

Greene County Port Authority

Economic Development Financing - Generally

Historically, Ohio port authorities were created to conduct maritime and airport activities; however, in 1982, the Ohio General Assembly expanded port authority powers to be used for economic development activities and to be employed cooperatively with state agencies and other political subdivisions.

The involvement of the Greene County Port Authority (the “Port Authority”) as a project partner offers several benefits to development and company expansion projects within Greene County. The broad powers of a port authority make it a useful tool for economic development and other development purposes. These powers include, among others, the ability to acquire, own, lease, sell or construct improvements to property; issue revenue bonds for port authority facilities; receive federal and state grants; and cooperate broadly with other governmental agencies. The Port Authority uses these powers to pass advantages along to the private developer or owner.

The Port Authority has extensive public finance capabilities that may be employed in connection with commercial real estate and redevelopment of complex sites for the purpose of stimulating private investment and job-creating operations. The public finance operations of the Port Authority provide innovative financing options across a broad range of development needs. One such ability is the ability to issue tax-exempt debt with flexible terms tailored specifically to each deal. The intersection between public finance products and private sector investment can yield a beneficial mix of lower interest rates, sales tax exemption savings, longer-term/fixed-rate options, and potential reinvestment of capital back into a project and surrounding community.

Tax-exempt debt issued by the Port Authority can be used to finance certain manufacturing facilities, nonprofit facilities (e.g. healthcare, education), solid waste disposal facilities, nonprofit water systems, and affordable housing facilities. A special power of Ohio port authorities includes the additional ability to undertake cooperative financings supported by multiple political subdivisions within its jurisdiction, such as “new community authorities.”

The Port Authority can also serve as the central point of contact, investigating and procuring business-retention and expansion incentives. As a public entity, we are able to fill a necessary role in funding transformative projects within Greene County, addressing all fiscal and public policy considerations. We continue our outreach to regional municipalities and developers to introduce the financing tools available to the Port Authority, and to discuss how we may best partner to help with such projects.

Capital Leasing

A capital lease is one in which the Greene County Port Authority (the “Port Authority”) would own a certain asset or property or undertake an ownership interest in such asset or property, and then lease such asset or property to another company or entity in order to provide financial or accounting advantages to the company or entity (often the user of the asset or entity).

In this type of financing, the Port Authority may hold title to the financed project and enter into a lease with a lessee, which may be a company or a developer. The lessee typically has the right to purchase the asset or property for a nominal amount at the end of the lease, the specific terms of which are negotiable with the Port Authority.

Capital lease financings with the Port Authority can benefit companies by helping control the costs of constructing a new asset or building. For example, in a capital lease with the Port Authority, companies may be able to take advantage of a sales tax exemption on the purchase of project building materials, conditioned on the Port Authority’s ownership of the project. A sizeable project could result in substantially reduced construction costs through these savings. Capital leases may also be beneficial from the standpoint that this structure may serve as an alternative to involvement from other political subdivisions such as counties, municipalities, townships, and/or special districts. Having a port authority involved may help relieve concerns with respect to constitutional or statutory debt limitations and/or other more restrictive provisions applicable to other political subdivisions.

The Port Authority’s Role

The Port Authority’s activities related to structured leases can vary depending on the type of lease utilized. In connection with such a lease, the Port Authority may: own the project (fee simple or undertake a leasehold interest via a ground lease), arrange for construction, lease the project directly to the business or to a master lessee, and issue the lease revenue bond debt (typically under a trust indenture or lease agreement). The source of repayment for any bonds is often a lease agreement or loan agreement (or an assignment thereof), the terms of which are negotiated to varying degrees among the bondholder (often a financial institution), the Port Authority, the company, the developer, and/or another political subdivision or subdivisions, depending on the complexity of the transaction. The Port Authority is committed to working with all of the participating entities to find a workable transaction structure in order to fit within the goals of the project financing.

