

Industrial Development Bonds

Financial Assistance

IDB financing may be the most competitive financing option available for the acquisition of manufacturing facilities and equipment. IDBs provide a method for middle market manufacturers to access the private capital markets at tax-exempt rates. The IDB interest rate is significantly lower than bank financing because the interest paid to the investor is exempt from state and federal income tax, resulting in substantial savings to the borrower, depending on the amount financed.

The IDB issuance process can be pursued concurrently with the bank credit approval process. The entire process can be easily completed within 90 days and from the borrower's standpoint should not be much different than a conventional financing. The most frequent source of delay is, in fact, the letter of credit bank's credit approval process.

The financing structure is fairly straightforward. A governmental entity will issue bonds and loan the proceeds to the company. The company's obligation to repay the loan is secured by a direct-pay Letter of Credit from a bank rated 'A' or better. The interest rate on the bonds is adjustable and is reset weekly by the underwriter in its capacity as remarketing agent.

IDBs can be issued by the California Infrastructure and Economic Development Bank (I-Bank), cities, counties, and joint powers authorities. Industrial development bonds do not constitute an obligation of either the state or the local government issuer.

The issuer's staff and the borrower's finance team of experienced professionals assist the business through each stage of the process. The finance team usually comprises a bond counsel, financial advisor (who assists in packaging and structuring the financing), letter of credit bank, underwriter, and trustee.

IDB Guidelines:

- \$10 million: maximum amount that can be borrowed as a tax-exempt industrial development bond.
- \$20 million: limit on the company's capital expenditures for the three years before and after the bond issuance (intended to target the program to small and medium-sized manufacturers).
- Low interest rate: 20-30% below conventional financing rates.
- Primary business activity: Manufacturing, processing, or fabrication. Examples include but aren't limited to: meat processing, vegetable dehydration, machine fabrication, car/truck parts manufacturing, wine-making, and lithographers. Distribution is not an eligible use.
- Primary use of bond funds: acquisition, construction, rehabilitation and equipping.
- Comprehensive funding: the funds can be used for construction and/or takeout to finance land, buildings and equipment.
- No prepayment penalty.
- Repayment: If the company qualifies for a conventional bank loan, it should be able to qualify for a bank Letter of Credit.
- Federal and state requirements: because the bond financing provides a 'benefit' to business, borrowers must meet certain public benefit criteria as well as general eligibility requirements.

The project financed by the bonds must meet certain public benefit criteria established by the California Debt Limit Allocation Committee (CDLAC) located in the California's Treasurer's Office, which include, among other things, the creation or retention of jobs.

The IDB financing process can generally be completed within 150 days. The conduit issuer's 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.

<http://www.ibank.ca.gov>

<http://www.treasurer.ca.gov>

California Alternative Energy & Advanced Transportation Authority (CAEATFA)

Sales & Use Tax Exemptions for Zero Emission Vehicle (ZEV) Manufacturing

Under CAEATFA's authorizing statute, the authority's purpose is to provide industry in California with alternative methods of financing alternative energy and advanced transportation technologies. The statute defines advanced transportation as: "emerging commercially competitive transportation-related technologies identified by the authority as capable of creating long-term, high value-added jobs for Californians while enhancing the state's commitment to energy conservation, pollution reduction, and transportation efficiency." (California Public Resources Code Section 26002.3(d)).

This exemption is created through a sales-lease-back approach where : CAEATFA purchases specified equipment (tangible personal property, not real property) on behalf of company X. CAEATFA finances this purchase through a bond or loan. Company X then leases the equipment from CAEATFA, with the lease payments paying for the bond or loan. As envisioned, the lease would stay in existence only from the time of the equipment purchase until the equipment is placed in use. By statute, CAEATFA does not have to pay sales tax on the equipment it purchases. The Board of Equalization ("BOE") oversees state sales and use tax issues and would be consulted in the process.

<http://www.treasurer.ca.gov/caeatfa/>

The CAEATFA Board has directed authority staff to explore proposals for providing sales and use tax exemptions for the purchase of ZEV manufacturing equipment. The goal of this new ZEV program is to create a strong new ZEV industry within California that reduces green house gas emissions and creates new long-term high value-added jobs.

Pollution Control Financing

The CPCFA provides tax-exempt bond financing for pollution control projects. Their Tax-Exempt Bond Financing Program gives California businesses help with acquisition or construction of qualified pollution control, waste disposal, or waste recovery facilities, and the acquisition and installation of new equipment.

They also offer a Sustainable Communities Grant and Loan Program that assists communities implementing "smart growth strategies," and the CalReUSE Program that offers low-interest, forgivable loans to assist public and private partners in redeveloping contaminated "brownfields." The California Capital Access Program (CalCAP) helps small-business borrowers obtain loans.

<http://www.treasurer.ca.gov/cpcfafa/>

Small Business Loan Guarantee

California Small Business Loan Guarantee Program:

The Small Business Loan Guarantee Program allows a business to not only acquire a loan it could not otherwise obtain, but to establish a favorable credit history with a lender so that the business may obtain future financing on its own.

Eligible Applicants: Any small business as defined by the U. S. Small Business Administration (typically businesses that employ one hundred people or less).

Eligible Uses: Proceeds must be used primarily in California and for any standard business purpose beneficial to the applicant's business, such as expansion into new facilities or purchase of new equipment.

