



NEO International & Economic

PART 1

BY TOM SPEAKS

The purpose of the NEO International and Economic Development Series is to arm NEO municipal leaders with practical knowledge regarding local, regional and statewide organizations dedicated to international trade, economic development, educational outreach and citizen diplomacy. These organizations will provide opportunities to succeed for your municipal administration, council, school board, etc...

The following entities will be examined throughout the series:

- Ohio Port Authorities
- NEOTEC (Northeast Ohio Trade and Economic Consortium)
- Foreign-Trade Zones
- Ohio Department of Development
- Akron International Friendship
- And others...

As municipal leaders, you must have an understanding of all the tools at your disposal if you are to recognize opportunities and think big.

There is the story of the man who while running one early morning noticed a fisherman by a lake who was keeping the little fish and tossing back the big ones. This baffled the runner who was a fisherman himself. The runner jogged over to the fisherman and said, "Man, I just don't get it. Why are you keeping all the little fish while tossing back the big ones?" The fisherman looked at the jogger in a pathetic manner and said, "You're right, I know you're right, but you see all I have is this tiny frying pan."



Development Series

After some honest self evaluation, do you have adequate knowledge regarding the many large tools available to you, a municipal leader? If you can't conceptualize the size of your frying pan (tools), how can you know the size of the fish (economic development and growth opportunities) you can bait, reel in and keep?

This series will provide you with knowledge to identify and then harness these tools for the benefit of your municipality and the residents you serve.

The subject of the first installment of the series will be NEO Port Authorities and what they can do for your municipality.

What is a port authority?

Port authorities were historically created to administer maritime activities. Their function has evolved, however, into a tool to assist communities in fostering significant economic development. One objective of port authorities is to assist local

governments and private industry in retaining and creating jobs in their jurisdiction. Ohio's port authorities have special status that allows them to contribute to projects through both public and private financing. Port authorities are, in essence, independent units of government. As such, they may conduct the traditional water borne and air transportation activities, as well as own property and provide financing for local economic development projects and initiatives.

A port authority's area of jurisdiction includes all the territory of political subdivisions that created the port authority. Under no circumstances, however, may the same area be included in more than one port authority. If any municipality creates a port authority, its basic jurisdiction would be the corporate boundaries. Through the use of cooperative agreements with cities, counties or other port authorities, a port authority can undertake economic development projects outside of those boundaries. A port authority is governed by a

board of directors. The municipality creating the port authority may determine the number of members on the board.

How can a port authority help your municipality, school district or legislative territory?

Do you have a project in mind that could positively transform your community? As a mayor, trustee, council member, school board president or other community leader, you must understand how port authorities may positively impact your community.

Ohio port authorities have the ability to finance, enhance, foster, aid, provide or promote the following items which are the "bread and butter" projects of any municipality:

- Economic Development
- Government Operations
- Transportation
- Education
- Recreation
- Research
- Housing
- Cultural Facilities

Gary Failor, President of the Cleveland - Cuyahoga County Port Authority, challenges municipal leaders to adopt a new development mindset.

Addressing municipal leaders, Failor states, "Because you are the government, you are forced to work within rigid parameters. Strict criteria are established such as; this many jobs must be created, this much tax must be raised, only 65 percent tax may be abated etc... As a municipal leader you must comply with a laundry list of rules which constitute a restrictive box. Any prospective developer must fit into that box. Port authorities do not have a box. In fact, port authorities resist boxes and are, in essence, like tailors who make custom suits to ensure a proper fit. The port authorities have the latitude to construct custom-made development solutions for businesses and municipalities."

Failor continues by stating that, "One of the distinctions between cities, counties and port authorities is that cities and counties must catch bad guys, put out fires, fix the streets and sewers, collect the garbage and perform other essential municipal service tasks. At a port authority, all we do is maritime trade and development financing. That is the advantage of a port authority. We have the ability to place a laser-like focus upon these issues for the benefit of private and public enterprises."

There are three basic economic development products the port authorities offer which may be of use to your community.

Infrastructure Financing
Port authorities may finance public infrastructure for private

developers in mixed use developments. Roadways, sidewalks, parking garages, utilities, landscaping, street lighting and other public amenities may be financed 100 percent by port authorities, thereby eliminating the need for a private equity contribution. For these projects, the revenue stream for the debt service is generally provided by tax increment, special assessment or a combination of both,

facilities. The Federal Accounting Standards Board has provided guidance that port authorities may still provide synthetic leases through their financing mechanisms. A synthetic lease provides, for federal tax purposes, that the lessee owns the facility and may therefore take depreciation. For all other purposes, the port authority owns the facility, and therefore it is not on the lessee's

balance sheet and the sales taxes on materials may be eliminated. Further, synthetic leases are "interest only" for generally five to ten years, with a balloon payment at the end.

