

Industrial Development Revenue Bond Program

What are Industrial Development Bonds?

Industrial Development Bonds (IDBs) are tax-exempt securities issued by a governmental entity to provide money for the acquisition, construction, rehabilitation and equipping of manufacturing and processing facilities for private companies. IDBs can be issued by the I-Bank, local Industrial Development Authorities, or by Joint Powers Authorities.

General Eligibility Requirements

The use of IDBs is governed by both federal and state laws and regulations. The following are some of the key requirements:

- **Manufacturing Facility.** The project financed by the bonds must be a facility used for the manufacturing, production or processing of tangible property (including the processing resulting in the change of such property). No more than 25% of the bond proceeds can be applied to ancillary office, warehouse or other space.
- **Qualifying Costs.** At least 95% of the bond proceeds must be spent on qualifying costs. Qualifying costs are generally capital expenditures such as land, building and equipment and other depreciable property (and can also include capitalized interest during construction).
- **Land.** No more than 25% of the bond proceeds can be used to acquire land.
- **Acquisition of Existing Manufacturing Facilities.** The acquisition of an existing facility can be financed if at least 15% of the portion of the bond amount used to purchase the facility is spent on rehabilitation of the building within a two-year period.
- **Used Equipment.** If bond proceeds are used to acquire used equipment, 100% of the cost must be spent on rehabilitation of the equipment within a two-year period.
- **Maturity.** The average maturity of the bonds cannot exceed 120% of the average economic life of the assets financed.
- **No Working Capital or Inventory.** Bond proceeds cannot be used to finance working capital or inventory.
- **\$20,000,000 Limitation.** The capital expenditures for the project, when added to the company's other capital expenditures in the same public jurisdiction as the project for the three years immediately preceding and three years following the closing of the financing of the project, cannot exceed \$20,000,000.
- **\$40,000,000 Aggregate Limitation.** A borrower and certain users may not be the beneficiary of more than \$40,000,000 of certain tax-exempt bonds

- regardless of the location of the projects, during a three year period after the facility being financed is placed in service.
- **Public Benefits.** The project financed by the bonds must meet certain public benefit criteria established by the California Debt Limit Allocation Committee (CDLAC), which include, among other things, the creation or retention of jobs. CDLAC's criteria for IDBs and other types of private activity bonds can be obtained at www.treasurer.ca.gov/cdlac/.
 - **Prevailing Wage.** The prevailing wage must be paid to workers involved in the construction or renovation of a facility financed with IDBs in compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the Labor Code and implementing regulations. California Labor Code, Division 2, Part 7, Chapter 1, Article 1, Section 1720-1743 can be viewed at www.leginfo.ca.gov/cgi-bin/displaycode?section=lab&group=01001-02000&file=1720-1743.
 - **Credit Requirements.** The borrower must generally secure a letter of credit in the amount of the bonds from a bank with a long-term credit rating of "A" or better. An unrated private placement with a Qualified Institutional Buyer is also possible under certain conditions.

Benefits of IDB Financing

- **Low Interest Rates** - generally 20% to 30% below comparable commercial alternatives.
- **Long-Term Financing** - longer than conventional financing, often up to 30 years.
- **Comprehensive Funding** - funds can be used for construction and take-out financing for land, buildings and equipment.
- **Assumable** - the bonds are assumable if the business is sold to an entity engaged in a qualified use.
- **No Prepayment Penalty.**

The IDB Process

The IDB financing process can generally be completed within 120 - 150 days. The I-Bank staff and a financing team, which typically consists of an underwriter, bond counsel and financial advisor, will assist the applicant through each stage of the process.

Stage 1 - Pre-Qualification

- Pre-Application
- Federal Requirements
- State Requirements

Stage 2 - Approvals

- Inducement Resolution by Issuer
- Application to Issuer for Final Approval
- Noticed Public Hearing ("TEFRA")
- Letter of Credit Commitment from Bank
- State Tax-Exempt Allocation Approvals

Stage 3 - Bond Issuance

- Documentation
- Final Resolution of Issuance by Issuer
- Bond Sale
- Funding

How to Apply

Applications are accepted on a continuous basis and the I-Bank Board of Directors normally meets each month to consider approval of complete applications received at least twenty working days prior to the meeting date. For additional information, please contact Barbara Lewis at (916) 324-1299 or tdunn@ibank.ca.gov.

Disclaimer:

Nothing contained herein should be construed or relied upon as legal advice. Instead, this information is intended to serve as an overview of the general subject of the use of tax-exempt bonds by manufacturing companies, from which better-informed requests for advice, both legal and financial, can be formulated.

Contact:

Tara Dunn
Bond Financing Officer
California Infrastructure and Economic Development Bank
P.O. Box 2830
Sacramento, CA 95812-2830
E-mail: tdunn@ibank.ca.gov
(916) 322-2571 (Voice)
(916) 322-6314 (FAX)