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Council of Development Finance
Agencies



Presentation to CDFA Annual Conference



501(c)(3) BOND POOL FINANCINGS OR COMPOSITE BONDS

Thursday, April 21, 2005

Financing Today for a Better Tomorrow!

LPFA is a Non-Profit Public Trust

- *Created by a private corporation in 1974.*
- *State and its citizens are beneficiaries of the Trust.*
- *No State appropriations for operations*
- *LPFA operates on self-generated revenue*
- *Bonds are not obligations of the State*

LPFA Bonds Issued

\$16 Billion

*Since Inception in
August of 1974*

LPFA Impact

LPFA during its first 25 years facilitated economic activities that led, on average, to an additional 8,333 jobs per year and additional personal earnings of \$158.6 million per year for the Louisiana economy.

LPFA Impact

From 1999 to 2003 LPFA facilitated economic activities that led to an average of 7,745 jobs per year and additional personal earnings of \$202.3 million per year.

“Pool” or “Composite” Bonds

- A Single Bond Issue for Multiple 501(c)(3) Borrowers
- Dedicated pool – all borrowers are identified and bond proceeds loaned out at the time the bonds are delivered
- Bonds are backed by one or more Letters of Credit (LOC)
- Issuance Costs are shared by all Borrowers
- “Composite” may be better term

“Pool” or “Composite” Bonds - Continued

- LPFA has Maintained its Current Pooled Loan Programs Since 2000
- Delivered a total of 12 Bond Issues for \$180.33 Million
- Total of 40 different loans to 35 different Borrowers
- Bonds have been tax-exempt and taxable

“Pool” or “Composite” Bonds - Structure

- Bonds are secured by a letter of credit
- Credit decision is made by the bank issuing the letter of credit
- Once sufficient borrowers have been identified, the bonds are issued
- Letter of credit bank can provide interim financing until bonds can be delivered

“Pool” or “Composite” Bonds – Structure Continued

- Bonds are issued pursuant to a single Official Statement
- Bonds are lower floaters with a 7 day interest reset period
- Disclosure about underlying borrowers has been minimal
- Underwriter runs composite cash flow
- Borrower can “swap” to a fixed rate

“Pool” or “Composite” Bonds – Structure Continued

- Target at least \$15 million for bond size
- Actual bond issues have been from \$3.5 million to \$28.5 million
- Individual loans have been from \$725,000 to \$12.7 million
- 5 entities have borrowed twice from the program

“Pool” or “Composite” Bonds – Structure Continued

- Costs of Issuance shared by all borrowers
- Costs are allocated to each borrower pro rata based upon the amount of bonds issued for the borrower
- Total fees and expenses have ranged from 1.8% to 1.98% of bonds issued
- Costs for \$725,000 borrowing under \$14,500

Professionals in the Bond Financing

- Bond Counsel
- Issuer's Counsel
- Trustee
- Trustee's Counsel
- Underwriter
- Underwriter's Counsel
- Letter of Credit Bank
- LOC Bank's Counsel

“Pool” or “Composite” Bonds – Structure Continued

- Each borrower pays a different letter of credit fee
- Borrower and LOC provider negotiate LOC fee
- LOC fee is based upon borrowers credit
- LOC fees have typically been 75 to 150 basis points

“Pool” or “Composite” Bonds – Structure Continued

- Single or Double Tier LOC Structure
- Have wrapped the credit bank’s LOC with a higher rated LOC to save interest costs for borrowers
- Can also have credit bank accept another bank’s LOC
- Credit bank’s LOC would act as the “wrap” for other bank’s LOC

“Pool” or “Composite” Bonds – Marketing

- Programs marketed primarily by LOC banks and underwriters
- LPFA currently has two competing programs with different LOC banks and underwriters
- Borrowers can get quotes from both programs and choose the best offer

“Pool” or “Composite” Bonds – Challenges

- Borrowers are seldom ready at the same time
- Deals are very fluid, changing right up to closing
- Various loan terms and maturities must be incorporated into cash flows
- Cash flows are very complex and must be rerun when the deal changes

“Pool” or “Composite” Bonds – Challenges

- Multiple borrower’s counsel
- Borrower’s counsel may be unfamiliar with complex financing documents
- Different LOC fees for different borrowers – potential for conflict
- More work for less money for professionals
- Ownership of program

“Pool” or “Composite” Bonds – Questions Received

- Why isn't everyone doing this?
- More work – not willing to put in enough time and energy
- Let me be the LOC bank – Why are you working with them?
- We offer to serve as the conduit for any LOC bank – all they have to do is bring the borrowers