Since 1993, the Port of Cleveland has provided funding for projects totaling more than \$830 million.

levied with the approval of the city and county within which the development is constructed.

Fixed-Rate "Bond Fund" Financing

This product is designed to provide small businesses with investment grade, fixed rate, long term asset financing. Investment grade reduces the interest rate. Fixed rate avoids the unpredictability of bank financing. Financing may be provided for new construction, real estate, equipment or the acquisition or rehabilitation of existing facilities in a tax exempt or taxable format, depending on the federal regulation.

Off-Balance Sheet / Synthetic Financing

If there is value to the private user or another governmental entity, port authority financing can keep the asset off the company's balance sheet or outside of the government's debt capacity. This is particularly important with large transactions such as corporate headquarters or sports

Three municipal examples follow that illustrate the manner in which port authorities may be of use to you.

City of Westlake - Crocker Park. (A \$480 million, 75 acre project encompassing 12 city blocks featuring retail, office space, restaurants, apartments and homes. The developer of Crocker Park worked with the Toledo Port Authority for financing assistance.)

Crocker Park was made possible by utilizing the port authority's Infrastructure Financing product. Gary Failor explains, "Traditionally a developer will ask the city to put in the infrastructure (roads, water, sewer, sidewalks, streetlights, etc...) or to use Tax Increment Financing with a certain portion of the developer's taxes directed toward the infrastructure. This is a normal practice."

Port authorities have found a way to allow developers to use special assessment financing. Utilizing

If you are bumping up against debt capacity or even if you are healthy and want to reserve debt capacity, the ports can bring a lot of flexibility to a municipality or a county,” Burnham said. “The Crocker Park development in Westlake is a great example of a mixed use development made possible by utilizing port resources. Yet, if you are working with a manufacturing company, a major employer or a corporate office, there are a lot of things a port can do to provide incentives in the form of lower cost financing options.”

– Chris Burnham, Summit County Port Authority President and Executive Director

this method, instead of the developer fronting 20 percent equity and financing 80 percent, they are able to finance 100 percent. It is essentially a different revenue pot that pays the debt. The project is financed at the 100 percent level, which means there is no equity contribution and, because the port authority owns the infrastructure improvements, there is no sales tax paid on the materials.

For Westlake’s Crocker Park, the first financial transaction was \$70 million. This accounted for the parking garages, streets, sidewalks, street lighting, green space, water, sewer and power.

In traditional circumstances, the developer would have had to front \$14 million in equity. Due to the port authority, the developer put in \$0 equity. The developer also saved almost \$3 million in sales tax. The port authority then bought the property, essentially the dirt below the improvements, from the developer for a payment of \$1 million. Thus, out of the original \$70 million, the developer received a competitive advantage of \$18 million (\$14 million equity + \$3 million sales tax + \$1 million property purchase price). Not one penny of Westlake’s money went to the development. Failor stated, “This situation is a normal process for us and it is something most municipal leaders have never heard of before. The port authorities can be a powerful economic development tool for regional leaders.”

Westlake Mayor Dennis Clough is quite pleased with Crocker Park and the method by which it came into being. Mayor Clough stated, “The project was a win-win for the community, the developer, the port authority and the region.” The Mayor confirmed that the project was entirely paid for by the Crocker Park developers and the

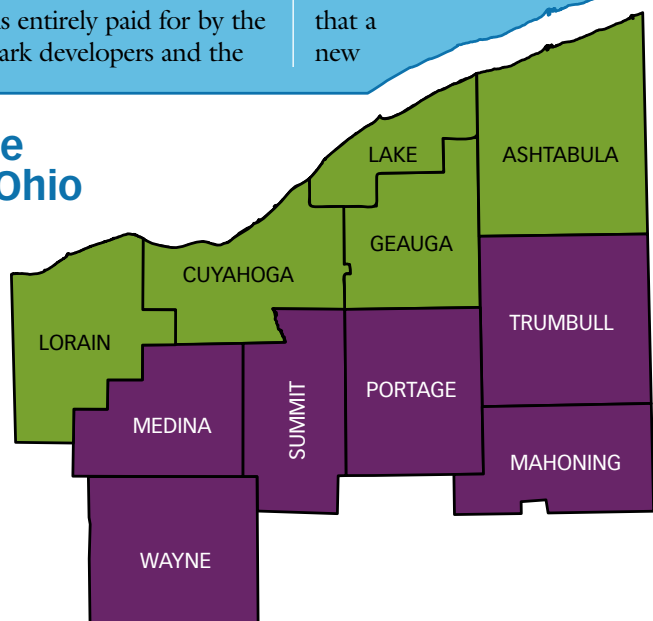
port authority. He stated that the role of Westlake was to, “act as a conduit for the port authority. We collect the money and send it back with no liability whatsoever. There was a ‘moral guarantee’ that the City of Westlake was involved. The City’s contribution was mainly our support and the acknowledgement that we had a great interest in this project.”

