PUBLIC FINANCE TOOLS

2019

THE PORT

Making Real Estate Work

THE PORT

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PROGRAM	FINANCING TYPE	TAX EXEMPT	TARGET SIZE	PRIMARY BENEFIT	DESCRIPTION AND ADDITIONAL CONSIDERATIONS
Bond Fund	Debt	Deal Specific	$2.5 - 6.0 MM	Access Cost	Company lending for capital improvements or small TIF deals. Can be combined with other Ohio Bond Funds for larger deals. Rated BBB+ by Standard & Poor's.
Lease	Optional	No	$5 MM+	Cost Reduction	Involves The Port owning and leasing a project to a company. Sales tax exemption on building materials. Smaller deals are possible, but economics may not work.
EB-5	Debt	No	$10 MM+	Access Cost (Mezz) Terms	Federal program created to encourage overseas investment in the U.S. First Mortgage or Mezzanine Debt; 5-7 year term; approximately 25-50% of capital stack (min. $30 MM project).
Tax Increment Financing (TIF)	Debt	Deal Specific	$2.5 MM+	Cost Reduction	Future increase in property taxes utilized to finance part of the cost of improvements. Smaller deals via Bond Fund; larger deals on a stand-alone basis; credit enhancement is key.
Special Assessments	Debt	Deal Specific	$2.5 MM+	Cost Reduction	Charges against property to pay costs of related improvements or services.
PACE	Debt	Deal Specific	$50,000 Min.	Access Terms	Finance of energy efficient building improvements by placing a special assessment on the property. Primarily for rehab, capital improvements or upgrades; positive cash flow on retrofits.
501 (c)3 Bonds	Debt	Yes	$2.0 MM+	Cost	Tax-exempt conduit debt. Reduces the borrowing costs of credit worthy non-profit organizations
Industrial Revenue Bonds	Debt	Yes	$2 - 10 MM	Cost	Tax-exempt conduit debt. Manufacturing and processing facilities
Exempt Facility Bonds	Debt	Yes		Cost	Tax-exempt conduit debt. Certain facilities owned or used by private entities including airports, rail, water, and surface transportation.

Port Development Financing for Economic Development

Why should you consider partnering with The Port in a development deal? Our unique public financing tools can provide significant benefits in the form of cost savings.

Development and company expansion projects can benefit greatly when a Port Authority is involved as a project partner. Port Authorities can borrow funds, purchase property, construct and own facilities and lease property efficiently and cost-effectively, and pass advantages along to the private developer or owner. As a friendly borrower, Port Authority participation provides assurance that financing mechanisms will achieve project goals, achieve favorable terms, and coordinate with all other components of the deal structure for best outcome.

The Port is an economic development agency that initiates projects to improve property value and promote job creation throughout Hamilton County. The Port has an active public finance program that is grounded in commercial real estate and redevelopment of complex sites for the purpose of stimulating private investment and job-creating operations. We are eligible to issue tax-exempt debt and offer flexibility within terms that are designed specifically to each deal. We can marshal additional state and local resources, including grants.

The benefits of public finance include the access to and/or a lower cost of capital. 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 dollars back into the project and community.

The Port has broad development-related powers and expertise that allow it to take on complex projects for developers, manufacturers, and other established companies that catalyze private investment, with operational focus on transportation, community revitalization, public finance and real estate development.

Since 2012, The Port has issued more than $360 million in revenue bonds to fund a wide variety of economic projects in the City of Cincinnati and Hamilton County.

The Port's public finance program provides innovative financing options tailored to the distinct needs of a project and its development entity. With strong public finance and policy practice, The Port has broad development-related powers under state law that enable our strategic participation in tax-exempt bonds, EB-5 financing, tax increment financing and special assessment debt, conduit bond financing, lease bond structures, and property assessed clean energy financing.

The public finance team at The Port can serve as the central point of contact, investigating and procuring local, state and federal business-retention and expansion incentives, and has access to local, state and federal grant funds. The Port public finance team affords distinctive benefits including: flexibility, market knowledge, program pairings, economic inclusion, and leveraged resources. As a quasi-public entity, we fill a needed role in funding transformative projects, and, at the same time, addressing all fiscal and public policy considerations.

