

## **Public-Private Partnership Financing Examples in North Carolina**

Public-Private Partnership financings have been used to build public infrastructure to encouragement associated private development. The public infrastructure projects, besides the typical streets, sidewalks, and utilities, have also included projects like convention centers and parking decks.

Another form of assistance that local governments provide to private entities is the use of tax-exempt financing for qualified projects. These are referred to as industrial revenue bond (IRB) conduit financings, and although tax-exempt, they are not an obligation of the governmental issuer which is either the county's industrial facilities and pollution control authority or the NC Capital Facilities Financing Agency (NCCFFA). As of 6/30/2010, counties' IRB authorities had \$1.478 billion of debt outstanding for these conduit financings for private entities, and the NCCFFA had \$536 million outstanding.

A third possible form of a public- private possible partnership would involve a private entity obtaining taxable financing and the governmental unit financing acquisition of the facility by payment of a lease or availability payments to repay the private parties debt. The disadvantages of using this method are increased financing because the private party can not issue tax exempt debt and the transaction not being viewed as a debt transaction.

Examples of these methods are presented below.

### **Infrastructure, Hotels, Convention Centers, and Parking Decks to Encourage Private Development**

#### ***1) City of Charlotte***

700- room Westin Hotel; Value \$170 million

The City of Charlotte partnered with private investors for the development of The Westin Charlotte, a 700-room convention hotel adjacent to the Charlotte Convention Center. The hotel was privately financed, with the City making the project financially feasible by building the adjacent convention center and parking deck. The hotel opened in 2003. The City of

Charlotte's contribution was financed with COPS that were issued for construction of the convention center, meeting space and parking deck. Occupancy taxes and prepared food and beverage taxes are used to pay the City's debt service.

## ***2) City of Charlotte***

NASCAR Museum and Parking Deck; Value \$200 million

NASCAR 20 –story Office Tower; Value \$105 million

The City of Charlotte partnered with NASCAR for the development of NASCAR Museum to be owned by City and operated by NASCAR with an adjacent parking deck for both the museum and the office tower. The City financed the museum and parking deck with COPS to be repaid with dedicated occupancy taxes. The office tower was privately financed.

## ***3) City of Raleigh***

400- room Marriott Hotel; Value \$60 million

A public-private partnership was created for the development of the 400-room Raleigh Marriott City Center Hotel adjacent to the new Raleigh Convention Center. The hotel opened in 2008 and was financed privately, with the City providing an upfront grant of \$20 million and a below-market parking arrangement to make the project financially feasible. The grant funds and parking deck were part of the \$200MM COPS financing undertaken by the City of Raleigh. Repayment of the COPS is from a dedicated portion of the hotel occupancy and prepared foods sales taxes. The Convention Center opened in September 2008.

## **Commercial Real Estate**

### ***1) Town of Woodfin and Buncombe County***

Private Commercial Buildout - \$250MM (est.); Public Infrastructure - \$26MM

Town of Woodfin partnered with a private developer to purchase a municipal golf course/brownfield (ex-landfill) site for development as mixed commercial and residential development. Public infrastructure (streets, utilities, etc.) financed by County-issued Project Development Revenue Bonds are secured by incremental town and county property taxes from

increased property values. The developer committed to a minimum assessment agreement in the event incremental taxes are insufficient to meet debt service payments. \$13MM of development bonds have been issued for public improvements. Commercial building completed and leased to YMCA. Residential development currently on hold.

## ***2) City of Kannapolis***

North Carolina Research Campus – estimated buildout - \$1 billion; Public Infrastructure - \$150 million

City of Kannapolis created a tax-increment district with developer to convert Cannon Mills/Pillowtex site to world-class research campus. Although project development bonds have been approved, issuance has been delayed due to unfavorable interest rate environment for real-estate associated lending. Developer has spent over \$500 million of private capital to complete 3 research buildings, two of which are leased for 20 years to UNC-Chapel Hill and NC State. Developer also is required to enter into a minimum assessment agreement in the event incremental taxes are insufficient to meet debt service payments. City completed \$30 million COPs financing in Dec. 2010 to pay for infrastructure within the district and County health building. County and city incremental taxes are expected to pay the debt service on the city's COPs.

## **Industrial Revenue Bonds**

### ***1) International Paper – Riegglewood, Columbus County***

In 2009, the County's IRB Authority issued \$6.6 million of tax-exempt bonds the proceeds of which were lent to International Paper to finance solid waste and landfill disposal facilities at its pulp mill. The mill employs 750 people at an average annual wage of \$50,000.

### ***2) Vondrehle Corporation – Maiden, Catawba County***

In 2009, the County's IRB Authority issued \$2.4 million of tax-exempt bonds the proceeds of which were lent to Vondrehle Corp. to expand and equip a facility to manufacture towels, tissues, and dispensers. The expansion was to add 15 additional jobs for a total of 27.

### ***3) Anco-Eaglin, Inc (BJAT, LLC) – High Point, GuilfordCounty***

In 2009, the County's IRB Authority issued \$3.65 million of tax-exempt bonds the proceeds of which were lent to Anco-Eaglin. to build and equip a facility to manufacture stainless steel tanks and bins replacing an existing facility in Greensboro. The new facility would add 25 additional jobs for a total of 49.

### **Private Financing of a Project**

#### ***1) City of Fayetteville***

Retail/Office Building – Festival Park Plaza Office Building - \$6.4MM (\$11MM total 20-yr lease payments)

City of Fayetteville entered into a 20 year operating lease of an office/retail building to provide anchor for Festival Park downtown development project. With 20 year lease, private development group was able to secure private financing to construct the building at a taxable rate. A sublease with one major tenant/co-owner for 1/3 of space was obtained prior to construction ,and city expected to sublease remaining space to provide funds for lease payments. Building was completed in 2007, however the property has failed to attract the tenants necessary to make it profitable. The property is costing the city \$44,000 per month (shortfall of sub-lease payments over lease payment to owners). The city has entered into litigation with the co-owner/tenant, and co-owner/property manager for amounts owed.

At this time the staff of the State Treasurer's Office is not aware of any changes in financing statutes we would recommend to encourage public-private partnerships.