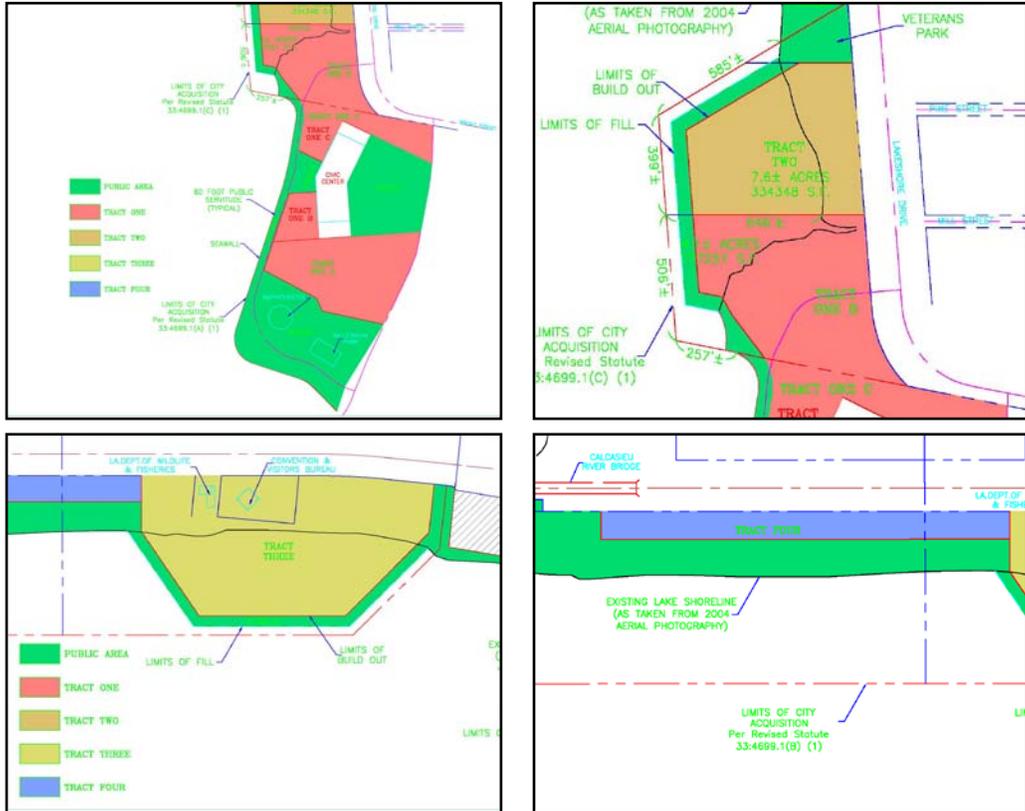


FUND SOURCING for LAKEFRONT DEVELOPMENT



**Submitted to
CITY OF LAKE CHARLES**

February 2010

OBJECTIVE

This report is prepared and submitted to the City of Lake to inform City Leadership of funding and financing opportunities that may be available to support a first-class, mixed-use development in the City's downtown lakefront development district. Specifically, this report will perform the following:

- Identify potential funding sources to support the development of a primarily-commercial-use project on the open, infill site, per specific plans and requirements provided by the City of Lake Charles;
- Provide an estimated length of time required to prepare and submit applications for the identified funding sources;
- Present an estimate of cost for preparing and filing each application, including any necessary consultant fees;
- Provide an expected length of time between application submission and award announcement; and
- Advise as to general advantages and disadvantages of each funding opportunity, as well as any unique restrictions.

BACKGROUND

The City of Lake Charles, the metropolitan center of Southwest Louisiana, is currently seeking proposals from private parties for the financing, construction and operation of a mixed-use development project on up to 65 acres of lakefront property. This project(s) seeks to leverage \$55 million in capital improvements to the downtown lakefront, as well as implement the recommendations of renowned planners brought in to assist with the recovery from Hurricane Rita.