Example of Structured Lease

In lease financings, the Port Authority’s tax-exempt status can be utilized to help developers and companies control costs of constructing a new building through a sales tax exemption on the purchase of project construction materials. As such, the Port Authority’s ownership of the asset is a condition of using this incentive.

In the sample calculation below, the capital lease structure assumes 50% of the project cost is construction materials. Note that some of the project savings are used to support the cost of the transaction.

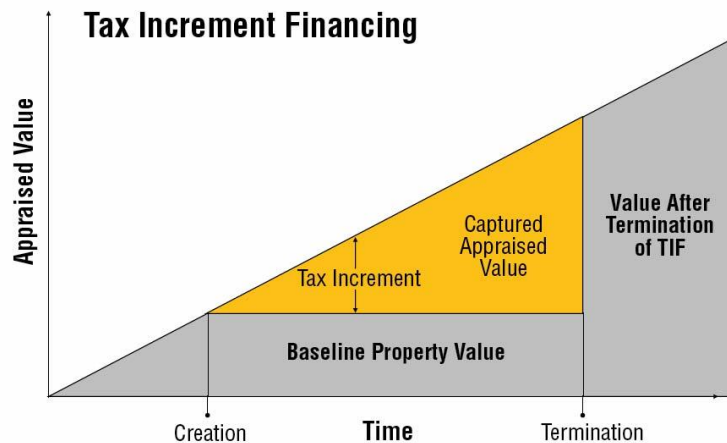
- \$10 million new construction project (hard costs)
- Assume 50% of hard cost is for construction materials
- State and County sales tax of 6.75%
- Goal: 80% of savings retained by client post transaction fees and expenses
- Total Savings: \$270,000

Tax Increment Financing (TIF) and Special Assessment Bonds

Tax increment and special assessment financing can be powerful economic development programs, targeted to enable development and redevelopment projects as well as leverage other financing tools.

Tax increment financing (TIF) is a tool available to townships, cities, and counties that allows them to designate certain real property for development and collect a stream of payments from the property owner attributed to the increased value of the property after development. When cooperating with a port authority, these revenues can be pledged towards the repayment of port authority-issued taxable or tax-exempt bonds in order to finance public infrastructure improvements in connection with the applicable development, including public roads, utility lines, environmental remediation, and land acquisition to name a few of the potential uses. Certain TIFs created by cities also have the statutory ability to finance improvements for broader economic development purposes.

When a TIF is put in place, the then-current value of the TIF property is frozen for a number of years, and the property taxes typically due on the increased value are payable, not as taxes, but as “service payments” to the township, city, or county which created the TIF. Unlike typical property tax distributions, the township, city, or county which created the TIF receives up to 100% of the “service payments,” which, as described above, may be applied towards certain public improvements. These payments are collected at the same time and in the same manner as property taxes. Under Ohio law, TIFs are limited to 30 years in duration, after which the increased value, in addition to the value frozen when the TIF was put in place, becomes subject to traditional real property taxation.



In Ohio, school districts often receive compensation for foregone tax revenue in the amount of all or a portion of such revenue that would have been generated from the increased property value. Some school districts have arrangements that govern all TIFs established by a certain governmental entity, and others negotiate compensation on a case-by-case basis.

TIF revenue bonds may be issued on a taxable or tax-exempt basis, primarily based on the use of proceeds. The bonds are non-recourse to the governmental entity which establishes the TIF and the applicable port authority, and do not generally count against any state-imposed limitations on indebtedness. TIF bonds are typically backed by some form of security in addition to the service payments received by the governmental entity. The form of this security varies depending on the transaction structure, but can take the form of a reserve fund, a minimum service payment agreement with the developer/owner of the TIF property, a special assessment, a guaranty, and/or a pledge of another revenue source. A special assessment is a charge levied upon a property especially benefited by a public improvement for the purpose of paying for part or all of the cost of the improvement. It is also possible to finance infrastructure improvements using a special assessment without using a TIF.