The evaluation and use of public finance tools in private sector projects should be evaluated on a case-by-case basis. However, the growing use of public finance tools in economic development projects has proven the need and benefit of utilizing these tools at the right time. We continue our outreach to regional municipalities and developers to introduce the financing tools available to The Port, and to discuss how we can partner to help with development projects.

FROM 2012-2017:

$361.7MM

IN FINANCING ISSUED

$1.25B

IN TOTAL PROJECT INVESTMENT

7,000

JOBS CREATED / RETAINED

Development Finance:

Structured Lease

A structured lease involves The Port owning and leasing a project to a company in order to provide financial or accounting advantages to a corporate user.

For a sizable project, this financing structure can reduce construction costs dramatically.

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Benefits of a Structured Lease

In lease financings, The Port's tax-exempt status can be deployed to help developers and companies control costs of constructing a new building through sales tax exemption on the purchase of project building materials. As such, The Port's ownership of the asset is a condition of using this incentive. For a sizable project, this financing structure can reduce construction costs dramatically through sales tax savings.

Capital Lease Structure

Under the capital lease The Port holds title to the project. The Port enters into a Lease with the lessee which can be a company or a developer. The Lessee books the asset and any debt on its balance sheet. The lessee receives all ownership benefits for federal tax purposes, i.e. depreciation, interest expenses. Under the lease, the lessee typically has the right to purchase the asset for a nominal amount at the end of the lease. A right for the lessee to purchase the asset prior to the end of the lease term can be negotiated.

Role of The Port

The Port may:

- Own the project (via fee simple interest or ground lease)
- Arrange for construction
- Lease the project directly to the business or to a master lessee
- Issue the lease bond debt (typically under a trust indenture)

The source of repayment for any bonds is the master lease, the terms of which are negotiated among the bondholder, The Port, the business and the developer.

The Port is committed to working with the developer or company to make this structure fit within their goals for the project lease.

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Development Finance:

Lease Structure Example

Benefit: Sales Tax Exemption on Building Materials

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

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EXAMPLE PROJECT SAVING SCENARIO

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.

$25,000,000

new construction project (hard costs)

$12,500,000

assume 50% of hard cost is for construction materials

Hamilton County sales tax of 7.00%

GOAL: 80% of savings retained by client post transaction fees and expenses

$700,000

Total Savings to the Client

EXAMPLE PROJECTS

Great American Tower at Queen City Square
City of Cincinnati, Ohio

Madison Square (Med Pace Campus)
Madisonville, City of Cincinnati, Ohio

JTM Production Facility and Freezer Expansion
Harrison, Ohio

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Development Finance:

Southwest Ohio Regional Bond Fund

A Bond Fund is a credit-enhancement vehicle supported by a system of common program reserves and designed to achieve an investment grade rating.

This tool gives companies access to long-term, fixed rate financing to fund facility expansion, increase manufacturing capacity, and purchase new equipment.structure can reduce construction costs dramatically.

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A number of Ohio port authorities operate bond funds. Port authority bond funds achieve investment-grade ratings through a system of pooled reserves – they are also secured by a combination of individual company credits, guarantees, mortgages and security agreements. Some are also secured by TIF or special assessment revenues.

The Port is an issuer of bonds for the Southwest Ohio Regional Bond Fund, created in 2015 from the expansion of the Dayton-region Port Authority Bond Fund. The Southwest Ohio Regional Bond Fund serves growing companies in 14 counties. Through this program, we can offer regional companies and developers access to project capital at terms and rates that cannot be obtained through traditional lending channels.

Available Funding

This program may finance allowable project costs with loans typically ranging in size from $2.0 million to $6 million. This program can be combined with the Ohio Enterprise Bond Fund and other Port authority bond funds for larger projects.

