FEMA-1763-DR, Iowa Disaster Declaration as of 08/26/2008



Legend

Designated Counties	
	No Designation
	Public Assistance
	Individual Assistance
	Individual Assistance and Public Assistance

All counties are eligible for Hazard Mitigation



FEMA
 ITS Mapping & Analysis Center
 Washington, DC
 08/26/08 -- 00:42 PM EDT
 Source: Disaster Federal Registry Notice
 Amendment No. 19 - 08/26/2008

Qualified Midwestern Disaster Area Bonds

David Grossklaus / Dorsey & Whitney

Among other tax benefits to assist individuals and businesses affected by the Disaster Events, the Act provides for the issuance of a new category of tax-exempt Midwestern Disaster Area Bonds (“Bonds”) for certain multifamily rental projects, nonresidential real property, public utility property, and principal residences as described below:

1. Proceeds of the Bonds may be used to finance (a) the cost of a multifamily rental project for low and moderate income individuals, under relaxed tenant income limitations described below, (b) the cost of acquisition, construction, reconstruction or renovation of nonresidential real property (including fixed improvements associated with such property) or (c) the cost to repair or reconstruct public utility property, if, in each case, (i) the person using the property suffered a loss in a trade or business attributable to the Disaster Events, or (ii) the cost is incurred by a person designated by the Governor of the State in which the project is located as a person carrying on a trade or business replacing a trade or business with respect to which another person suffered such a loss. Bonds also may be issued to provide financing for mortgagors who suffered damages to their principal residences attributable to the Disaster Events.

Qualified Midwestern Disaster Area Bonds (cont.)

David Grossklaus / Dorsey & Whitney

2. Bonds may be used to finance certain nonresidential real property projects, including (subject to the existence of state authority to issue bonds for such purposes):

- Manufacturing Facilities
- Retail Businesses and Shopping Centers
- Auto Dealerships
- Restaurants
- Office Buildings
- Warehouses and Storage Facilities
- Medical Office Buildings and other Medical Facilities
- Commercial Development
- Agricultural Facilities and Improvements

Qualified Midwestern Disaster Area Bonds (cont.)

David Grossklaus / Dorsey & Whitney

3. Bonds may be issued for multifamily housing projects for low and moderate income individuals and families. Under the Act, the income restrictions for a project financed with qualified residential rental bonds are more liberal than before adoption of the Act. The project developer may choose either (i) to restrict at least 20% of the units to occupancy by individuals or families whose income is 60% or less of the area median gross income, or (ii) to restrict at least 40% of the units to occupancy by individuals or families whose income is 70% or less of the area median gross income.

Qualified Midwestern Disaster Area Bonds (cont.)

David Grossklaus / Dorsey & Whitney

4. The Bonds must meet certain other requirements, including the following:

- Movable fixtures and equipment may not be financed with the proceeds of the Bonds.
- Proceeds of the Bonds may not be used to finance any skybox or other private luxury box, health club facility, golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other gambling facility, or liquor store.
- If proceeds of the Bonds are used to acquire existing buildings, the borrower must make rehabilitation expenditures with respect to such buildings within two years equal to at least 50% of the portion of the acquisition cost financed with proceeds of the Bonds.
- Not more than 25% of the proceeds of the Bonds may be used to acquire land.

Qualified Midwestern Disaster Area Bonds (cont.)

David Grossklaus / Dorsey & Whitney

4. The Bonds must meet certain other requirements, including the following: (cont.)
 - The Bonds may not be bank-qualified.
 - The weighted average maturity of the Bonds may not exceed 120% of the average expected economic life of the project financed by the Bonds.
 - Not more than 2% of the proceeds of the Bonds may be used to pay costs related to issuing the Bonds, including legal fees, issuer fees and underwriter fees or discounts.

Qualified Midwestern Disaster Area Bonds (cont.)

David Grossklaus / Dorsey & Whitney

4. The Bonds must meet certain other requirements, including the following: (cont.)
 - Depreciation on the property financed by the Bonds must be deducted for federal income tax purposes on a straight-line basis.
 - Except for certain preliminary expenditures and de minimis amounts, the borrower may not be reimbursed from bond proceeds for expenditures made for the project more than 60 days before the issuer of the Bonds adopts a resolution expressing its intent to issue the Bonds.
 - The Bonds must be issued before January 1, 2013.

Limitation on Amount of Bonds and State Designation

David Grossklaus / Dorsey & Whitney

Bonds are not subject to the normal volume caps. In Iowa, the limitation is approximately \$2.6 billion, of which approximately \$2.3 billion remains available.

The authority to designate an issue of bonds as qualifying under the Act is given to the Governor of each state or the bond commission in states where bonds are required by state law to be approved by a bond commission.

Advantages of Tax-Exempt Bond Financing

David Grossklaus / Dorsey & Whitney

Interest on tax-exempt bonds is excluded from federal gross income, and in the case of Midwestern Disaster Area Bonds, not an item of tax preference for purposes of the federal alternative minimum tax (although the interest is included in adjusted current earnings for corporations in determining federal alternative minimum taxable income).

