FORSYTH STREET

Memo

Date:	December 10, 2019 (Updated)
To:	SSEGI Development Authority Leadership Group
From:	Chuck Laven, Esther Sandrof & Michael Freedman-Schnapp
Re:	**Planning for Southland Development Authority Capacities & Budget**

Executive Summary

The initial operating budget for the Authority is predicated on several key assumptions about the internal capacities that the Authority will have to possess in order to coordinate economic development policy, plan and develop projects and arrange for project financing, as well as partnerships it will build with existing institutions to advance these goals.

1. Authority Strategic and Project Capacities

- **Authority as Convener and Manager.** The Authority is designed to play the role of regional economic development entity, marshaling resources, managing strategy and coordinating projects and initiatives in ways that no entity has previously fulfilled for the dozens of South Suburban municipalities because of jurisdictional divisions and lack of cross-sectoral coordination.
- **Project Packager / Master Developer.** This will be the key core competency of the Authority - conceptualizing and shepherding projects through the development process as master developer and/or in partnership with other entities. This includes identifying sites and obtaining site control, project conceptualization and assembling/leading development team, sourcing and assembling project financing, and leading entitlement and subsidy approvals.
- **Land Assembly & Ownership.** The Authority will be a close collaborator with the two Land Banks in Cook County. In this role, the Authority will be able to work with the Land Banks to identify key industrial/commercial development sites and residential properties to hold and transfer in preparation for redevelopment. The South Suburban Land Bank and Development Authority (SSLBDA), in particular, is anticipated to be a critical partner of the Development Authority through an operating agreement with the new nonprofit entity codifying SSLBDA's land banking function as closely coordinated with Development Authority activities.

2. Authority Finance Capacities

This set of activities will be accomplished both through the Authority's own internal finance capabilities and those that can be effectively accomplished through partnerships with existing entities:

- **Investor/Lender of Discretionary Capital.** If the Authority is successful in raising significant amounts of concessionary capital, then the Authority may be able to use this capital to accelerate the closing and completion of projects. This capital may be invested in either Authority-controlled projects or mission-aligned projects not controlled by the Authority. Ideally, this concessionary capital would be provided to the Authority in the form of grants and/or long-term Program Related Investments ("PRIs"). This pool of funding would be dedicated for capital project-related uses, under the Authority's investment discretion, in contrast to capital that would be raised to advance specific projects (e.g. first position and subordinate mortgages from commercial lenders or CDFIs, TIFs, or project equity investments, among others).

As a trusted public-private partnership, the Authority is uniquely positioned to collaborate with a number of government, civic, and private actors that could expand the ability of the entity to achieve its mission. This includes the following additional capacities:

- **Revenue Bonds.** Applying unused "volume cap" for Industrial Revenue Bonds to Authority projects. The Authority is anticipated to work with the County or perhaps one of its home rule municipal partners as the primary conduit issuer of IRBs for industrial and commercial projects.
- **New Market Tax Credits.** While NMTC allocations would be highly valuable for the Authority to secure directly, at least in the short term it would be preferable to establish a partnership with existing CDEs authorized to compete for allocations.
- **Opportunity Zone (OZ)-Motivated Capital.** Rather than raising OZ-motivated capital directly, the Authority could develop partnerships with OZ Funds interested in the Southland. This is preferable as direct capital raising from investors is labor intensive, expensive and unlikely to be a beneficial activity for the Authority during its start-up phase.
- **Community Development Finance Institutions (CDFIs).** CDFIs work in impact-focused segments of the development world, with particular emphasis on financing entities that meet social service, housing, and educational needs. While the Authority could itself become a CDFI at some point, it is anticipated that at least at the outset it will work with CDFI partners, including particularly CCLF and IFF.
- **Community Development Corporations (CDCs).** Development-oriented CDCs offer a potential development partner role, whether as a co-developer, co-investor, or financial advisor to the Authority in particular projects.