Eligible Borrowers

- Industrial or Commercial companies, including manufacturing, distribution, housing and education
- Infrastructure Projects (TIF & Special Assessment Projects, including PACE)
- Non-profit or 501 c(3)
- Governmental

Eligible Projects

- Land and/or building purchase
- Building construction and/or renovation costs
- Machinery & equipment purchase and installation
- Long-term leasehold improvements
- Capitalized costs directly related to a fixed-asset purchase

Role of The Port

The Port is one of two eligible issuers of Southwest Ohio Regional Bonds Fund debt. As the issuer of the debt, The Port is responsible for due diligence, negotiation of deal terms and documentation and post-issuance compliance.

The broad development powers afforded to port authorities allows us to issue taxable or tax-exempt bonds through these bond funds to finance a variety of economic development projects. As issuer of the debt, we maintain professional administrative capabilities and full partnership in each deal.

EXAMPLE PROJECTS

Springdale Commerce Park
Springdale, Ohio

Village of Woodlawn
Village of Woodlawn, Ohio

Madison & Whetsel
Madisonville, City of Cincinnati, Ohio

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Development Finance:

EB-5 Immigrant Investor Program

EB-5 is a federal program created to encourage overseas investment into approved projects to help drive job creation within the United States. Foreign nationals who make qualifying investments receive priority status for attaining lawful permanent U.S. residency for themselves and family members. Since its creation in 1990, EB-5 has emerged as an important source of project capital.

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Over 90% of all EB-5 transactions nationally occur via regional centers. Regional centers are federally licensed by U.S. Citizen and Immigration Services (USCIS). The Port has an exclusive relationship with the Cleveland International Fund (CiF) to bring CiF's existing EB-5 regional center to Southwest Ohio.

CiF is a private equity firm with a national reputation for EB-5 deal financing. It has accomplished more than $220 million in EB-5 project financing and achieved a final and important measure of program success - delivering permanent green cards to project investors.

Money raised is pooled from multiple foreign investors, who are located by CiF through an international network and qualified through USCIS. One of the unique aspects of The Port / CiF partnership is the ability to provide bridge financing so the developers can receive EB-5 related finding at transaction close.

WHAT IS THE PROCESS / TIME LINE?

BORROWER PROCESS	ESTIMATED TIME FRAME
CiF and Borrower agree to loan terms Project closes	2-4 Months
CiF raises EB-5 funds and places them in escrow	4-8 Months
Funds are released from escrow as EB-5 investors are approved by USCIS; to repay interim financing	Approximately 12 Months
Borrower provides CiF with job creation data	2 Years after first funds are released into the project
Borrower repays funds at the end of loan term	5 Years after final funds into the project; no longer than 66 months

Port Program Requirements

The Port's EB-5 program is geared specifically to the commercial real estate industry to provide debt financing for sizeable projects of at least $30 million.

- Minimum $30 million project, necessary to obtain the required job creation
- Senior Mortgage or Mezzanine Debt
- 5 Year Term, Interest Only
- Office, Retail, Hotel, Multifamily, Industrial, Infrastructure
- Anywhere in Hamilton County, urban areas of Hamilton and Middletown, Ohio

Job Creation Requirements

Ohio projects located within Hamilton County and within urban areas around the cities of Hamilton and Middletown are considered priority investment areas and thus require fewer jobs created per investment dollar - 10 jobs per $500,000 of EB-5 investment within two years (vs 10 jobs per $1 million in other areas).

Role of The Port

The Port is the marketing agent and regional contact for CiF in southwest Ohio, sourcing prospective deals and performing initial due diligence on projects. As a public agency, Port participation provides assurance of deal certainty, development finance expertise and market knowledge that is attractive to foreign nationals seeking participation in EB-5.

Within The Port' project model, EB-5 capital works best as a portion of the deal structure either as a senior mortgage or as mezzanine debt, depending on the capital requirements. Interest rates on senior lending are comparable to the private real estate debt market. Interest rates on mezzanine loans are significantly lower than traditional mezzanine debt. EB-5 non-financial terms (including guarantees, security, and pre-leasing requirements) are frequently more favorable than can be provided through traditional lending channels.

