IDB PROCESS

A pre-application meeting with the business is used to establish IDB project eligibility. A bank rated "A" or better is found to guarantee the bond *(land, buildings & new equipment)*, or a lender is found who is willing to purchase the bond directly *(equipment only)*.

The one-page application is submitted to the Industrial Development Authority (IDA) and the IDA adopts an Inducement Resolution that establishes the date from which expenditures can be financed with bond proceeds.

The County holds a public hearing and then adopts an Approving Resolution.

The application is prepared and submitted to the State, which has two organizations to process IDBs: the California Industrial Development Financing Authority (CIDFAC) that approves the project; and the California Debt Limit Advisory Committee (CDLAC) that approves an allocation of the State's tax-exempt entitlement (when the project is over $5 million).

The IDA adopts an Authorizing Resolution and the bond documents are prepared and signed.

The bond is then sold to money market funds (public placements) or a lender, leasing or insurance company (equipment only private placements), by the IDA's underwriter.

Publicly sold bond proceeds go to a trustee bank that invests the funds until they are drawn down, at no cost of carry. Equipment only funds go directly to the equipment supplier.

ADDITIONAL REQUIREMENTS

These can be addressed by the way in which the financing is structured.

The borrower (and any related persons or businesses) cannot have more than $40 million in outstanding IDBs in the US.

Land financing cannot exceed 25% of the tax-exempt bond amount, but cash/equity or taxable bonds can be used to cover the balance.

When an existing building is purchased, at least 15% of the building's cost must be spent in "rehabilitation" within two or three years.

At least 75% of the tax-exempt bond proceeds have to be used for facilities or equipment utilized for "core" manufacturing. However, equity or taxable bonds can be applied to some of the "non-core" areas, resulting in a minimum of 55% manufacturing use.

The end result has to be job retention or creation.

PROCESSING TIME

Typically the time from filing an application to the receipt of funds is three to four months, depending upon the size of the project and State agency meeting dates. Interim financing can be used and reimbursed with bond funds for those that need to close sooner, once the project has been induced.

The federal government limits the amount of tax exempt debt that can be issued in each State, annually, so the meeting dates of the State agency that allocates that debt issuance authority (CDLAC) can affect the processing time, and the IDBs have to close before the end of the calendar year.

EastBay EDA

East Bay Economic Development Alliance
1221 Oak Street, Suite 555
(510) 272-3885 or email idb@eastbayeda.org
www.eastbayeda.org

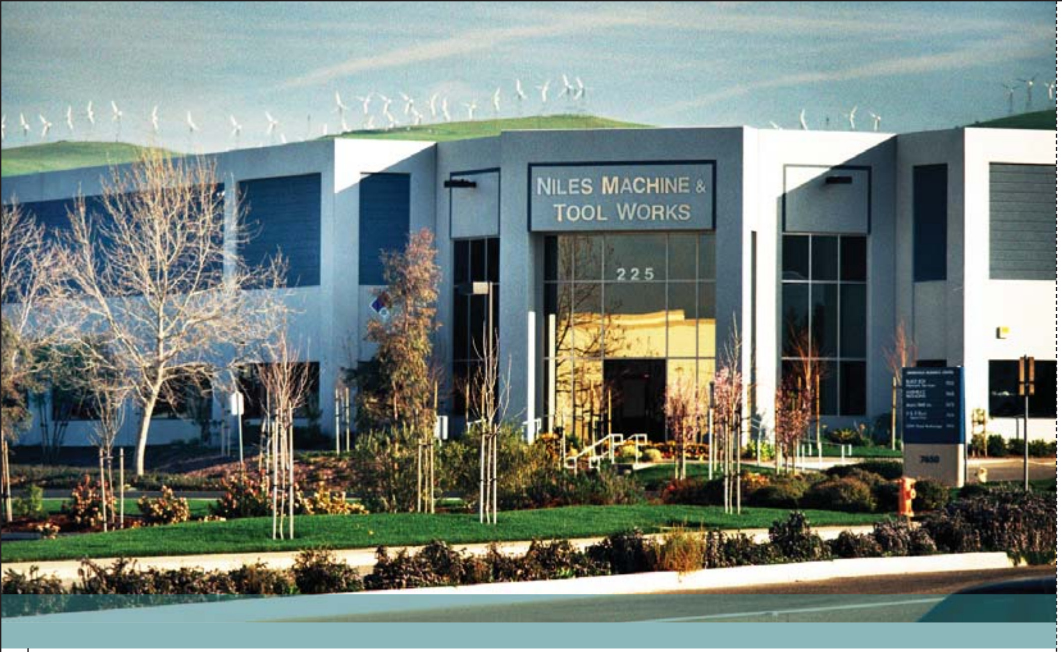
Financing for Manufacturers

EastBay EDA

Low Interest • Long Term • Flexible • No Prepayment Penalties • Assumable

Industrial Development Bond Program

SERVING THE BRIGHT SIDE OF THE SAN FRANCISCO BAY (ALAMEDA & CONTRA COSTA COUNTIES)