The City will entertain proposals for the development of single units to entire tracts. The property will be conveyed pursuant to a long-term ground lease and will be developed pursuant to the terms of a corresponding development agreement. To accomplish the development of these properties, an integrated package of development services from the private sector is sought, including: planning and design, construction, sales/leasing and management and long term ownership of the improvements. Successful proposals will:

- Present a qualified, capable, and experienced development team;
- Respond to the vision of Lake Charles;
- Espouse smart growth principles, and comply with the City's downtown goals and Smart Code;
- Contribute to the success of downtown Lake Charles; and
- Demonstrate an ability to finance the project.

The City also wants to ensure success for its lakefront development by offering funding/financing incentives, on a negotiated basis, to prospective developers. The following pages provide a synopsis of potential sources for outside funding/financing, which may be sought after by the City and subsequently offered to developers. While not necessarily an

exhaustive list, the following synopses represent significant funding opportunities for which this project, and the City of Lake Charles, may be eligible.

For questions and/or additional information:

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NEW MARKETS TAX CREDITS (DIRECT ALLOCATION)

Funding Source:	U.S. Treasury/CDFI Fund
Length of Time Required for Application:	3-4 months
Estimated Cost for Preparing & Filing Application:	\$50,000
Expected Time Between Application & Award:	7-8 months
Applicant:	Community Development Entity

Description:

The New Markets Tax Credit (NMTC) program provides investors with federal tax credits for making investments in a wide range of businesses located in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year period. The tax credits can be deployed to support a wide array of real estate development projects, such as the City's lakefront project. According to the CDFI Fund Census Tract Mapping Information, the lakefront site is in a qualifying low income community.

The City of Lake Charles can, through a community development entity ("CDE"), apply for a direct allocation of tax credits. The equity generated from tax credit investors can then be used to offer a variety of financing products to support the lakefront mixed-use development and other projects selected by the CDE, such as:

- Debt with equity features;
- Subordinated debt;
- Below market interest rates;
- Lower-than-standard origination fees;
- Extended interest-only payment periods;
- Higher-than-standard loan-to-value ratios;
- Extended amortization periods;
- Less-than-standard loan loss reserve requirements, and more.

In short, an NMTC allocation will allow the City of Lake Charles to offer below-market mezzanine financing, a major incentive to real estate developers...especially in difficult economic conditions.

Advantages: Successful program that is well-recognized by developers nation-wide, allows allocatee to offer a range of flexible financing products, built-in community vetting requirements.

Disadvantages: Voluminous and labor-intensive application, complicated program that requires substantial oversight, lengthy waiting period between application and award, cannot be used to

finance solely residential developments; investments can only be made in low-income communities.

NEW MARKETS TAX CREDITS (OUTSIDE INVESTMENT)

Funding Source:	NMTC Allocatee/Investor
Length of Time Required for Application:	N/A
Estimated Cost for Preparing & Filing Application:	Transaction costs: \$10,000- \$20,000
Expected Time between Application & Award:	N/A
Applicant:	City/Developers

Description:

The New Markets Tax Credit (NMTC) program provides investors with federal tax credits for making investments in a wide range of businesses located in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year period. The tax credits can be deployed to support a wide array of real estate development projects, such as the City's lakefront project. According to the CDFI Fund Census Tract Mapping Information, the lakefront site is in a qualifying low income community.

As opposed to applying for a direct allocation of tax credits from the U.S. Treasury, the City can market its property and project(s) to other allocatees, who can then use the qualified investments to finance the project(s). This approach will allow the City to utilize NMTC as an incentive for its lakefront development faster than applying for an allocation itself. Transaction costs are typically paid by the Borrower (in this case, the developer), but the City may have to put some or all of the land in the deal as equity.

The U.S. Treasury publishes a list of all NMTC allocatees on its website: http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5. Twelve CDEs were awarded in Louisiana in 2009 at \$625 million, collectively. Several more have been awarded in past rounds, and there are CDEs with national scopes that can deploy credits in Louisiana, as well. Any individual or organization that pays Federal income tax may purchase New Markets Tax Credits, but typical investors are large companies with significant tax liability. Often times, large financial institutions serve as both principal lender *and* tax credit investor on transactions.