Budget Analysis

We constructed a draft financial model that provides a preliminary projection of revenues and expenses for the Development Authority over a ten-year start-up period.[1] The model shows that

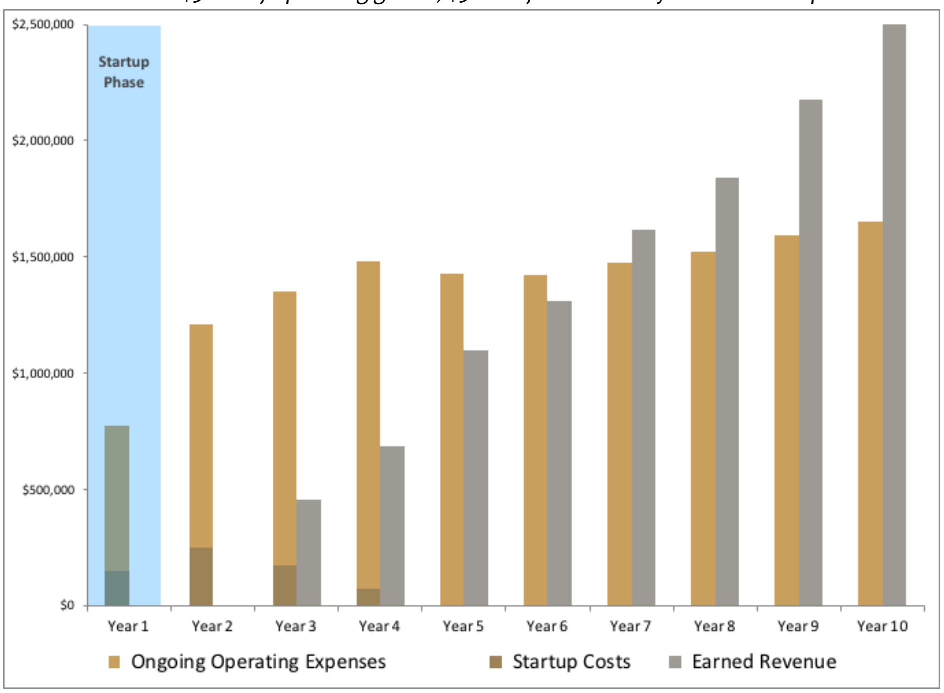
[1] Model and project assumptions are described below in further detail, and will be further refined during the Authority's startup period. This analysis presumes that workforce, Small Business Development Center operations and other grant-driven program activities will be revenue neutral and will be added based on

there is insufficient earned revenue in the first years of the Authority to cover operating expenses. The Authority requires $500,000 to $1 million for a first-year startup phase. To remain cash positive in its first five years as earned income phases in, the Authority requires an estimated $5 million in operating grants (including the first year startup funding).

The projected cash flows of the Authority are shown below as a comparison of earned revenue versus operating expenses (divided into ongoing and startup costs). This version of the model assumes the availability of $5 million of operating grants and $5 million of discretionary capital for investment into Authority projects. The scenarios are explained more fully in the body of the memo.

Operating Expenses Versus Earned Revenue, Years 1-10

Assumed $5mm of operating grants, $5mm of discretionary investment capital



Earned Revenue Sources

The earned revenue in this model consists of the following:

- **Project Operations.** The Authority will generate net income from property management fees and asset management fees after paying for project-level expenses.
- **Development Fees.** The Development Authority will collect developer fees for the projects that it develops independently and in partnership with third-party developers. These fees will be paid in part at closing of financing, conversion to permanent financing, and deferred over the life of the project, depending on the timing of availability of cash in each project.

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grant/service contract availability. They are therefore not included in this discussion. In addition, resources for property and asset management are presumed to be provided by third-party services and funded by project income.

- **Ground Leases/Seller Notes.** Authority-led and Authority-financed projects may also generate ground lease payments and/or seller note payments.
- **Advisory Fee-For-Service.** The Development Authority may also charge fees for provision of technical services to localities to support discrete economic development projects and activities.
- **Investing in Projects.** The model assumes that the Development Authority will raise concessionary capital from corporate, government and philanthropic sources and that the Authority will have discretion over the investment of these funds. These investments products will include provision of predevelopment, bridge equity and/or mezzanine financing, as well as short- to medium-term subordinate loans to real estate projects. For purpose of establishing some assumptions for the model, these investments are shown in two categories:
    - **Equity-like, pre-development, and bridge investments in service of advancing Authority projects** in which the Authority has significant staff time invested that may be repaid by a development fee. These are labeled as "Authority-led projects" on the detailed model and are higher return/higher risk investments given that they will be made at earlier stages in the lifespan of each project. For example, this may include the signature industrial park projects contemplated or other opportunistic projects of which the Authority may be a primary sponsor.
    - **Subordinate loans into projects** from a loan fund operated by the Authority using discretionary capital. This may include loans to real estate projects such as housing, mixed-use, or other transformative developments pursued by a municipality or other partner. These are labeled as "Authority-Financed projects" in the model. This activity requires a certain minimum scale because operating a loan fund has higher marginal costs (in the form of credit staff) and lower margins (because capital will likely be more expensive as discretionary capital increases).