Contact The Port early in the development process and we can quickly generate a term sheet that times closing to coincide with closing of rest of deal financing.

Other Port financing tools and incentives work well in tandem with EB-5, including structured lease

Development Finance:

Tax Increment Financing & Special Assessment

Tax increment and Special Assessment financing can be a powerful economic development programs, targeted to enable development and redevelopment projects as well as leverage other financing tools. The Port is a preferred issuer of debt involving tax increment financing in the City of Cincinnati and within Hamilton County municipalities.

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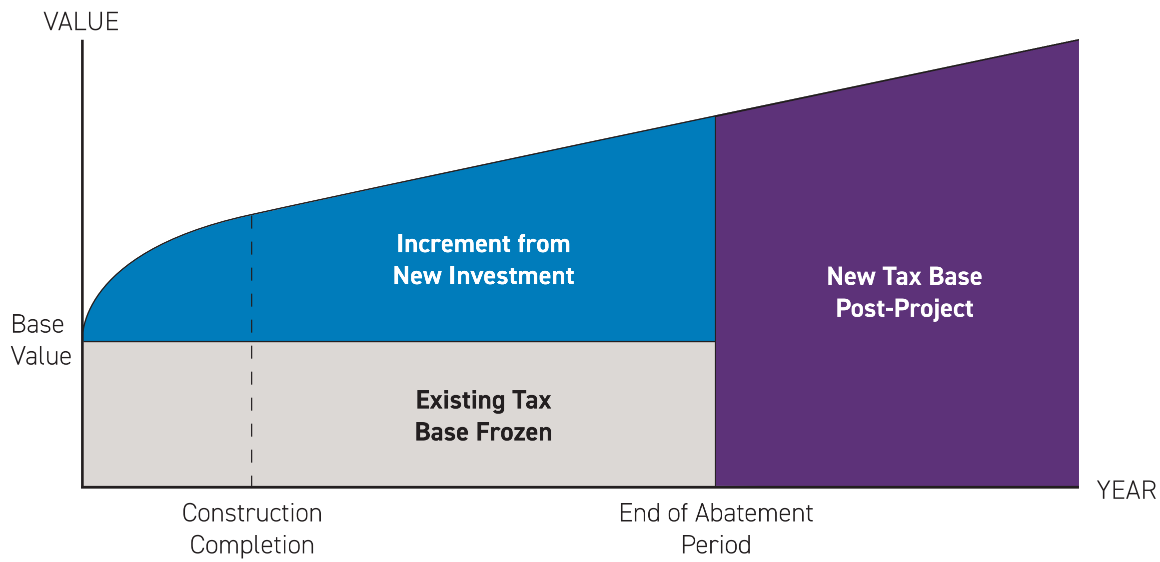
Tax Increment Financing ("TIF") is a financing tool that allows the future increase in property taxes to be used to finance part of the cost of the improvement that will generate the increased taxes.

A TIF is put in place by an ordinance of the city council or township board of trustees and provides an exemption from property taxes that would be generated from the increased value of a development project. The exemption applies only to the increment. Existing property taxes continue to be paid to the respective government entities. The owner of the property makes "service payments in lieu of taxes" (commonly referred to as "PILOTs") instead of the exempted real property taxes. The PILOTs are used to pay debt service on bonds issued.

TIF EXAMPLE



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Community Benefit

In Ohio, school districts often receive all or a portion of the tax revenue which would have otherwise been received out of the PILOT payments. Some school districts have arrangements with their local city or township that govern all TIFs while others decide on a case by case basis.

Process

To determine whether the project can use TIF/special assessment, the developer or representative authority contacts municipality's economic development department, which determines project feasibility.

Role of The Port

The Port is a preferred issuer of debt – deploying our technical expertise and resources to negotiate the bond documentation, execute the transaction, and oversee all post-issuance compliance including managing the disbursement of the 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 municipality -- without using municipal GO or non-tax revenue bond capacity.

