

NEXSEN | PRUET

CASE STUDY

City of Columbia

and

Mast General Store

Presented by

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Mast General Store



Mast General Store

1601 Main Street, Columbia

- Mast – catalyst project meant to jump start retail activity on Main Street
- City targeted Mast as a proven generator of spin-off retail activity
- City also considered Mast to be a tourist attraction
- Columbia was in competition with many other cities for Mast's next General Store

The Deal

- Mast agreed to renovate former Lourie's building on Main Street
 - Committed to open 7 days a week
 - Committed to create approximately 16 full-time and 22 part-time jobs
- City agreed to reimburse Mast for the interest on ten-year \$2,000,000 loan
- City agreed to pay portion of closing costs
 - Reimbursement deferred for budget reasons

The Deal

- To minimize interest cost, City arranged for issuance of tax exempt, Recovery Zone Bonds
- Issued pursuant to American Recovery and Reinvestment Act of 2009, the so-called Stimulus Bill
- Two Year Authorization—2009 and 2010
- Allocation Required
- Interest exempt from federal and State income taxes

The Deal

- Other types of financing will work with Columbia/Mast model
- Conventional loans to private borrower
- Tax Exempt Conduit Bonds as applicable. *E.g.:*
 - Enterprise Zone Facility Bonds (limited commercial/retail)
 - Multi-family Housing Bonds
 - Water, sewer & certain other private utilities
 - Manufacturing and solid waste disposal facilities
 - Green building and sustainable design projects

Tax Exempt Conduit Bonds

- Bonds issued by state or local government entity
- Proceeds loaned to private businesses
- Business assumes 100% of liability
- Permits counties or municipalities to provide below-market financing for privately owned projects that qualify under federal tax code

RZ Bonds for Mast

- Search for Allocation
 - City was authorized to issue \$973,000 in RZ Bonds (needed \$2M)
 - Richland County authorized to issue \$2.2M
 - Opportunity to work together
 - No financial risk to Government
 - Bonds placed by Mast with its bank
 - Mast liable for 100% of debt service
- JEDA issued bonds at tax exempt rates

Murphy's Law

- A seemingly simple and uncomplicated deal...was not
- Multiple parties
 - City, County, JEDA, State Budget & Control Board
 - Mast, Wells Fargo, Merchant Capital
- Mast credit at stake, but City needed to control interest
 - Mast negotiated terms of credit with Wells
 - To confirm that interest rate was reasonable, City engaged Merchant Capital as consultant
- To minimize interest cost to City, deal structured as draw-down note
 - IRS notice in November that all funds must be drawn by year end necessitated early draw down

Murphy's Law

- City reserved right to terminate reimbursement obligation annually to avoid counting agreement as general obligation debt
- Fixed Rate
 - City required fixed rate for budget reasons
 - Bank would not quote fixed rate for life of deal
 - Settled on variable rate with 10-year SWAP agreement
- Most assumed risk of rate increases due to changes in bank spread, determination of taxability, changes in law, early termination of SWAP etc.

Murphy's Law

- Bank reserved right to terminate bonds after 5 years
 - Necessitated need to reserve right to terminate SWAP before end of 10 years
 - Termination right added to interest cost
- From original handshake to closing on bonds: October through May

Other Incentives

- Dedicated liaison person at city
- Service agreements regarding loading zones, parking, waste and recycling, signage
- Landscaping and improvements to surrounding areas
- Purchase of courtyard serving Mast and Nickelodeon Theatre
- Assistance with tax credits
 - Historical Tax Credits
 - Retail Revitalization Tax Credits
- Cooperation on Marketing
- Side loan using recycled Empowerment Zone funding to renovate courtyard

It Worked!!!!

- Columbia store generating solid sales for Mast
- Announcement of Mast opening immediately generated inquiries from other retailers
- New restaurants and other retail establishments beginning to appear
- Jim Gambrell to report on spin-off activity in surrounding area