FREQUENTLY ASKED QUESTIONS ABOUT TAX EXEMPT FINANCING FOR INDUSTRIAL DEVELOPMENT BONDS

Industrial Development Bonds (IDBs) are tax-exempt securities issued by a designated government agency, such as the Industrial Development Authority, to finance the acquisition, construction, expansion and/or renovations associated with manufacturing and processing businesses. As a result of Federal and State income tax exemptions, IDBs offer interest rates substantially below conventional financing alternatives typically available to small to middle-market manufacturing companies with sales between $7.5 and $20 million.

As you encounter businesses with an interest in this type of financing, consider the following questions:

1. Does the project involve a manufacturing or processing activity?

The Internal Revenue Code of 1986 (the Code) limits the availability of tax-exempt financing to manufacturing or processing facilities and equipment. Generally, manufacturing or processing entails the production of tangible personal property or value-added processing.

2. Are the capital costs of the project less than $10 million?

The Code limits the size of an industrial development bond issue to $10 million. However, counted against the $10 million ceiling are the company's other capital expenditures, no matter how funded, incurred in the same city as the project during the period three years before and three years after the bonds are issued.

Example:	Cap:	$20,000,000
	Less:	
	Prior Expenditures:	$2,000,000
	Future Expansion:	500,000
	Maximum Bond Size:	$7,500,000

3. Will the project result in an increase in the number of jobs at the project location, the retention of jobs or some other public benefits?

State law generally requires that the project result in some public benefits, such as increased employment, job retention or some other direct public benefit. The City also has a living-wage requirement.

4. Will a significant portion of the project (60–75%) consist of core manufacturing or processing?

The Code limits the amount of equipment and facilities that are not directly involved in the manufacturing process to 25% of the total size of the bond issue. Therefore, a higher core manufacturing or processing percentage will result in a larger percentage of the facility qualifying for tax-exempt IDB financing.

5. Will the project involve the acquisition of an existing building?

The Code requires that if bond proceeds are used to acquire an existing building, an amount equal to at least 15% of the amount of bond proceeds used to acquire the existing building be used to rehabilitate the building.

Example:	Bond Issue:	$6,000,000
	Building Cost (Excluding Land Value):	$3,000,000
	Rehabilitation Requirement (15%):	$450,000

6. How will the project's asset values be amortized?

Federal law requires that assets acquired with proceeds of a tax-exempt bonds be amortized using the straight-line method. No accelerated amortization is permitted.

7. Would the company otherwise qualify for a conventional bank loan?

A letter of credit from a bank with a minimum long-term rating of "A" is necessary to market the bonds. From the Bank's perspective the credit analysis is essentially the same for a letter of credit financing or a conventional loan. Therefore, a bank willing to make a conventional loan should be able to issue a letter of credit.

8. Does the company have any other tax-exempt bonds outstanding?

The Code limits the total amount of tax-exempt debt outstanding at any time for a private company and its holdings to $40 million.

9. Have any costs been paid with respect to the project?

To reimburse the company for costs paid with respect to the project from bond proceeds, the issuer of the bonds must adopt a reimbursement resolution within 60 days of the date the cost was paid. In order to maximize the amount of bonds that can be issued, it is essential that companies consult with professional advisors as early as possible.

10. Will the company relocate its manufacturing facilities from one location in California to another?

State law requires that the jurisdiction from which the company is moving provide in writing to the new location that it has no objection to the use of tax-exempt bonds to finance the new facilities.

For more information, please contact *(213) 744-7111*
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