The Port can also offer credit enhancement through participation in Southwest Ohio Regional Bond Fund, and in conjunction with the Ohio Enterprise Bond Fund and State Infrastructure Bank Bond Funds.

TIF bonds may be issued on a taxable or tax-exempt basis, primarily based upon the use of proceeds. The bonds are non-recourse to the municipality and The Port, and do not count against the city's general obligation bond cap unless the city specifically agrees to provide credit support.

There are a variety of TIF provisions under Ohio state law. The most common use of TIF proceeds is for public infrastructure, however there is some ability to issue TIF debt for broader economic development purposes.

TIF bonds are backed by some form of security in addition to the TIF proceeds. The form of this security varies depending on the structure of the deal, but it can take the form of a reserve fund, a minimum service payment agreement with the developer, a letter of credit provided by a bank, the backing of a bond fund, and/or a special assessment. 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 possible to finance infrastructure improvements using a special assessment without also using a TIF.

Development Finance:

Greater Cincinnati Property Assessed Clean Energy

GC-PACE is an innovative program by which commercial and industrial building owners finance energy efficiency and renewable energy building improvements. GC-PACE financing works for a variety of upgrades and installations, such as solar panels, HVAC and boilers, insulation, geothermal projects, and energy efficiency improvements. It is increasingly being embraced by municipalities throughout the United States as an economic development program that encourages the modernization and "greening" of commercial buildings without involving government subsidy.

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With GC-PACE, the municipality creates an energy special improvement district for the purpose of developing and implementing plans for special energy improvement projects. Property owners within the district can opt in for a voluntary special assessment on their property tax bill, which is used to pay debt service on a bond or a loan. The owner agrees to the placement of an annual special assessment on the property which can last for as long as 30-years. Proceeds of the assessment can finance up to 100 percent of the cost of improvements.

PACE Eligible Projects

Projects must demonstrate cost savings through reduced energy consumption or energy generation. End-of life equipment replacement is a popular type of project financed. Property must be located within Hamilton County.

PROGRAM STAGES

ASSESSMENTS	CONTRACTING	FINANCING	MONITORING
Perform energy audits	Pre-certify contractors	Revolving loan fund	Post-issuance debt compliance
Evaluate audit findings	Coordinate with energy audit findings	PACE Bonds	Special assessment servicing
Determine potential energy savings	Develop scope of work	Grants	Evaluation of energy savings
		Direct bank loans	

Benefits of PACE

GC-PACE promotes energy improvements in the commercial and industrial sector by:

- Allowing property investments with no net out-of-pocket capital expenses;
- Realizing immediate positive cash flow with well-developed projects;
- Allowing payments to be treated as pass-through operating expenses;
- Tying the loan to the property bill, a secure payment stream, rather than the borrower's credit, which reduces the lenders risk and lowers the interest rate;
- Lowering operating costs while increasing property value; and
- Allowing long-term financing at attractive rates.

Role of The Port

The Port and the Greater Cincinnati Energy Alliance have set up a partnership to market and administer the GC-PACE program in Cincinnati and Hamilton County. The Port has significant experience assisting communities and project owners with utilizing special assessment in a variety of financing scenarios. The Port and the Energy Alliance can bring additional financing tools and resources into a deal with GC-PACE, including a Revolving Loan Fund, PACE Bonds, and access to capital markets through the Southwest Ohio Regional Bond Fund, as well as grants.

The Port also provides management and monitoring services such as post issuance debt compliance, special assessment servicing and continued evaluation of energy savings. The Greater Cincinnati Energy Alliance coordinates and pre-qualifies project contractors, determines potential energy savings through energy audits and helps create the project scope of work.

CONTACT THE PORT TO BEGIN ANALYSIS OF POTENTIAL COST SAVINGS

Development Finance:

Greater Cincinnati Property Assessed Clean Energy

Property Assessed Clean Energy is an economic development tool that is helping commercial and industrial owners access affordable, long-term financing for smart energy improvements to their buildings. PACE allows participating building owners to finance efficiency and renewable energy improvements through a voluntary assessment on their property bill. The repayment obligation transfers automatically to the next owner if the property is sold. Capital is secured by a lien on the property, so low-interest, long-term capital can be raised from the private sector without government financing.