INDUSTRIAL DEVELOPMENT BOND FINANCING PROGRAM

The East Bay Economic Development Alliance (EDA), on behalf of Alameda and Contra Costa Counties and the cities in the East Bay, is offering the Industrial Development Bond (IDB) program to encourage manufacturing business investment and growth.

Interest paid to the IDB bond purchasers is exempt from federal and State taxes and that benefit, combined with their flexibility and security, is what makes the program work.

Publicly sold IDBs give small and medium sized businesses access to low interest (3% average), long-term financing (20 to 30 years) that typically only larger competitors enjoy.

IDBs used for land, buildings and new equipment purchases require a Letter Of Credit (LOC) guarantee from a bank with a credit rating of "A" or better (rated by Moody's or Standard and Poor's).

Bond purchasers look to the bank for repayment instead of the business and business disclosure is limited to a short description.

The LOC bank makes all of the credit decisions and protects itself with a loan agreement that establishes collateral and repayment conditions, for an annual fee of usually under 1.5%.

If only new equipment is purchased, the bonds may be sold directly to a bank, leasing or insurance company, at a fixed rate of approximately 5%, for 5 to 7 years. These bonds therefore do not require a guarantee, rating agency or trustee, and thus have lower closing costs.

THERE ARE 4 PRIMARY QUALIFYING CONDITIONS

1. User is a manufacturer:
   - Eligible borrowers include corporations, partnerships, limited liability companies, sole proprietorships or trusts.
2. Used to purchase land, buildings (construct, renovate or purchase) and/or new equipment for a manufacturing business (not working capital, used equipment or refinancing).
3. Must meet the bond guarantor's or purchaser's credit requirements.
   LOC Bank guarantors:
   - Have at least two years of profitability;
   - Cover the IDB repayment with existing cash flow; and
   - Equity requirement of 25% (land & buildings), 10% (equipment).

   Direct placements to lenders (equipment only):
   - May have less stringent credit requirements; and
   - 10% or less equity.
4. Capital expenditures of the borrower in the city where the facility/equipment is located, cannot exceed $20 million in the prior three year and succeeding three year period:
   - Land, building and new equipment project sizes begin at $2 million; and
   - Equipment only purchases start at $300,000.

APPLICATION PROCEDURE

IDBs are administered locally, subject to federal and State oversight.

Upon determination of project eligibility and the availability of a bank LOC or equipment bond purchaser (which the program facilitates), a one-page application and a non-refundable application fee of $1,250 will be accepted.

Call 510 272-3885, email idb@eastbayeda.org or go to www.eastbayeda.org for more information.

IDBS HAVE 5 PRINCIPAL ADVANTAGES

1. <u>Low interest rates</u> – the average annual pay rate has been less than 4.5% since 1993:
   - IDBs are sold as weekly variable interest rate bonds (that have averaged less than 3%) or as short term, fixed rate loans for equipment (about 5%, with no LOC fee);
   - The bank Letter Of Credit fee for land and buildings is 1.5 % or less; and
   - Interest savings covers the increased cost of closing in less then a year.
2. <u>Longer repayment period</u> – 25 to 30 year terms – amortized as mortgages for land and buildings, 5 to 7 years for equipment.
3. <u>No prepayment penalty</u> – it can be significant in other programs like the SBA 504.
4. <u>Future equipment/expansion purchases</u> can be included in the publicly sold bonds:
   - Have three + years to draw down the bond proceeds; and
   - Bond funds are invested to cover the cost of interest plus the bank LOC fee until the funds are drawn down, so there is no "cost of carry".
5. <u>Transferable if the property is sold</u> – provided the new user is a manufacturer and can obtain a replacement Letter Of Credit from a rated bank.
6. <u>Flexible:</u>
   - Borrower does not have to be the business user;
   - Repayment terms/collateral can be renegotiated with the bank (land and buildings);
   - Interest only for the first year; and
   - Bonds can be sold as fixed rate or converted to fixed rates and back again.