“Pool” or “Composite” Bonds – Developing a Program

- Identify potential letter of credit banks
- Work with a bank officer to develop the program
- LOC bank can start by marketing the program to its existing customers
- Large untapped potential for bonds
- Allows LOC bank to provide a service, helping to keep existing customers

“Pool” or “Composite” Bonds – Developing a Program

- Negotiate discounted fees with bond counsel, underwriters, etc. due to the continuing nature of the program
- Develop a form set of documents
- Clearly establish the responsibilities of each professional in the program
- Establish who “owns” the program



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LOUISIANA PUBLIC FACILITIES AUTHORITY

Thank You For Your Attention!
Please Contact me if You Have
Any Questions

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Supplemental Information

- The following slides provide additional information about tax-exempt 501(c)(3) bond issues and bond issues in Louisiana

True Conduit Lender

Issue Revenue Bonds

- *Use revenue stream of project or assets financed*
- *Backed solely by borrower's credit*
- *No LPFA funds at risk*
- *Not a risk to State*
- *Not an obligation of State*

Tax-Exempt Eligibility

- Guidelines Set by Federal Law
 - 501(c)(3) entities
 - Small Manufacturing Entities (IDBs)
 - Exempt Facilities
 - Total private use bonds issued in Louisiana limited by Federal law

Cap Allocation Approval

- The Governor's Office is in charge of approving allocation requests for private activity bonds.
- General allocation is 50% housing, 25% student loans, 20% IDBs, & 5% exempt facilities.
- Specific allocations for IDBs are based upon job creation and investment.

Tax Exempt Eligibility

- 501 (c)(3) Entities

- *No Volume Cap Needed*

Tax Exempt Eligibility

- 501 (c)(3) Entities

- *All property must be owned by the 501(c)(3) entity*
- *Borrower must maintain its status as a 501(c)(3) entity while any bonds remain outstanding*
- *Must use the bond proceeds to further its exempt purpose*

Tax Exempt Eligibility

- 501 (c)(3) Entities

- *Facilities financed must be used by the 501(c)(3) entity or a governmental unit*
- *Depreciable property and equipment may be financed*
- *Limited amount of working capital may be financed*

Tax Exempt Eligibility

- 501 (c)(3) Entities
 - *501(c)(3) entity needs to adopt an “official intent” resolution*
 - *Resolution must generally describe the project and the maximum principal amount of bonds expected to be issued*
 - *Official intent must be reasonable*

Tax-Exempt Eligibility

- Certain facilities are prohibited
- Airplanes
- A skybox or other private luxury box
- Gambling facilities
- Alcoholic beverage store

Tax-Exempt Eligibility

- Costs of issuance limited to 2% of bond proceeds
- Costs of issuance over 2% must be paid by the borrower from other funds

Taxable Bonds

- None of these restrictions apply
- Can finance working capital and most other items

LPFA Bond Issue Fees

- **FINANCING APPLICATION FEE:**
 - \$ 500
- **FINANCING ACCEPTANCE FEE:**
 - A sum equal to .05% of the face amount of Bonds issued for the Project less the \$500 Financing Application Fee
- **ANNUAL ADMINISTRATIVE FEE:**
 - LPFA will be authorized to charge an Annual Administrative Fee equal to one-tenth of one percent (0.10%) of the amount of bonds outstanding on January 1 of each year

LPFA Other Fees

None!

State Bond Commission Fees

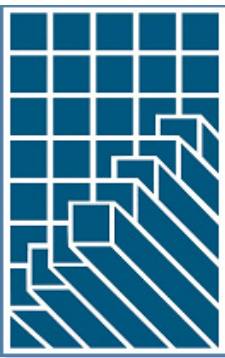
- **APPLICATION FEE:**
 - **\$1,500**
- **ACCEPTANCE FEE:**
 - **First \$5 million - 0.125%**
 - **Next \$20 million - 0.110%**
 - **Next \$25 million - 0.105%**
 - **Next \$50 million - 0.100%**
 - **Over \$100 million - 0.090%**

Bond Counsel Fees

- Maximum Fee Set by the Attorney General
- Fees are Negotiable
- Recommended by the Conduit Borrower or Program Developer and Employed By LPFA
- Fees typically 80% of A.G. Fee Schedule for pooled bond programs

Attorney General's Fee Schedule

More Than	And Not More Than	Fee
\$0	\$1,350,000	1.5% of the issue
\$1,350,000	\$2,700,000	\$20,250 plus 0.75% of all over \$1,350,000
\$2,700,000	\$6,750,000	\$30,375 plus 0.30% of all over \$2,700,000
\$6,750,000	\$13,500,000	\$42,525 plus 0.20% of all over \$6,750,000
\$13,500,000		\$56,025 plus 0.075% of all over \$13,500,000



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The End!

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