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Greater Cincinnati Energy Alliance | GC-PACE Property Assessed Clean Energy

PACE Empowers Commercial + Industrial Businesses

Buildings use nearly a third of the energy consumed and energy prices are going up each year. PACE promotes energy improvements in the commercial and industrial sector by:

- Allowing property investments with no net out-of-pocket capital expenses
- Realizing immediate positive cash flow with well-developed projects
- Allowing payments to be treated as pass-through operating expenses
- Tying the loan to the property bill, a secure payment stream, rather than the borrower's credit, which reduces the lenders risk and lowers the interest rate
- Lowering operating costs while increasing property value
- Allowing long-term financing at attractive rates

Communities Benefit Too

PACE uses the same kind of land-secured financing districts that cities and towns have used for over 100 years to pay for improvements in the public interest. Special districts are used to help communities finance everything from sewers to hospitals. PACE programs can:

- Create jobs in the community
- Allow businesses to reinvest energy savings in their business, benefiting the local economy
- Enable communities to meet their energy and sustainability goals;
- Attract new businesses drawn to communities with energy and environmental programs

How Does PACE Work?

PACE programs are implemented locally and are entirely voluntary. Most PACE programs share the following features:

- State legislature allows local governments to develop PACE programs.
- Local governments establish a PACE special assessment district.
- Property owners voluntarily choose to participate; those who choose not to participate see no change to their property assessments.
- An experienced contractor assesses desired improvements, validating energy savings.
- A local entity provides financing for the project, typically by selling bonds secured solely through payments made from the participating business.
- Participants agree to accept a property assessment for up to 20 years.

Development Finance:

Tax-Exempt Debt

Governmental, nonprofit (501c3), qualified "private activity" and "exempt facilities" can be financed with tax-exempt bonds.

The Port is a frequent issuer of tax-exempt conduit debt and has completed transactions for 3CDC, the Cincinnati Zoo, and various private schools

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Benefits of Tax-Exempt Debt

The principal advantage of tax-exempt debt is the lower cost of interest. Investors in tax-exempt bonds do not pay federal income tax on interest payments received on the bonds. These investors are willing to accept an interest rate lower than the interest rate on comparable taxable bonds. Some states exempt the interest on tax-exempt bonds from state income taxes, thus magnifying the benefit of tax-exempt financing.

TYPES OF TAX EXEMPT CONDUIT BONDS

There are many forms of conduit tax-exempt debt. Below are the most common in this market. All of these bonds require a "State or Local" government issuer to issue the bonds.

	501(C)(3) BONDS
WHAT	501(c)(3)s are organized for charitable purposes and serve the common good. Facilities owned and used by 501(c)(3)s can be financed with "qualified 501(c)(3) bonds". Note that not all non-profits and charities will qualify - the borrower must have received a 501(c)(3) determination letter from the IRS.
QUALIFIED PROJECTS	Traditional qualified 501(c)(3) bond projects include: • Hospital facilities owned by a 501(c)(3) • Cultural facilities owned by a 501(c)(3) (e.g. museum or zoo) • School facilities for private 501(c)(3) primary and secondary schools
KEY REQUIREMENTS	• At least 95% of the bond proceeds must be allocated for capital expenditures including land, building, and equipment. • The average maturity of the bonds cannot exceed 120% of the average economic life of the assets financed. • Proceeds may finance up to 3 years of future capital needs. • Reimbursement for prior capital expenditures, subject to certain limits and requirements, including an Issuer board reimbursement resolution or evidence of an interim loan. • Gifts from a fundraising campaign that are restricted to pledges related to bond financed facilities will require a paydown of bonds equal to the amount of the gift within 12 months of receipt.