Budget Scenario Summaries

The table below summarizes the output of the financial model over 10 years for each of the three scenarios. In all of the scenarios, $5 million in operating grants are provided for the first five years to ensure the Authority has enough cash to operate. Each scenario varies the amount of discretionary capital available to the Authority to invest in Authority-led and Authority-financed projects.

The $10mm in loan fund activities that differentiate Scenario 3 from Scenario 2 require more overhead (extra staff and asset management capacity) and have higher cost capital. Therefore, the Authority has a lower margin and a lower cumulative net income in Scenario 3, despite having more marginal activity. The Authority could decide to make a different allocation as project opportunities present themselves, and therefore a staffed credit apparatus is not contemplated to be created until Year 3 in the model.

10 Year-Cumulative Total Projected Amounts

	Scenario 1 *$2mm of* *Discretionary Capital*	*Scenario 2* *$5mm of* *Discretionary Capital*	*Scenario 3* *$15mm of* *Discretionary Capital*
Operating Grants	5,000,000	5,000,000	5,000,000
Earned Revenue	10,507,767	11,722,535	14,110,019
Total Revenue	15,507,767	16,722,535	19,110,019
Operating Expenses	13,239,052	13,494,052	17,558,777
Cumulative Net Income	2,268,716	3,228,484	1,551,242
Cumulative Net Income without Operating Grants	(2,731,284)	(1,771,516)	(3,448,758)

Introduction

The initial operating budget for the Authority is predicated on several key assumptions about how the organization will evolve over the first five years of operations, including:

1. **Authority Strategic and Project Capacities.** Expectations about the key capacities and staffing required to execute, finance and support overall economic development strategy and specific project development;
2. **Authority Finance Capacities.** This will include both its own internal finance capabilities and those that can be effectively accomplished through partnerships with existing entities;
3. **Types of Projects.** The types of developments to be pursued and how each will draw on internal capacities and partnerships.

This analysis presumes that workforce, Small Business Development Center operations and other grant-driven program activities will be revenue neutral and will be added based on grant/service contract availability. They are therefore not included in this discussion. In addition, resources for property and asset management are presumed to be provided by third-party services and funded by project income.

Authority Strategic and Project Capacities

The following are descriptions of Authority roles and capacities with respect to overall conception, coordination and management of economic development strategies and particularly with respect to developing and implementing key projects.

1. Authority as Convener and Manager

The Authority is designed to play the role of regional economic development entity, marshaling resources, managing strategy and coordinating projects and initiatives in ways that no entity has previously fulfilled for the dozens of South Suburban municipalities because of jurisdictional realities and lack of cross-sectoral organization.

- Conducting region-wide planning initiatives;
- Developing, coordinating and managing economic development strategy among stakeholders and partners including County government, CDCs, municipal government, investors, commercial brokers and chambers of commerce;
- Attracting and managing major financial incentives like Industrial Revenue Bonds, New Markets Tax Credits, Low Income Housing Tax Credits, Historic Rehabilitation Credits, and Qualified Opportunity Zone funds;
- Conceiving and managing strategic, comprehensive, integrated, large-scale developments, such as a food manufacturing innovation park, or coordinated workforce housing;
- Re-branding the Southland as a region with identifiable assets, strategies and identity that will attract certain types of firms and residents;
- Coordinating regional responses to major new policy initiatives at State and Federal levels.

Staffing assumptions to support this role include a core Authority executive and administrative function of one or two C-level executives and one or two support staff.

2. Project Packager / Master Developer

"Project packaging" is the key core competency of the Authority — conceptualizing and shepherding projects through the development process. This includes the provision of development advisory services including (but not limited to):

- Acting as master developer in partnership with other entities;
- Establishing joint-venture partnerships to advance projects;
- Identifying sites and obtaining site control;
- Project conceptualization and assembling/leading development team;
- Sourcing and assembling project financing;
- Leading entitlement and subsidy approvals;
- Land assembly and title clearing in conjunction with the local land banks (see below), among others.

