

Industrial Development Bond Financing Opportunities

Industrial Development Bond Financing

1. Types of Bonds
2. Structural Options
3. Tax-Exempt Private Activity Bonds
 - Alternative Energy Facilities
 - Manufacturing Facilities
4. “Synthetic TIFs” – Monetizing Tax Abatements

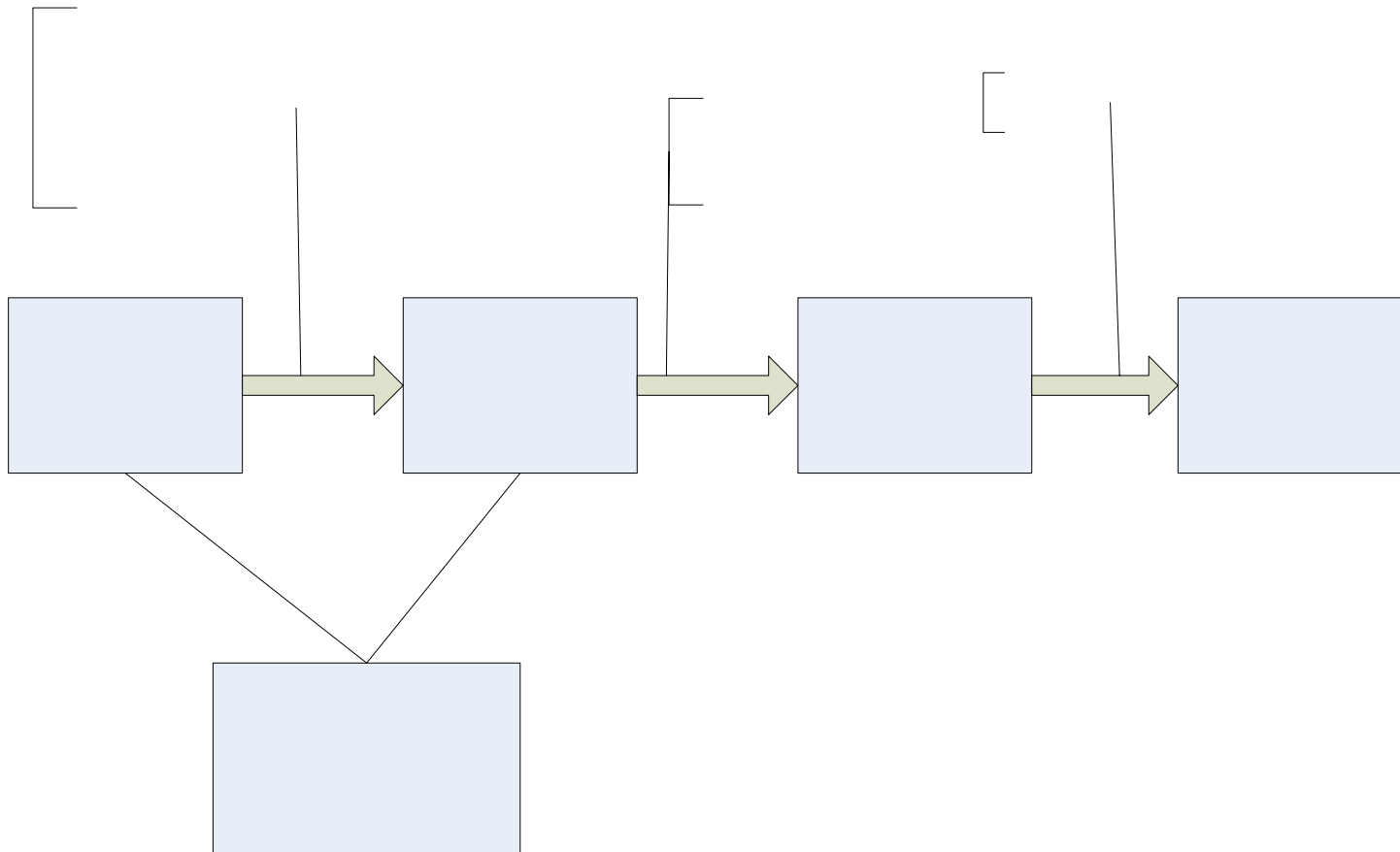
Types of Bonds

- Tax-Exempt Private Activity Bonds
- Tax Credit Bonds
- Tax Increment Bonds
- “Synthetic TIFs” - PILOT Bonds

Structural Options

- **Parties to Bond Transactions**
- **Fixed Rate**
- **Variable Rate**
- **Credit and Liquidity Enhancement**