Advantages: Much faster process for project financing, potentially less expensive than applying directly, may attract out-of-state investment, less exposure for City.

Disadvantages: Less control by City, project and developer must clear underwriting for this to become an option, City and/or developer must market the project(s) to allocatees and investors.

TAX INCREMENT FINANCING

Funding Source:	Local/State property and/or sales tax
Length of Time Required for Application:	City already has TIF legislation
Estimated Cost for Preparing & Filing Application:	N/A
Expected Time between Application & Award:	N/A
Applicant:	N/A

Description:

Tax Increment Finance (TIF) began in 1952 California and has spread throughout the country. Today, 49 states (including Louisiana) and the District of Columbia have TIF enabling legislation. This popular financing tool allows local governments to invest in infrastructure and other improvements and pay for them by capturing the increase in property and/or sales tax revenues generated by the enhancements. The tax increment from a TIF district is created without raising taxes and without dipping into the tax value present at the time of adoption. The increment becomes a repayment stream for debt used to finance some aspects of what is driving the increase, such as retail, commercial, or mixed-use development.

While the City's lakefront site could potentially be exempt from property taxes, the proposed mixed-use project will likely increase both sales and property taxes, if applicable. The ability to capture that increment(s) could provide a substantial subsidy or incentive to the project. Fortunately, the City of Lake Charles already has TIF authority for the Lakefront Development Sub-District, which includes the development sites (La. R.S. 33:9038.57, Ordinance No. 14114). This authority includes the ability to capture the sales tax and hotel occupancy tax increments, except for the rate levied by the Southwest Louisiana Convention and Visitors Bureau, within the Sub-District for infrastructure improvements constructed in accordance with the Downtown Plan. According to R.S. 33:99038.57, infrastructure improvements may include "the costs of construction, renovation or relocation of public improvements, including but not limited to public buildings and other public structures such as streets, sidewalks, streetlights, boardwalks, piers, marinas, and related works, utilities, or fixtures."

The City is in a unique position to offer a substantial incentive to developers through tax increment financing. Development specifications should be tailored to maximize forecasted TIF revenue, so as to more quickly repay bonds and amenitize other parts of the Lakefront Development Sub-District.

Advantages: Potentially robust funding source that offers great flexibility without raising taxes or depleting current tax revenues. City already has TIF legislation. Does not put City's general fund at risk.

Disadvantages: Could slow growth of general fund by capturing all or some new tax revenue from the district. Still needs vote of the local electorate to enact TIF District.

TAX ABATEMENTS and P.I.L.O.T.s

Funding Source:	Local government
Length of Time Required for Application:	N/A
Estimated Cost for Preparing & Filing Application:	N/A
Expected Time between Application & Award:	N/A
Applicant:	N/A

Description:

By virtue of their owner (City of Lake Charles), the lakefront development sites are exempt from paying local property taxes. This exemption may be passed on to developers who build, own, and or operate facilities on the City-owned sites as tax abatement. One of the most common forms of tax abatement “freezes” property taxes at the predevelopment level for a predetermined period of time, and then incrementally increases the property taxes to bring them up to current levels. This is a common urban redevelopment tool and is used in Memphis, Baton Rouge, and several other Southern cities.

Payments in Lieu of Taxes (PILOTs) can be used to generate unrestricted revenue from improvements while still offering lower-than-standard payments by developers. PILOTs are simply fees (can be incorporated into lease payments) that can help mitigate potential losses from tax abatements, but are still less costly to the developer than paying the full complement of post-improvement property taxes.

For both tax abatements and PILOTs, specific criteria and terms should be developed to ensure the nature and quality of the project meet the City’s expectations.

Advantages: Popular incentive that does not require raising taxes or depleting current tax revenues. PILOTs can provide an unrestricted revenue stream to mitigate some potential loss of future tax revenue. Property is already tax-exempt by virtue of its owner, the City.

Disadvantages: Specific terms and criteria needed. Could slow growth of general fund by waiving all or some future property tax revenue.

**COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY
PROGRAM**

Funding Source:	Louisiana Recovery Authority
Length of Time Required for Application:	2-4 months (est. for competitive funds)
Estimated Cost for Preparing & Filing Application:	\$2,000 (for competitive funds)
Expected Time Between Application & Award:	6 months (for competitive funds)
Applicant:	City and/or Calcasieu Parish

Description:

The State of Louisiana has been allocated \$438,223,344 in CDBG Disaster Recovery funding from the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009, for the purposes of disaster relief, long-term recovery, and restoration of infrastructure directly related to the consequences of recent 2008 hurricanes Gustav and Ike. The LRA allocated over \$17.7 million to Calcasieu Parish. Parish-implemented programs utilizing these funds can include housing, infrastructure recovery, economic recovery and revitalization.

According to City officials, no CDBG Disaster Recovery funding has been allocated towards lakefront development. However, there is also a “Competitive Pool” of \$23 million retained by the LRA that will be awarded to impacted communities based on a competitive application process. These funds may only be used for “affordable rental housing programs”, and could be used to incorporate mixed-income residential into the lakefront development, if desired. The LRA has not yet released details for the competitive applications or application process (expected February 2010).

Advantages: Flexible CDBG funding that can be used to support the lakefront development in many ways. \$17.7 million already allocated to Calcasieu Parish. Large pool of competitive funds that could be used to support mixed-income residential and the City is currently re-packaging damaged property in and around its lakefront to take advantage of any competitive and/or surplus disaster recovery funding.

Disadvantages: Must be tied to Hurricane Gustav or Ike recovery. Formula allocation awarded to Parish instead of City.

SECTION 108 LOANS

Funding Source:	HUD
Length of Time Required for Application:	3-4 months
Estimated Cost for Preparing & Filing Application:	\$1,000
Expected Time Between Application & Award:	3-6 months
Applicant:	City of Lake Charles

Description:

From HUD's website:

“Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. This makes it one of the most potent and important public investment tools that HUD offers to local governments. It allows them to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods. Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. Section 108 loans are not risk-free, however; local governments borrowing funds guaranteed by Section 108 must pledge their current and future CDBG allocations to cover the loan amount as security for the loan.”

As an Entitlement Community, the City of Lake Charles has access to significant capital through the Section 108 loan program. The City may apply for Section 108 loan funds at up to five times its latest approved CDBG entitlement amount. Based on the City's 2009 entitlement grant, it could borrow up to \$4.3 million. This loan can be passed on to a developer at low interest rates to support a variety of activities that could be included in the development of the lakefront sites. Section 108 loans are ultimately paid back by the developer(s), but because they are secured by the City's entitlement grant, can be offered at very attractive terms (including repayment periods up to 20 years) and thus act as an incentive that can reduce overall development and carrying costs. No Section 108 loan has ever defaulted.

Eligible activities under Section 108 include:

- economic development activities eligible under CDBG;
- acquisition of real property;
- rehabilitation of publicly owned real property;
- housing rehabilitation eligible under CDBG;
- construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements);

- related relocation, clearance, and site improvements;
- payment of interest on the guaranteed loan and issuance costs of public offerings;
- debt service reserves;
- public works and site improvements; and
- in limited circumstances, housing construction as part of community economic development.

There is no formal application process for Section 108 loans. Applicants work with their local HUD Field Office representatives to certify eligibility and structure the terms of the loans to suit each project.

Advantages: Readily available capital at attractive terms that can be used in a variety of ways to support the City's lakefront development(s). Relatively low risk – no loan has ever defaulted. Excellent source of predevelopment financing.

Disadvantages: Puts at risk the City's annual CDBG entitlement award.

SALE OF LONG-TERM LEASE RIGHTS

Funding Source:	Leasing Agent
Length of Time Required for Application:	N/A
Estimated Cost for Preparing & Filing Application:	N/A (borne by Developer)
Expected Time Between Application & Award:	N/A
Applicant:	City/Developer

Description:

As owner of the lakefront development sites, the City of Lake Charles has the ability to structure its deal(s) with potential developer(s) in ways that will allow the developer(s) to capitalize on the value of potential projects and site location.