Competitive Advantage for Authority	Authority will have an entrée with the County and municipalities. This will allow it to shepherd entitlements, TIFs, and other local subsidy sources over a timeline that a private developer may not be able to sustain. Conversely, the Authority has the ability to take on the entrepreneurial risks that government agencies cannot, to move forward socially-beneficial projects like the types of projects contemplated.
Staffing Needed & Annual Cost	At least one senior staffer and up to two junior staffers at the outset. Staff should have development finance experience and knowledge of capital sourcing.
Revenue	Project packaging has the potential to provide several sources of operating revenue to the Authority: 1 . The ability to earn one-time contingent development fees payable from financing sources at closing. These fees are often calculated as a percent of overall transaction value. 2. Modest ongoing net income from land rents and property / asset management fees. 3. Fee-for-service activities in cases where the Authority is assisting a municipally-led development.
Startup & Scalability	Staffing is unlikely to scale much beyond the initial team and can be augmented by co-developers in the scaling-up period.
Key Risks	Initially, the yield rate on projects is likely to be low. Therefore, the Authority will need to stimulate growth in project volume over time to make sure that the activity becomes self-supporting as start-up funding burns off. The need to have multiple pots on the stove is counter to the typical developer prerogative to limit expenditures on pre-development costs until there is a clear green light to proceed. The Authority may be subject to adverse selection of project sites that private actors have found to be difficult to develop for economic, political, or existing condition reasons.
Potential Partners	Local NFP or for-profit mission-oriented developers may be able to act as co-developer, bring in expertise, and share in pre-development costs.

3. Land Assembly & Ownership

The Authority will be a close collaborator with the two Land Banks in Cook County. In this role, the Authority will be able to work with the Land Banks to identify key industrial/commercial development sites and residential properties to hold and transfer in preparation for redevelopment. The South Suburban Land Bank and Development Authority (SSLBDA), in particular, is anticipated to be a critical partner of the Development Authority through an operating agreement with the new nonprofit entity codifying SSLBDA's land banking function to be closely coordinated with Development Authority activities.

Working collaboratively with the Land Banks and relevant government agencies, the Authority will be able to create and manage a pipeline of opportunities while clearing titles to the land. The minimal carrying costs for the Authority (as Land Banks will likely hold the land until there is a need for direct site control or even closing on financing) will provide a strong competitive advantage for the organization in the market.

In some cases, the Authority may be the long-term owner of the land for projects and may receive cash flow from ground leases or equity returns. In other cases, the Authority may sell the land to a developer for a deferred acquisition amount that would be repaid over the long run via a seller note.

Financial Capacities – Direct and Advanced through Partnership Opportunities

1. Investor/Lender of Discretionary Capital

If the Authority is successful in raising significant amounts of concessionary capital, it may be able to use this capital to accelerate the closing and completion of projects. This capital may be invested in either Authority-controlled projects or mission-aligned projects not controlled by the Authority. This concessionary capital would ideally be provided to the Authority as a grant and/or a long-term PRI. This pool of funding would be dedicated for capital project-related uses under the Authority's discretion as to how to invest, in contrast to capital that would be raised to advance specific projects (e.g. first position and subordinate mortgages from commercial lenders or CDFIs, TIFs, or project equity investments, among others)

The ways in which this may play out are conceived of in three scenarios of funding availability modeled below:

- **$2 million — Pre-development and bridge funding.** This will likely be invested by the Authority in three or fewer projects at a time as pre-development working capital and project equity used to bridge subsidies. This money would be able to be revolved into additional projects as development fees are paid during construction/stabilization and as subsidies are paid typically at project permanent financing. A foundation providing a substantial guarantee could help leverage pre-development and bridge investments from outside sources.
- **$5 million — Direct investment in a few projects.** In addition to the above, the Authority will make equity/mezzanine investments in a limited number of Authority-led projects (one to three) on a permanent basis. These funds would be able to be taken out and revolved at project refinancing, which could be between five to fifteen years. Additionally, the investments would generate a modest current income revenue combination of net interest (current interest payments less the cost of capital) or net cash flow, depending on the structure.
- **$15 million — Loan fund and potential for organizational leverage.** In addition to the predevelopment, bridge lending and limited permanent investment in Authority-led projects, getting closer to $15 million concessionary capital could allow the Authority to act more like a loan fund. This would entail the Authority making direct investments in projects (or participating in investments in such projects). This could include pre-development loans, bridge loans, and permanent financing. Additionally, an amount of concessionary capital this large could allow for attracting additional CRA-motivated or other mission-motivated capital from bank or institutional lenders. This capital would be senior to the concessionary capital, similar to how CDFIs or structured funds like the New York City Acquisition Fund and Neighborhood Impact Investment Fund operate.