Parties to Bond Transactions



Fixed Rate - Variable Rate

- Fixed Rate
- Variable Rate
 - Interest Rate Adjustment
 - ▶ Weekly
 - ▶ Monthly
 - ▶ Semi-Annual
 - Historically lower interest rates than fixed rate bonds
 - Termination options

Credit and Liquidity Enhancement

Private Sector Credit Enhancement

- Letters of Credit
- Bond Insurance

Public Sector Credit Enhancement

- Intergovernmental Contracts
- Local Government Guarantees

Tax Exempt Private Activity Bonds

Internal Revenue Code Section 103

Qualified Projects

- Alternative Energy/Solid Waste Disposal Facilities
- Manufacturing Facilities

Tax Rules Applicable to Private Activity Bonds

- Use of Proceeds
- Volume Cap
- Arbitrage Rules
- TEFRA Hearing Requirements
- Bonds Must be in Registered Form
- Bonds May Not be Federally Guaranteed
- Information Reporting Requirement
- Reimbursement Rules

Use of Proceeds - The 10 Percent Test

If more than 10% of the proceeds are used for private business purposes and more than 10% of the debt service comes from private sources, the bonds are private activity bonds

Approval Process

- Application
- Inducement Resolution
- Notice of Public Hearing
- Public Hearing
- Bond Resolution
- Approval of Applicable Elected Representative
- Other Approvals (e.g., volume cap allocation)

Inducement Resolution

- Reimbursement Resolution
- Issuer or 501(c)(3) Borrower
- 60 day window
- Preliminary Expenditure Exception

Public Hearing

- TEFRA Hearing
- 14 day notice requirement
- Description of project, location, amount of bonds,
- borrower, etc.

Bond Resolution

- Approves terms of the transaction
- Authorizes execution of bond documents
- Approval of elected representative

Arbitrage

Limits the yield earned on bond proceeds

- Not greater than yield on bonds
- 1/8 of 1% overage allowance (e.g., for the issuer's financing fee)

Rebate requirement

- Excess earnings paid to Government

Exceptions

Alternative Energy Facilities

- **What Type of Project Qualifies as “Solid Waste Disposal Facilities”?**
 - **Property which is useless, unused, unwanted, or discarded solid material, which has no market or other value at the place where it is located.**
 - **Dual function facilities.**
- **No limit on issue size.**

Alternative Energy Facilities

Production Tax Credit

- Wind, closed-loop and open-loop biomass, geothermal, solar energy facilities, small irrigation, landfill gas, municipal solid waste, hydropower facilities, refined coal, Indian coal, and marine and hydrokinetic.
- Subsidy reduction and other restrictions.
- Monetization of tax credit.

CREB Bonds

- Interest free loan.
- Limited to qualified borrowers (co-ops and governmental bodies).
- Private use through qualified management contracts.
- Amount of Tax Credit is more predictable than Production Tax Credit

Qualified Small Issue Bonds

Manufacturing Facilities

- Definition of "Manufacturing Facility"
- American Recovery Investment Act of 2009

Size Limitations

- \$1 million
- \$10 million election
- \$40 million limit

Qualified Small Issue

Spending requirements

- no more than 25% on land costs
- at least 15% on rehabilitation expenditures, if acquiring an existing building (and the equipment therefor)
- at least 70% on “core manufacturing” facilities (e.g., manufacturing part of the building)
- no more than 25% on “directly related and ancillary” facilities; e.g., temporary warehousing of finished product
- 5% can be spent on either “core manufacturing” or “directly related and ancillary”, or on otherwise non-qualified costs, including up to 2% for issuance costs

Qualified Small Issue

Maturity Limitations

- Average Maturity of Bonds \leq 120% of Average Reasonable Expected Life of Financed Facilities

Depreciation

- Straight line depreciation

Tax Increment Bonds

- Designated Areas
- Eligible Expenditures
- Public Improvements
- Acceleration of Tax Benefits