THE FOREGOING DISCUSSION IS INTENDED TO BE ONLY A BRIEF SUMMARY OF THE REFERENCE PORTIONS OF THE ACT. IT IS NOT INTENDED TO BE LEGAL ADVICE WITH RESPECT TO ANY SPECIFIC PROJECT OR FINANCING, AND IT MAY NOT BE RELIED UPON AS SUCH ADVICE.

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- Tax-exempt bonds must be issued by a governmental entity
 - City
 - County
 - Authority (like the Iowa Finance Authority)
 - IFA is a statewide issuer
- Your first step is to find an issuer

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- These bonds are issued on a “conduit” basis
 - Borrower is responsible for paying all principal and interest
 - Issuer has no financial responsibility or liability
 - All revenue bonds
 - These bonds can be:
 - publicly offered or privately placed
 - fixed or variable rate

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- If Iowa Finance Authority is the Issuer:
 - Borrower completes Economic Development Loan Application and submits with \$100 application fee
 - At next Board meeting, the IFA board adopts an Inducement Resolution
 - IFA agrees to be issuer and project may proceed
 - Required for reimbursement of costs from bond issue

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- After an issuer has adopted an inducement resolution, you can apply for an allocation of Midwestern Disaster Area bonds
 - Complete MDA application and submit with 2bps application fee (\$200 per \$1 million)
 - Project must be located in one of the 78 counties that were declared disaster counties
 - Allocations are first come, first served
 - Maximum of \$200 million per project (until 1/1/12)

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- Two ways to qualify for MDA Bonds:
 - Business suffered loss in the floods & tornadoes of 2008
 - Business is replacing a business that suffered a loss in the floods & tornadoes of 2008
- IFA has been named the Governor's designee to make these determinations

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- Because Iowa lost so many businesses and suffered such economic loss in the floods of 2008 – IFA considers any new businesses or business expansion as replacing a business that suffered loss.

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- Once an allocation is made
 - You will receive a form from us certifying the allocation
 - You have 150 days to close the bonds
 - All MDA bonds must be issued before
January 1, 2013

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- Additional requirements of tax-exempt bonds:
 - Issuer holds Public Hearing (TEFRA hearing)
 - Must be published for 14 days
 - For IFA issues, usually held by IFA Board
 - Issuer adopts Authorizing Resolution
 - Governor's Approval

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- When the bonds close, there are closing costs
 - IFA charges a sliding fee at closing
 - 10bps for the first \$10 million
 - 5 bps for the next \$10 million
 - 3.75 bps for the next \$30 million
 - 1.875 bps for all the rest
 - There will also be fees for bond counsel, issuer's counsel, underwriter, borrower's counsel, etc.

Summary of Application Process and Procedures

Lori Beary / Iowa Finance Authority

- It's the responsibility of the borrower to put together their legal and financial team
- IFA doesn't buy or sell bonds

Obtaining MDA Bonds

Adam Claypool / DeWaay Investment Banking

- Understand cash needs
 - Type of project
 - Multifamily rental project for low/moderate income
 - Acquisition, construction, reconstruction, renovation of nonresidential real property
 - Repair or reconstruct public utility property
 - Use of proceeds (fixed assets, costs, operations)
 - Type of assets (land, buildings, equipment)
 - Excluded uses include but are not limited to:
 - Movable fixtures and equipment
 - Skybox/private luxury box, health club facility, golf course, country club, massage parlor, hot tub/suntan facility, racetrack/gambling facility or liquor store
 - There are other limitations (i.e. no more than 25% of proceeds may be used to acquire land)

Obtaining MDA Bonds

Adam Claypool / DeWaay Investment Banking

- Start with the end in mind
 - Think like the buyer of the bonds - understand credit quality
 - Collateral analysis
 - Cash flow analysis
 - Rated / unrated
 - Need for enhancements and availability of such enhancements
 - Prepare credit / project analysis package based on what the buyers want to see

Obtaining MDA Bonds

Adam Claypool / DeWaay Investment Banking

- Start with the end in mind (cont.)
 - Align needs of borrower with interests of buyers
 - Different projects fit different buyers and not every project is a fit for the program or buyers
 - We perform initial underwriting to understand what your needs are, which buyers could be interested
 - We work with borrowers to position them for optimal reception, assist them through the process in conjunction with relevant agencies, legal advisors and buyers

Underwriting/Rating and Sale/Distribution of Bonds

John May / Stern Brothers & Co

Financing Projects With Midwestern Disaster Area Bonds

Introduction – MDABond Financing of Projects in General

- **Stern Brothers has pioneered the use of tax-exempt and taxable bonds to finance private developers' projects in a variety of segments, e.g., renewable energy, real estate, manufacturing, airports, infrastructure, higher education, healthcare.**
- **Illiquidity of bank syndication market and disappearance of tax equity market have made tax-exempt and taxable bonds a exciting and independent source of debt capital for project financing. Can be used as sole source of debt or as complement to bank debt.**
- **In current market, bonds are a realistic alternative to bank debt, and offer structural advantages that improve equity returns.**