The $10mm in loan fund activities that differentiate Scenario 3 from Scenario 2 require more overhead (extra staff and asset management capacity) and have higher cost capital. Therefore, the Authority has a lower margin and a lower cumulative net income in Scenario 3, despite having more marginal activity. The Authority could decide to make a different allocation as project opportunities present themselves, and therefore a staffed credit apparatus is not contemplated to be created until Year 3 in the model.

Within the first five years of operations, the Authority should develop the capacity to underwrite and originate bridge loans and gap financing to assemble parcels, accelerate the development timeline and close financing gaps. Source for these loans including philanthropic PRIs and grants from corporations, philanthropy and government.

This activity requires significant discretionary capital.

Competitive Advantage for Authority	A critical mass of concessionary capital could enable the Authority to accelerate projects and close financeable gaps in ways that current private and public actors are not able to.
Staffing Needed & Annual Cost	The first two scenarios of investing only in Authority-led projects require no additional staff if one of the C-level executives has a lending (not just a development finance) background and if the Authority Board can set up an Investment Committee with relevant experience. The loan fund scenario could be staffed internally or externally. The internal route requires two additional staff — one senior and one junior staffer, a Credit Committee, and third-party loan servicing capacity. Alternatively, the Authority could engage a local CDFI or fund manager to operate the fund at a comparable cost. This would still require creating a Credit Committee with relevant experience.
Revenue	Revenue from this activity is generated by the spread on loans and origination fees.
Startup & Scalability	A leveraged loan fund would require additional legal and financial structuring that brings material upfront and on-going costs. A loan fund would likely need to get closer to $40 million to make the fund a major recurring profit center for the Authority.
Key Risks	Predevelopment funding is highly risky and has unpredictable terms. If a project does not move forward, it is difficult to recoup costs. Bridge loans require deep understanding of the risks surrounding the takeout source. Permanent financing will lock away Authority capital for at least five or more years, with modest interim return that will not likely be made up for at scale.

As a trusted public-private partnership, the Authority is uniquely positioned to collaborate with a number of government, civic, and private actors that could expand the ability of the Authority to achieve its mission. This includes the following additional capacities:

2. Revenue Bonds

The Authority can work in cooperation with municipalities and the County (or one of its home rule municipal partners) to issue Industrial Revenue Bonds (IRBs) or other types of revenue-backed tax-exempt bonds to finance larger scale projects. Because there is significant unused "volume cap" in the Southland, the Authority can work with government entities to aggregate IRB authority from municipalities.

Should the Authority decide to do this at some point in the future directly or in partnership with municipalities, this would require the addition of one mid-level staffer with a broad skill set that includes the capacity to coordinate activities undertaken by third-party entities such as bond counsel and financial advisors. Conduit issuers can earn one-time fees of 25 to 50 basis points, depending on project scale and the level of responsibilities held by the conduit. It is important to remember that scale is important in the issuance of IRBs. In general, private placements with a bank have a minimum efficiency of about $10 million and public market issuances require a minimum scale of $25 million.

3. New Market Tax Credits (NMTC)

While NMTC allocations would be highly valuable for the Authority to obtain directly, initially it would be preferable to establish a partnership with existing CDEs authorized to compete for allocations. It should be noted that the NMTC provisions of the IRS code will expire at the end of 2019 unless Congress approves an extension. Similar bills before the house and Senate amend the Internal Revenue Code to make the NMTC permanent and increase the allocation amount. Additionally, Illinois has not fared well in NMTC allocations in recent years.

Should the Authority decide at a point in the future, when the region is more competitive for allocations, to become a CDE, it would be relatively straightforward to qualify as a CDE once the organization has a financial track record. The appropriate track record is likely 4+ years of lending to commercial developments of $5 million+. Once qualified, the Authority would apply for competitive New Markets Tax Credit (NMTC) allocations to offer investors in exchange for equity investments in intermediary funds that would, in turn, invest in Authority projects. The Authority would serve in an asset management capacity for these transactions, which would bring a revenue source.

This capacity requires one mid-level staffer to source transactions and equity investments who also has the skills and experience to asset manage the equity. Placement fees and asset management fees would provide an ongoing funding stream for the Authority. As with IRBs, scale is important here as well. Given the costs associated with NMTC transactions, projects must have a minimum size of about $8 million for economic sustainability.