“Synthetic TIFs” - PILOT Bonds

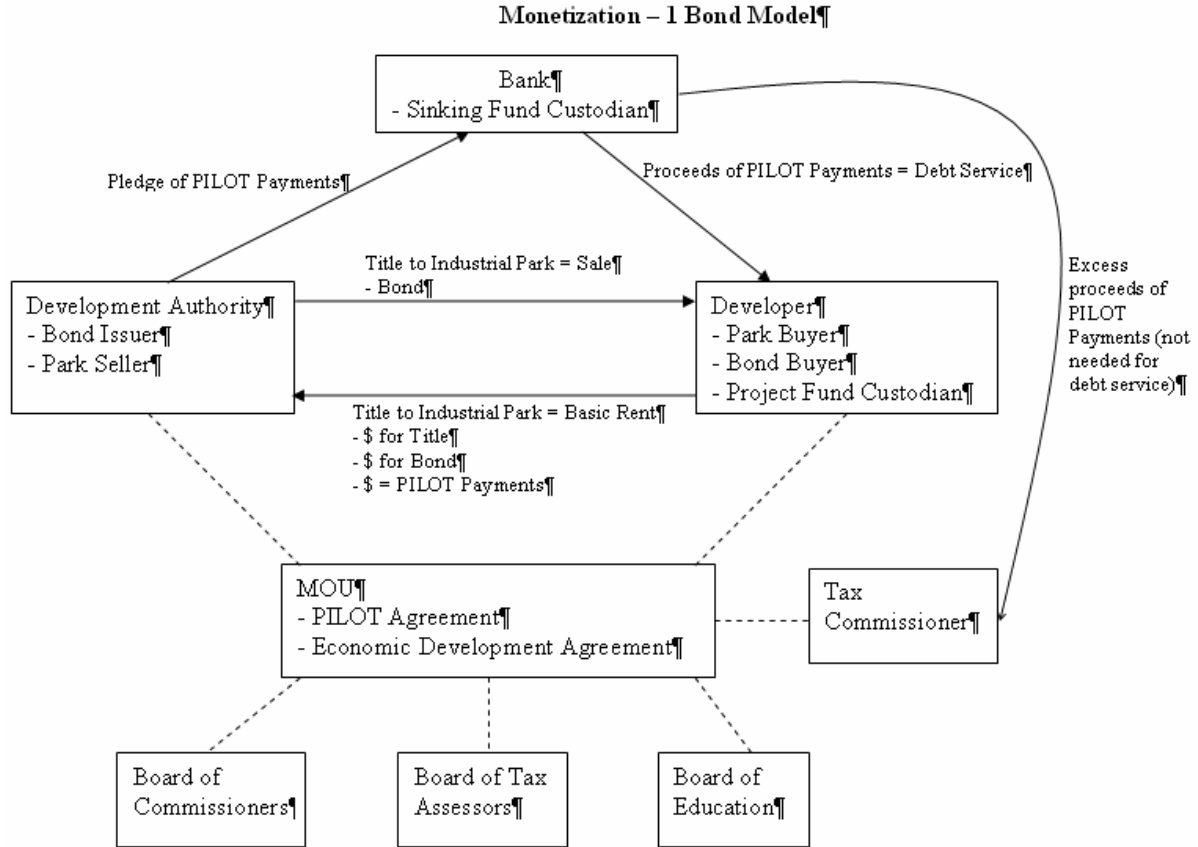
Monetizing State and Local Incentives

- Property Tax Abatement – PILOT Bonds
- Other Taxes

Taxable and Tax-Exempt PILOT Bonds

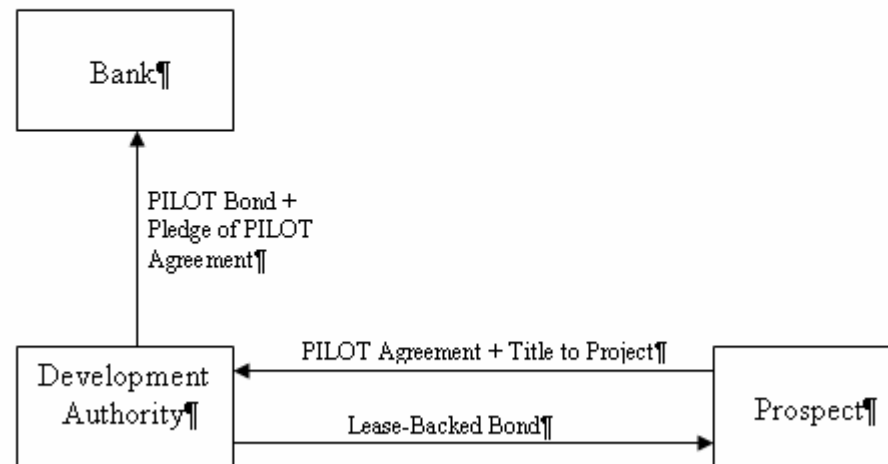
- Treasury Regulation Section 1.141-4
- Generally Applicable Taxes Exception

Monetization Pilot Bonds – 1 Bond Model



Monetization of PILOT Bond – 2 Bond Model

Monetization – 2 Bond Model



Questions

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