Using MDA Bonds for Project Financings – Trends and Challenges

- **Balance sheet ownership by parent company: is this the best approach? What is credit rating of company? Most companies want non-recourse financing. Accounting/rating and project risk considerations.**
- **Use of balance sheet ownership and financing in case where company is not investment grade rated. This means borrower is using existing cash flows to cover debt service on new project.**
- **Use of non-recourse, off-balance sheet ownership and financing structures. Is non recourse debt off-balance sheet under new FASB rules? Is it “off-credit” for rating purposes?**
- **How do you finance projects for non-IG borrowers or on a non-recourse basis in today’s tough financial markets.**
- **The key to creating credit quality in project finance debt: shifting project finance risk, and using credit enhancement if available and cost-effective.**

Credit Enhancing MDA Bonds for Projects - Trends

- **USDA B&I**
- **State moral obligation guarantees**
- **For renewables, DOE, USDA, State feed in tariffs – Vermont, California**
- **Letters of credit – recent problems; use of FHLB wrap**
- **Parental guarantees**
- **Export-import bank guarantees**
- **Off-taker guarantees or tolls**
- **Bond insurance**
- **BB or higher stand alone ratings**

Characteristics of Tax-Exempt or Taxable Bonds

- **Finance capital expenditures using leverage ratios similar to bank debt. Typically issued to institutions like mutual funds, insurance companies, corporations.**
- **Bonds represent a combination of construction and permanent financing. All proceeds drawn at closing.**
- **Interest rate is fixed and tax-exempt. Historically lower than taxable bank debt for comparable term by 2%. Long tenor of 15-20 years or more. Flexible amortization and call feature. Construction interest and DSRF handled like bank debt.**
- **Buyers want to hold to maturity and have different investment objective than banks.**

Advantages of Bonds Over Bank Debt

- **Exploring why the bonds offer advantages over bank debt in some cases, beyond fixed rate and rate differential:**
- **Banks require short tenors of 7-8 years and cash sweeps which shorten average life of the loan.**
- **Bond funds want a longer maturity, do not want rapid amortization, are flexible with deferral of principal.**
- **Bonds can be structured with 15-20 year tenors and can defer principal until after bank debt swept out.**
- **Resulting debt structure of project improves the IRR as developer receives return sooner.**

What Are Terms for Tax-Exempt and Taxable Bonds in Today's Market?

- **Par Amount/Leverage:** depends on project. \$15-200 million for most middle market projects. D/E credit dependent (cash flows) and similar to banks.
- **Rates:** Depends on credit. Based on wider credit spreads and less liquidity, “BBB” deals today for 20-year bonds at 6-7% tax-exempt, 8.5-9.5% taxable, if rating obtained. “BB” credits higher.
- **Tenor:** Based on balance sheet credit or in case of non-recourse, concurrent with off-take; some possibility for merchant “tail”.
- **Amortization:** Flexible. Deferred principal. Sinking fund. Bullet unlikely. Scheduled principal. Cash trap based on debt service coverage.
- **Call:** For exempts, typically 8-10 years at par for 20-yr paper. Can negotiate shorter 5-yr at premium. Taxable: make-whole.

What Are Credit Requirements for Bonds in Today's Market?

- No technology or scale up risk. Past pilot and maybe past “001” commercial plant. IE report essential.**
- Construction risk handled as with bank debt. GMP EPC contract with tech wrap; without wrap, contingent equity.**
- Will take operating risk as project lenders.**
- Generally will not take merchant risk – looking for PPA or off-take/toll from IG rated counterparty. Debt service on bonds to be paid through contracted cash flows.**
- Currently, tax-exempt buyers are mutual funds and corporations; taxable buyers are life companies, pension funds, special situation funds looking for equity features.**

DISTRUBITON OF MDA BONDS

Public Offering and Rating Process
Private Placement Memorandum

- **Indicative Rating**
- **Role of Placement Agent Counsel**
- **Appendix A**
- **How and When Is Memorandum Used**
- **The “Suite of Documents”**
- **Distinguish the Screening from Launch**

Due Diligence

- **Choice of Consultants**
- **Feasibility Study**
- **Marketing Study**
- **Independent Engineer's Report**
- **Other Diligence**
- **Data Room**

Screening the Bond Market

- **How It Works**
- **Selection of Accounts**
- **Information and Materials Provided**
- **Timing**
- **Feedback**
- **Implications for Transaction**
- **Effect on Senior Bank Syndication**

Launching the Bond Issue

- **Distribute OS or PPM**
- **Group Conference Call**
- **One-on-one calls with potential investors**
- **Timing**
- **Feedback**
- **Credit Review**
- **Legal Review**
- **Pricing of the Bonds**
- **Authorization by Borrower**
- **Approval by Issuer**
- **Legals; Closing**

QUESTION & ANSWER SESSION

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