4. Opportunity Zone (OZ)-Motivated Capital

Given that there are a number of key project sites in OZs, the opportunity to bring investors motivated by the tax benefits the program offers is intriguing. Rather than raising OZ-motivated capital directly, the Authority could develop partnerships with OZ Funds interested in the Southland. This is preferable since direct capital raising from investors is labor intensive and is unlikely to be beneficial to undertake in house or with a third-party capital raising entity working for the Authority raising its own fund.

One caution in attracting OZ capital is that given the first-loss, common equity position that most investments will need to be brought in at the project level, the returns expected by investors may exceed an 8-10% hurdle threshold. This may still be advantageous because return can be deferred until full project stabilization, but this return amount may need to be brought down with concessionary capital from the Authority's discretionary funds to make economically-marginal projects pencil out.

5. Community Development Finance Institutions (CDFIs) & Community Development Corporations (CDCs)

CDFIs work in impact-focused segments of the development world, with particular emphasis on financing entities that meet social service, housing, and educational needs. They are already partners in the overall effort, particularly IFF and CCLF, and are expected to be partners going forward where there is an intersection with that mission. This may include projects that intersect with the medical, educational, or affordable housing sectors, or projects that advance discrete, highly-impactful economic development projects such as access to fresh food, projects that have a strong workforce development component, or projects that have a small business finance component.

Development-oriented CDCs offer a potential development partner role, whether as a co-developer, co-investor, or financial advisor to the Authority in particular projects. This could potentially include, for example, Chicago Neighborhood Initiatives.

Project Types & Assumptions

The following generalized project types have been integrated into the budget projections.

1. Innovation Parks

Description:	The Development Authority will develop, co-develop or support the development of dedicated multi-tenant industrial/commercial facilities where manufacturers, suppliers and distributors within a particular field can co-locate in order to form a mutually beneficial eco-system that supports increased productivity. Depending on the industry, these innovation parks are expected to range in size from 100,000 square feet to 1 million+ SF. For modeling purposes, the expectation is that Parks will be in the 300,000 SF size and will be developed in phases of 100,000 SF per phase.
Authority Roles & Partnerships:	Direct Roles: Project Packager, Lender, Land Ownership Partnerships: Land Assembly, Revenue Bonds, NMTC, OZ Capital
Authority Revenue:	The Authority will earn one-time developer fees for each transaction as well as one-time origination fees associated with gap or mezzanine debt. Ongoing revenue for the Authority will include returns on equity, spread earnings on gap loans and mezzanine debt, rental income and management fees.

2. Multi-tenant Commercial & Industrial

Description:	The Development Authority will support third-party developers and owners to undertake multi-tenant commercial and industrial projects. Some projects may involve large-scale assembly of vacant sites for new development while others will involve the adaptive re-use of existing vacant and/or underutilized properties. Projects are expected to range from 20,000 to 100,000 SF.
Authority Roles & Partnerships:	Direct Roles: Project Packager, Lender, Land Ownership Partnerships: Land Assembly, CDFIs, NMTC, OZ Capital
Authority Revenue:	The Authority will earn one-time origination fees associated with gap or mezzanine debt. Developer fees may also be possible in cases where the Development Authority serves as co-developer on strategic sites. Ongoing revenue for the Authority could include ground rent, spread earnings on gap loans and mezzanine debt.

3. Single Family Rehabilitation & Refinance

Description:	The Development Authority will support the rehabilitation and refinance of overleveraged and foreclosed single family homes by assisting in land assembly and title clearing and providing subordinate debt to undertake capital repairs and improvements. The expectation is that average costs per house inclusive of acquisition and rehabilitation will range from \$150,000 to \$250,000 with subordinate debt comprising roughly 20% of the total cost.
Authority Roles & Partnerships:	Direct Roles: Project Packager, Lender Partnerships: Land Assembly, CDFIs, CDCs
Authority Revenue:	The Authority may earn one-time origination fees associated with subordinate debt and ongoing spread earnings on subordinate loans. The Authority may be paid for its Project Packager and Land Assembly roles via an acquisition fee for delivering land and buildings with clear titles at sale or on a deferred basis in this program.