Village of Seville – New Town Hall and Water Filtration Facility

Another example of port authority assistance may be found in Medina County where the Summit County Port Authority and the Medina County Port Authority worked in cooperation to assist the Village of Seville. Christopher Burnham, Summit County Port Authority President and Executive Director, cited the challenges faced by the Village of Seville. Burnham stated, “Seville is a relatively small municipality which had no outstanding bond rating. The process of issuing a municipal bond and securing a bond rating is time-consuming.”

The Village had come to the conclusion that a new

Port Authority Cooperative Agreements in Northeast Ohio



Town Hall and an upgrade to the water filtration facility were priorities for the community. These projects collectively were to cost \$2,030,000.

By working with the Summit County Port Authority fixed-rate financing Bond Fund, rated BBB+ by Fitch Ratings, the Village of Seville was able to secure a fixed interest rate and streamline the potentially lengthy process of bringing the issue to market. As a result of the cooperative effort with the Summit County Port Authority, the Village of Seville was able to access the capital markets through the Summit Port and obtain a 20-year fixed-rate loan at 5.10 percent to finance 100 percent of their project costs.

Seville Mayor Conrad Sarnowski stated, "The big seller was that the port authority could offer a long term fixed-rate for the Village. The 20-year fixed-rate made us feel much more comfortable."

Mayor Sarnowski also stated, "As a mayor you want to have the ability of adding one more tool, one more financing option in your back pocket. For us, the port authority was like a one-stop shop. They handled the bond council, assembled the necessary people and answered our questions. They handled virtually everything for us."

Garfield Heights – City View development

Garfield Heights Mayor Tom Longo was faced with a significant challenge in his community. The former R & B Landfill, a multi-county regional trash collection site on the city's western border, was an environmental albatross. The Mayor initiated a cooperative effort with the Cleveland and Summit County Port Authorities to transform the site. Due to this partnership, the site will now be home to the \$100 million retail

Federal Support Congressman Ralph Regula

Congressman Ralph Regula, Vice Chairman of the Appropriations Committee and the Chairman of its Subcommittee on Labor, Health and Human Services and Education, is actively involved with the Summit, Medina and Toledo Port Authorities. Regula, a long-time advocate of regionalism's many benefits, is also an advocate of the port authorities. "As economic development tools, Port Authorities bring and keep businesses in the area," Regula said. The Congressman went on to say, "Regionalism means you have to look at the entire area as a single region. We all rely on each other."



and office development to be known as City View.

Mayor Longo stated that the "port authority was the glue that brought it all together."

Mayor Longo continued, "When the 650,000 square-foot City View center opens next spring, it's expected to create thousands of new jobs. Also, it is expected to generate nearly \$3 million a year in additional revenues for operations of the City and our City Schools while helping reduce the tax share our citizens have to pay."

Both Gary Failor and Chris Burnham point to the Garfield Heights City View project as an example of cooperative regionalism at its best. This cooperation may be further evidenced by the Cleveland Port Authority reciprocating to assist the Summit County Port Authority with \$20 million in financing for Akron-based Goodyear Tire & Rubber Company.

The preceding three examples only scratch the surface of the financing possibilities a municipality may employ through the NEO Port Authorities.

It is now in your hands

The Northeast Ohio Municipal Leader Magazine is dedicated to providing useful and timely information to you, the regional community leaders. It is our hope that you will further investigate the potential of port authority

assistance in your community. We believe that this information may permit you to complete that targeted and prioritized community project which is presently on your wish list.

It would be useful for you to know that in 2005, the Ohio Port Authorities Council completed a survey which demonstrated that Ohio Port Authorities have had a \$4.7 billion economic impact on our state. That \$4.7 billion has been divided among communities similar to yours. Harness the power of these economic development tools and direct some of those funds to your community so you may better serve your citizens.

If you have any questions regarding port authorities and how they may assist municipalities, you may contact:

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Part II of the NEO International and Economic Development Series will highlight NEOTECH (Northeast Ohio Trade and Economic Consortium) and the use of Foreign-Trade Zones. **NEO**