Developers who receive long-term leasing rights from the City can shift their risk and raise capital by selling long-term leasing rights to a leasing agent(s) who will pay anticipated leasing revenues up front. This can provide up-front cash for the lakefront development project(s), which mitigates potential risk for developers. However, the sale of long-term leasing rights must be structured so that the developer(s) and City can eventually benefit financially from the real-time value of the lakefront improvements (i.e. – lease revenues). Developers will typically want fees to offset the “loss” of future lease revenue.

Advantages: Provides up-front cash financing without debt. City already owns strategically-located property and intends to long-term lease.

Disadvantages: The value of anticipated lease revenues will be discounted, commensurate with term of the long-term leasing rights that are sold to a leasing agent. Current economic conditions may make this funding source less feasible. Depending on the structure of the sale, the developer may not see much lease revenue for several years.

**PUBLIC WORKS and ECONOMIC DEVELOPMENT/ECONOMIC ADJUSTMENT
ASSISTANCE GRANTS**

Funding Source:	U.S. Economic Development Administration
Length of Time Required for Application:	3-4 months
Estimated Cost for Preparing & Filing Application:	\$5,000
Expected Time Between Application & Award:	3-6 months
Applicant:	City/DDA

Description:

The Economic Development Administration (EDA) within the U.S. Department of Commerce offers two similar programs for which the City's lakefront development project(s) may be eligible.

The Public Works and Economic Development Program provides investments (i.e. – grants) that help support the construction or rehabilitation of essential public infrastructure and facilities necessary to generate or retain private sector jobs and investments, attract private sector capital, and promote regional competitiveness.

The Economic Adjustment Assistance Program provides technical, planning, and/or infrastructure assistance, in the form of grants and loans, to regions experiencing adverse economic changes that may occur suddenly or over time. Due to the impact of Hurricanes Rita and Ike, the City of Lake Charles is eligible for Economic Adjustment Assistance.

Through both of these programs, the EDA is usually most interested in helping fund basic, critical infrastructure improvements that will stimulate private investment and create jobs. Projections for leveraged private investment and job creation will be required in the application. Any critical infrastructure that is needed to support the City's lakefront development could be eligible for funding through the EDA, and could serve as an incentive to private developers by reducing their development costs. Awards through these programs typically range from \$250,000 to \$2,000,000, and the EDA prefers to have its funding leveraged at least by 75 percent, so the City and/or developers would need to provide some additional funding to match EDA's. The \$55 million for capital improvements along the lakefront may qualify as match.

Contact and interface with the EDA's Austin Regional Office is encouraged before and during application preparation.

Advantages: Source of predevelopment/infrastructure financing. Relatively quick turnaround from application to award.

Disadvantages: Extensive application forms. Requires match. Small award amounts.

LAND AS DEVELOPMENT EQUITY

Funding Source:	Lending Institutions
Length of Time Required for Application:	N/A
Estimated Cost for Preparing & Filing Application:	N/A
Expected Time Between Application & Award:	N/A
Applicant:	City/Developer

Description:

The value of the lakefront development sites owned by the City of Lake Charles represents significant equity that can potentially be leveraged. If allowable under La. R.S. 33:44699.1, the City could offer the value of its lakefront property as equity for development financing, helping to mitigate the risk of a developer.

While offering land as equity does potentially put the City's property at risk, it could serve as an incentive to the developer(s) by reducing his/her carrying costs, and potentially generating additional revenue for the City by taking an equity position in the project. In addition to lease revenues, the City could benefit from an equitable distribution of net project revenues.

Due to the risk involved (if allowed), this incentive may be best suited as a "tool of last resort", particularly if developers are struggling to secure financing at terms that will not hinder the feasibility of projects.

Advantages: City owns land. Opportunity to generate additional revenue while incenting private investment.

Disadvantages: May not be allowed under legislation. Puts City property at risk.