4. Multifamily Affordable Construction & Preservation

Description:	The Development Authority can support third-party developers to develop and preserve multifamily rental housing targeted to seniors and families. Average projects are expected to be about 40,000 square feet which translates to approximately 40 to 60 apartments depending on target market and configuration.
Authority Roles & Partnerships:	Direct Roles: Project Packager, Land Ownership Partnerships: Land Assembly, CDFIs
Authority Revenue:	The Authority could earn development fees (which are largely deferred in affordable housing), one-time origination fees and ongoing spread associated with loans.

Summary of Financial Model

We constructed a draft financial model that provides a preliminary projection of revenues and expenses for the Development Authority over a ten-year start-up period. The goal is twofold:

1. To estimate the need for philanthropic and government grant funding to support the organization during the ramp-up of activities likely to generate earned revenue; and
2. To provide an overview of the financial impact on the three scenarios of discretionary capital available to invest into projects on the organization's operating revenues and expenses.

The model will be further refined during the Authority's startup period, especially regarding development costs, the economic return from Authority-led and -financed projects, and the size and rate of project execution.

1. Summary of Budget Scenarios

The below table summarizes the output of the financial model for the 10 year in total for each of the three scenarios. The Authority requires $500,000 to $1 million for a first-year startup phase. In all of the scenarios, $5 million in operating grants are provided for the first five years to ensure the Authority has enough cash to operate. Each scenario varies the amount of discretionary capital available to the Authority to invest in projects.

10 Year-Cumulative Total Projected Amounts

	Scenario 1 *$2mm of* *Discretionary Capital*	*Scenario 2* *$5mm of* *Discretionary Capital*	*Scenario 3* *$15mm of* *Discretionary Capital*
Operating Grants	5,000,000	5,000,000	5,000,000
Earned Revenue	10,507,767	11,722,535	14,110,019
Total Revenue	15,507,767	16,722,535	19,110,019
Operating Expenses	13,239,052	13,494,052	17,558,777
Cumulative Net Income	2,268,716	3,228,484	1,551,242
Cumulative Net Income without Operating Grants	(2,731,284)	(1,771,516)	(3,448,758)

This analysis shows the following:

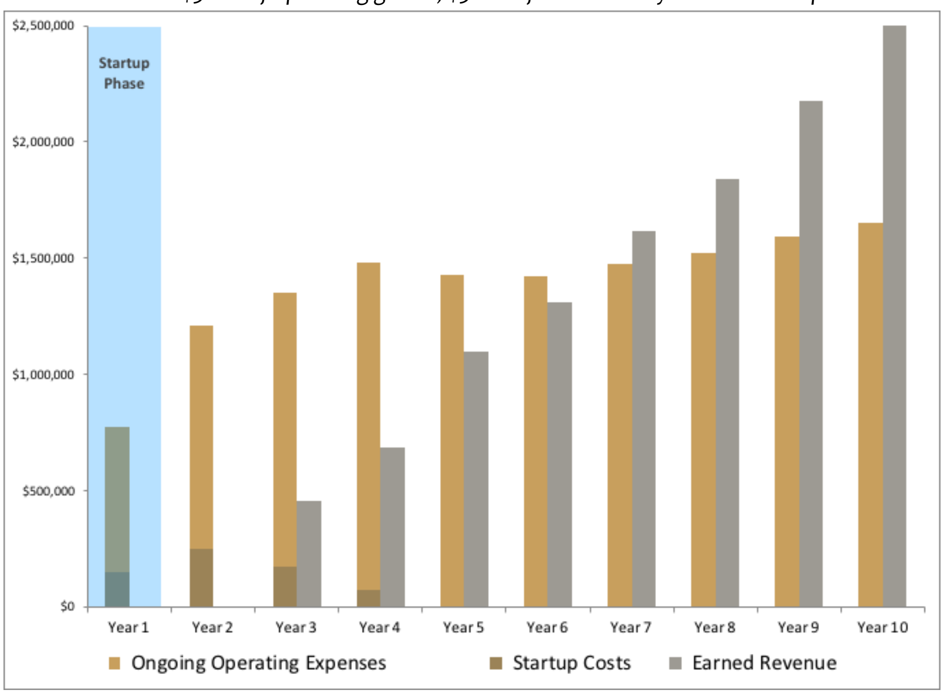
- The Authority requires $500,000 to $1 million for a first-year startup phase.
- There is insufficient earned revenue in the scaling-up phase of the Authority. The Authority requires $5 million in operating grants to remain cash positive in its first five years.