	501(C)(3) BONDS
WHAT	Industrial Revenue Bonds ("IRB"), also known as Industrial Development Bonds ("IDB") or Small Issue Manufacturing Bonds are issued to facilitate economic and industrial development. They are tax-exempt bonds issued by a governmental entity to provide money for the acquisition, construction, rehabilitation, and equipping of manufacturing and processing facilities for private companies.
KEY REQUIREMENTS	• Maximum amount – $10 million • Qualifying Costs – At least 95% of the bond proceeds must be spent on a "manufacturing facility". • Manufacturing Facility - a facility used for the manufacturing, production or processing of tangible personal property. No more than 25% of the bond proceeds can be applied to ancillary office, warehouse or other space. Land – No more than 25% of the bond proceeds can be used to acquire land. • Acquisition of Existing Manufacturing Facilities – The acquisition of an existing facility can be financed if at least 15% of the portion of the bond amount used to purchase the facility is spent on rehabilitation of the building within a two-year period. • Used Equipment – If bond proceeds are used to acquire used equipment, 100% of the cost must be spent on rehabilitation of the equipment within a two-year period. • Maturity – Average maturity cannot exceed 120% of the average economic life of the assets financed. • No Working Capital or Inventory – Bond proceeds cannot be used to finance working capital or inventory. • Historical and forward looking (3 years) capital expenditure limitations apply

	501(C)(3) BONDS
ELIGIBLE PROJECTS	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; highway or surface freight; transfer facilities; Enterprise Zone facilities; Midwestern Disaster facilities.
KEY REQUIREMENTS	• 25% of the proceeds can be used for the acquisition of land. • If used to acquire existing structures or equipment, facilities must undergo substantial rehabilitation. • Facilities must be depreciated for tax purposes using the straight-line method. • Weighted average maturity cannot exceed 120% of the average useful life.

Development Finance:

Tax-Exempt Debt Terms & Example

Conduit Issuer

A private corporation (the "Borrower") is required to have a conduit governmental issuer to issue the bonds.

Inducement Resolution

An inducement resolution must be passed by the conduit issuer for the tax-exempt bonds. This resolution is the first "official action" and indicates an Issuer's intent to issue the bonds. The inducement resolution determines the point after which the project being financed can be reimbursed for capital costs paid or incurred in connection with the acquisition or construction of the project.

Volume Cap Allocation

Each state is allocated an amount for a tax-exempt bond cap each year. The Company must obtain volume cap approval from the state before proceeding with the financing. (Not applicable to non-profits).

TEFRA Hearing

Issuer must hold a public Tax Equity and Fiscal Responsibility Act Hearing ("TEFRA Hearing") on the issuance of the bonds, having provided the published notice in advance of the hearing in accordance with applicable state and Federal law.

Use Covenants

The Borrower must comply with all the applicable tax covenants and restrictions on the use of the financed facilities as long as any of the bonds are outstanding. A violation may cause the bonds to lose their tax-exempt status.

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TAX-EXEMPT DEBT EXAMPLE

Taxable Debt

$100,000 @ 6%

Borrower borrows $100,000 of **taxable debt** at a 6% interest rate

Borrower pays $6,000 in taxable interest, but bondholder has to pay $2,000 of that to the IRS. This leaves the bondholder with $4,000.

$6,000

In Interest Paid

Tax-Exempt Debt

$100,000 @ 4%

Alternatively, the borrower can borrow **tax-exempt debt** at a 4% interest rate.

The bondholder receives $4,000 in tax-exempt interest and pays nothing to the IRS.

$4,000

In Interest Paid

The bondholder is indifferent, because it received $4,000 in both scenarios, **but the borrower paid $2,000 less in interest**. This $2,000 is, in effect, a subsidy from the federal government (and maybe the state government) to the borrower. Since the federal government is providing the subsidy, it sets the rules that entities must meet to borrow tax-exempt debt.

EXAMPLE PROJECTS

Mariemont City Schools
Village of Mariemont, Ohio

Cincinnati Zoo
Avondale, City of Cincinnati, Ohio

12th and Vine Public Parking
Over-the-Rhine, City of Cincinnati, Ohio

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