Guarantee Amount: Guarantees can cover up to 90% of the loan amount, with the guaranteed portion of the loan not exceeding \$500,000. The guaranteed percentage varies and subject to negotiation between the FDC and the lender.

Loan Information:

The term of the loan guarantee may extend up to seven years:

- Interest rates are negotiated between the borrower and the lender. The FDC may charge a guarantee fee of up to 2% for guarantee amounts up to \$150,000, and 3% for guarantee amounts over \$150,000, plus a documentation fee of \$250.
- Processing time takes three to five weeks, depending on how quickly the applicant provides the necessary information and documentation, and on the lender's responsiveness.
- Collateral is generally required, but each transaction is tailored to meet the borrower's financial situation.

<http://www.calbusiness.ca.gov/cedpgybfasblgp.asp>

Market Development and Expansion Grant Program

The Department of Conservation provides up to \$20 million annually to increase beverage container recycling in California and to improve processing and manufacturing with recycled aluminum, glass and plastic. It encourages projects that advance environmentally and economically sustainable containers, packaging and other products. The program supports research and development of new technologies and helps reduce greenhouse gas emissions by strengthening "green" industries in the state. Specific objectives include:

- Creating market opportunities for new sustainable products or packaging.

- Expanding market-related activities for existing recycled-content products.
- Improving the quality and supply of beverage container material feedstock for use in manufacturing sustainable products or packaging.
- Creating market opportunities for sustainable beverage packaging.

For more information, visit the Department of Conservation's website at:

<http://www.conservation.ca.gov/dor/grants/Pages/rmdeg.aspx>

Beverage Container Recycling Grant Program

The Department of Conservation provides funding annually in the form of grants for beverage container recycling and litter reduction programs. The Department typically seeks projects that provide convenient beverage container recycling opportunities in California, however, the focus may change with each new solicitation.

Grant proposals are evaluated on criteria set forth in each year's Grant Solicitation. There are no restrictions on who can apply for the grants. For more information, visit the Department of Conservation's website at:

<http://www.conservation.ca.gov/dor/grants/Pages/bcrg.aspx> or call 1-800-RECYCLE.

Beverage Container Recycling Infrastructure Loan Guarantee Program

The Department of Conservation provides continuous funding in the form of loan guarantees for up to \$10 million for capital expenditures for new infrastructure that would add recycling capacity, re-use and/or remanufacture beverage container materials into new products. Uses: equipment costs, building and facilities, rent and utilities, travel, contractual services, salaries, and benefits, other operating and non-operating costs.

Private companies, non-governmental organizations, governmental agencies, manufacturers and trade associations are eligible to apply. For more information, visit the Department of Conservation's website at:

<http://www.conservation.ca.gov/dor/Notices/Documents/LGPNNotice081707.pdf>

Recycling Market Development Zone Revolving Loan Program

The Recycling Market Development Zone (RMDZ) Revolving Loan Program makes capital available for California manufacturers located in RMDZs. The program provides direct loans to eligible businesses that manufacture recycled raw materials, produce new recycled products, or that reduce waste from the manufacture of a product. These loans promote market development for post consumer and secondary waste materials and

Divert waste from non-hazardous California landfills. Funds may be used to acquire equipment, make leasehold improvements, purchase recycled raw materials and inventory, or acquire real property. Applicants may borrow a maximum of 75% of the cost of a project or \$2 million. Terms are generally 10 years and low interest rates are fixed.

<http://www.ciwmb.ca.gov/rmdz/loans/>

SBA 504 Loans

SBA (Small Business Administration) 504 loans are marketed, processed, closed and serviced by Certified Development Corporations (CDC). Through the SBA 504 Program, CDCs provide up to 90 percent of fixed-asset financing costs. The second mortgage, long-term, fixed-rate financing nature of the program allows banks to participate in business expansion by reducing risk exposure. The benefit to the borrower is a lower down payment requirement (10 percent) and a longer-term, fixed-rate loan, which translates into reduced monthly payments.

The maximum SBA debenture is \$1,500,000 when meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every \$50,000 provided by the SBA except for "Small Manufacturers" which have a \$100,000 job creation or retention goal.

Individual job goals can be somewhat flexible if the CDC's overall portfolio meets the requirements. At that point, community impact and public policy goals can be mitigating factors. Eligible 504 loan uses include the purchase of land, existing buildings, new construction, and the acquisition of machinery and equipment with a 10-year useful life. The private sector participant finances 50 percent of the project cost and takes a first lien on assets pledged as collateral.

The SBA takes a second lien on assets and finances up to 40 percent of the project cost, up to \$1 million in some cases. Borrowers inject 10 percent in the form of cash or equity in real estate. For more information on SBA 504 loans, call the California Statewide Certified Development Corporation toll free at (800) 348-6258.

<http://www.sba.gov/services/financialassistance/index.html>

USDA Rural Development

The U.S. Department of Agriculture sponsors "Business & Industry" guaranteed loans in rural communities. USDA guarantees up to 80% on loans from \$750,000 to \$5 million and up to 70% on loans up to \$10 million. Rates are fixed or variable and negotiated between lender and business. Terms are typically seven years for working capital, 15 years on equipment and 30 years on real estate.

Lenders negotiate their own fees and the USDA charges 2% of the guaranteed amount as a one-time fee. Most types of businesses qualify but the project must be in a rural area beyond the urbanized periphery surrounding a city of 50,000 or more. Communities that have grown beyond 50,000 since the 2000 census may still be eligible.

<http://www.rurdev.usda.gov/ca/index.htm>