

PRIVATE ACTIVITY BOND PROGRAM

WHAT IS PRIVATE ACTIVITY BOND FINANCING?

Private activity bonds are an attractive source of financial assistance to economic development projects in Michigan. They provide profitable firms with capital cost savings stemming from the difference between taxable and tax-exempt interest rates.

Public facilities, which generate a revenue stream, (parking structures, for instance) have traditionally been financed by municipalities through tax-exempt 'revenue bonds.' Private activity bonds apply this same tax-exempt finance mechanism to the 'public purpose' of economic development. The governmental unit borrows money from private capital markets, secured only by the project's revenues rather than the government's full faith and credit. Interest income earned on bonds issued by a governmental entity to finance a project for a private company which has demonstrated a good public purpose is exempt from federal, state, and local income taxes, thereby reducing the cost of capital (including the cost of letters of credit, remarketing fees, etc.).

WHO IS ELIGIBLE?

The Michigan Strategic Fund (MSF) issues private activity bonds on behalf of the borrower and lends the bond proceeds to the borrower. These loans can be made for manufacturing projects, not-for-profit corporation projects and solid or hazardous waste disposal facilities. (Please note: Per MSF Board Resolution 2005-258, no volume cap shall be allotted for solid or hazardous waste disposal facilities which serve the general populous. Also, MSF Board Resolution 2005-300 defines standards for financing Concentrated Animal Feeding Operations [CAFOs].)

For manufacturing projects, 95% of the bond proceeds must be used to acquire land, building and equipment directly related to the manufacturing process. Warehouse space and other 'non-core' items are ineligible unless they are directly related to the manufacturing process, and then are limited to 25% of the project. At least 70% of bond proceeds must be spent on 'core manufacturing' costs. If you acquire existing facilities, a minimum of 15% of the bond proceeds must be used to renovate the facility. Used equipment is generally ineligible. Loans for such purposes as working capital or inventory are not permitted.

The maximum size of bonds is limited to:

1. \$1 million free of any restrictions on capital expenditures; or,
2. \$10 million subject to the condition that the company's total capital expenditures in the locality over the period of three years before and three years after the date of issuance do not exceed \$20 million.

Regardless of owner's equity, bonds, conventional debt, all capital expenditures in a municipality where project is located, including the bond, cannot exceed \$20 million for a period of three years prior and three years after issuance of bond. This includes any principal user (e.g. lessees) of the bond-financed facility and any related parties thereto which are made in the jurisdiction in which the bond proceeds are spent. Borrowers may not have more than \$40 million bond indebtedness outstanding nationwide.

There is no limit on the size of bonds issued to finance solid or hazardous waste disposal facilities or not-for-profit corporation projects.

WHAT IS THE APPLICATION PROCESS?

The following steps summarize the actions necessary to obtain tax-exempt bond financing through the Michigan Strategic Fund:

- Step 1:** Applicant prepares an application for the loan and submits it to MSF staff by the first day of the month to be on the agenda for that month's MSF meeting. (Please note: MSF Board meetings are generally held the fourth Wednesday of the month in Lansing. The applicant may be asked to make a brief presentation to the MSF Board describing the project.)
- Step 2:** MSF considers an inducement resolution at its public meeting recognizing the public purpose of the project.
- Step 3:** Applicant structures the financing and bond counsel begins to prepare documents.
- Step 4:** MSF staff publishes public hearing notice at least 14 days prior to the date of hearing (Please note: applicant pays for publication costs); holds public hearing in Lansing and obtains required government approvals.

Step 5: Financing documents are prepared by counsel and reviewed and accepted by all parties to the transaction.

Step 6: MSF adopts bond resolution authorizing the issuance of the bonds.

Step 7: MSF, borrower, purchaser and counsel close on the project financing.

MSF FEE SCHEDULE

The application fee is non-refundable and is required when the evaluation request is filed. The fee structure is: \$500 for \$1 million or less; \$1,000 for over \$1 million.

The issuance fee is required on or before the closing of the project financing. The fee structure is: 1/4 of 1% for \$10 million or less; \$25,000 + 1/8 of 1% for the amount over \$10 million. The maximum issuance fee chargeable to not-for-profit corporations is \$40,000. Issuance fee for refunding issues is 1/8 of 1% of the bond issue with a minimum of \$2,000 and a maximum of \$40,000.

For more information, contact the Michigan Economic Development CorporationSM (MEDC) Customer Assistance Center at 517.373.9808.