To determine whether a proposed project can use any of these financing methods, the developer or representative authority should contact the applicable governmental entity's economic development department, which will determine project feasibility. While a governmental entity must establish a TIF, there is often a preference for the issuance of any TIF-related debt to be completed by a separate entity, such as a port authority.

The Port Authority's Role

The Greene County Port Authority utilizes its technical expertise and resources, in association with counsel, to negotiate bond documentation, execute the transaction and oversee all post-issuance compliance, including managing the disbursement of TIF funds for construction projects. Our participation allows governments to invest alongside the private sector on projects with economic benefit with less risk to the governmental entity, and provides alternatives to the issuance of traditional governmental general obligation or non-tax revenue obligations.

Tax-Exempt Financing

Tax-exempt bonds and other obligations (such as lease-purchase obligations and/or certificates of participation) may be utilized to finance projects for governmental entities, nonprofit (501(c)(3)) entities, qualified “private activity” and “exempt facilities.”

Tax-exempt obligations typically provide lower interest costs when compared to taxable or traditional commercial financing alternatives. In many cases, not only is the interest on tax-exempt obligations exempt from an investor’s gross income for federal income tax purposes, but also exempt from state income taxation.

Types of Tax-Exempt Conduit Bonds

Tax-exempt obligations must be issued by state or local governments. Certain entities and/or projects that are not state or local governments may benefit from the issuance of tax-exempt obligations. These entities and/or projects include nonprofit (501(c)(3)) entities, manufacturing entities, exempt facilities, and multi-family housing. In order for these entities or projects to obtain the benefits of tax-exempt financing, it is necessary for a state or local governments to serve as the issuer of tax-exempt obligations. The Greene County Port Authority (the “Port Authority”) is recognized as a qualifying issuer of tax-exempt obligations, possessing the necessary attributes of a governmental issuer.

501(c)(3) Bonds. The proceeds of “qualified 501(c)(3) bonds” may be used to finance facilities owned and used by tax-exempt charitable organizations. A borrower must have a 501(c)(3) Determination Letter from the I.R.S. in order to benefit from this type of tax-exempt bond, so not all non-profit corporations or charitable organizations will qualify for this type of financing. Typical projects financed with “qualified 501(c)(3) bonds” include hospital facilities, long-term care facilities, cultural facilities, and private school facilities.

Industrial Development Bonds. Industrial development bonds (IDBs) are issued to facilitate economic and industrial development. These are tax-exempt bonds issued by a governmental entity, such as the Port Authority, to provide money for the acquisition, construction, rehabilitation and equipping of manufacturing and processing facilities for private companies.

Exempt Facility Bonds. Eligible projects include airports, docks and wharves, mass commuting facilities, hydroelectric enhancements, water furnishing, sewage facilities, solid waste disposal facilities, residential rental facilities, local electric/gas facilities, local heating/cooling facilities, hazardous waste disposal facilities, high-speed intercity rail facilities, public educational facilities, green buildings, and highway or surface freight, transfer facilities.

Issuance Considerations: It is important to engage the Port Authority as early in the financing process as possible because each type of tax-exempt bond referenced immediately above has restrictions imposed by the Internal Revenue Code and state law, such as limitations with respect to weighted average maturity, use of proceeds on costs of issuance, purpose, reimbursement, expenditure expectations, public hearing requirements, and arbitrage restrictions to name a few of the issuance considerations. Certain types of bonds may also be subject to volume cap requirements and limitations on the use of proceeds for land acquisition to identify a few other considerations.

The Port Authority's Role

As a governmental entity, the Port Authority is an eligible issuer of conduit tax-exempt bonds, including 501(c)(3), industrial development, and exempt facility bonds. Within these transactions, the Port Authority serves as a conduit (or pass-through entity) and assumes no responsibility to repay bonds from its own funds. The Port Authority is committed to bringing its relationships, resources, and expertise to benefit each project, and regularly works with financial institutions, developers, political leaders, architects, engineers, attorneys, and other members of project teams to facilitate the best possible financing structure for any given transaction.