- Investing discretionary capital in Authority projects brings greater economic return to the Authority. However, the Authority may not have sufficient successful pipeline to invest more than $5–8 million in Authority-led projects. Beyond that amount, there may be greater mission impact to provide financing to Authority-sponsored projects despite the lower financial return.

The projected cash flows of the Authority in Scenario 2 are shown below as a comparison of earned revenue versus operating expenses (divided into ongoing and startup costs).

Operating Expenses Versus Earned Revenue, Years 1-10

Assumed $5mm of operating grants, $5mm of discretionary investment capital



2. Core Activities that Generate Earned Revenue

The model outlines a set of core activities of the entity that will generate earned revenue to support operations:

Operations. The Authority will generate net income from property management fees and asset management fees after project-level expenses are subtracted.

Development. The Authority will acquire, assemble and lead/co-lead the development of commercial and industrial sites. Some parcels will be developed directly by the development authority. Other parcels will be developed in partnership with commercial and industrial developers. Others yet will be assembled and sold to a third-party developer. The Development Authority will collect developer fees for the projects that it develops independently and in partnership with third-party developers.

These fees will be paid in part at closing on financing, conversion to permanent financing, and deferred over the life of the project depending on the timing availability of cash in each project. This activity will also generate ground lease payments and/or seller note payments over the life of the projects that the Authority may be in position to receive. The Development Authority may also be able to provide technical services to localities to support discrete economic development projects and activities that would generate additional revenue.

Investing in Projects. The model assumes that the Development Authority will raise concessionary capital from corporate, government and philanthropic sources that the Authority will have discretion on how to invest into projects. These investments will be in service of advancing Authority-led projects, and at a certain scale could support a loan fund that invests into Authority financed projects as well. Loan products will include provision of predevelopment, bridge equity and/or mezzanine financing, as well as short- to medium-term subordinate loans.

Scenario 2 shown below assumes only Authority-led projects are invested in on a short and long-term basis through equity-like, predevelopment and bridge instruments. Scenario 3 assumes the loan fund is created for Authority-financed at a higher cost of capital and the margin is lower since a) running a small loan fund is a low-margin business (additional staff and asset management services are required) and b) the Authority will likely have to offer modestly concessionary terms to advance such projects. The assumptions for this activity are spelled out in more detail below.

10-Year Cumulative Earned Revenue by Source, in $000s

	Scenario 2 *$5mm of Discretionary Capital*	*Scenario 3* *$15mm of Discretionary Capital*
Operations		
Property Management - Net Income	383	383
Asset Management - Net Income	408	408
Earnings on Cash on Hand	136	21
Site Development		
Ground Rent / Seller Note Income	255	255
Developer Fees	6,910	6,910
Fee for Services to Localities	1,843	1,843
Investing in Projects		
Loan Origination Fees	163	437
Gross Revenue from Outstanding Investments	1,607	3,819
Total Earned Revenue	**11,704**	**14,075**
Less Funder Interest	(385)	(1,585)
Earned Revenue After Funder Interest	**11,319**	**12,490**

3. Discretionary Capital Scenarios

The following parameters are used in modeling the investing activity of the Development Authority:

Applicable Scenarios	Investment Type	Total Amount	Average Gross Interest / Year	Average Size	Average Term	Loan Losses	Cost of Capital
1, 2 & 3 Commitments of ≥$2mm	Predevelopment / Bridge Financing	$2mm	6.0%	$600,000	2 years	15%	1%
2 & 3 Commitments of ≥$5mm	Equity / Mezzanine Investments	$3mm	6.0%	$1,500,000	10 years	5%	1%
3 only Commitments of ≥$15mm	Short-Term Loans	$5mm	5.5%	$1,000,000	3 years	7%	2%
	Longer-Term Loans	$5mm	4.5%	$2,000,000	7 years	5%	2%

Growth in Holdings

The model assumes that projects executed increase from 150,000 square feet in Year 3 to 2,800,000 square feet in Year 10. The model assumes that 60% of holdings will be directly managed by the Authority and 80% will be under asset management.

Project Executions

The model assumes that $30 million in closings on project financing will occur in Year 3 increasing annually and stabilizing at $100 million by Year 8. The model assumes that conversions to permanent financing occur two years after construction closing.

4. Impact for Each Discretionary Capital Scenario

The chart below illustrates the relative impact, by number of total investments made by the Authority in each discretionary capital scenario.