



## **INDUSTRIAL REVENUE BOND FACT SHEET**

## **THE OAKLAND COUNTY ECONOMIC DEVELOPMENT CORPORATION ("EDC")**

The EDC was established in 1980 under Act No. 338 of the Michigan Public Acts of 1974, as amended, the Economic Development Corporations Act, in order to stimulate business capital investment, contribute to the area's employment, increase local tax base, and provide needed public services.

In order to achieve these goals and strengthen the County's economy, the EDC was given the authority to acquire property, develop land, construct buildings and finance equipment and machinery for either commercial or manufacturing enterprises. The most important tool available to the EDC to perform these activities is its ability to issue tax-exempt revenue bonds.

### **WHAT ARE TAX-EXEMPT INDUSTRIAL REVENUE BONDS ("IRBs")?**

IRBs are bonds issued by the EDC to finance the acquisition, construction, installation or rehabilitation of "manufacturing" facilities (see definition below). The bonds are limited obligations of the EDC payable solely from revenues or other funds provided by the manufacturing company. The interest paid on the bonds is tax-exempt because the EDC is a governmental entity (the interest on whose obligations is not taxable under specific provisions of the Internal Revenue Code.)

### **ECONOMIC BENEFIT OF IRBs**

The principal benefit of IRBs is their low rate of interest. Because the interest on the bonds is not taxable, the interest rate will always be lower than the rate on obligations of a comparable credit that is not tax-exempt. IRBs can also be structured in a variety of ways to fit the mentality and economic situation of any borrower. For example, IRBs can be issued as "lower floaters," the interest rate on which is reset every seven days and which can be prepaid at any time without premium. Alternatively, IRBs can be issued as fixed rate bonds with maturities as long as the useful life of the assets being financed. Lower floaters bear the lowest rate of interest.

### **WHAT CAN BE FINANCED WITH IRBs?**

A. "Manufacturing" facilities, including land, buildings, site work and equipment, plus certain soft costs and fees related to the financing, can be financed with the proceeds of IRBs. "Manufacturing" includes any facility which is used (1) in the manufacturing or production of tangible personal property or (2) in a process which results in a change in the condition of such property. Typically, any process which results in a change in, or adds value to, raw materials or other products can be considered a manufacturing process.

IRBs can be used to finance the acquisition of land, new construction, expansions of existing manufacturing facilities and new equipment. Qualifying costs, financeable up to 100%, include all expenditures related to the manufacturing facility that are chargeable to capital account for federal income tax purposes. No more than 25% of the proceeds of the bonds can be used to acquire land and other facilities that are ancillary to the core manufacturing process.

The acquisition of existing (used) manufacturing facilities can be financed, but only if such facilities are "rehabilitated" at a cost of rehabilitation equal to at least 15% of the cost of the existing facility which is

financed with bond proceeds. Used equipment can be financed with the acquisition of an existing manufacturing facility, with the 15% rehabilitation requirement being applied to the total cost of plan and equipment financed.

B. Existing IRBs can be refinanced or "refunded" to lower the interest cost or extend maturities (within specified limitations) of existing IRBs. The refunding also can be combined with an IRB financing of new construction or equipment under a single bond issue.

C. Up to 2% of the principal amount of the bonds can be used to pay issuance costs, i.e., attorney, underwriter, trustee, EDC and bank fees. In addition, fees payable to a bank for a letter of credit to secure the bonds are also financeable above and beyond the 2% limit.

### **SELLING IRBs**

Today, most IRBs are sold publicly or privately placed with institutional investors by an investment banking firm or placement agent, which is selected by the Company. Occasionally, financial institutions such as banks or insurance companies will purchase the bonds directly. In the typical case involving a public sale or private placement, the Company retains an investment banking firm or placement agent to arrange for the sale of the bonds. Because the bonds are usually sold to more than one investor, a trustee must be selected by the Company to act on behalf of the proposed bond purchasers.

### **"CREDIT ENHANCEMENT" (LETTERS OF CREDIT)**

To enhance the marketability of IRBs, and thereby lower the interest rate, investment bankers often recommend that the Company "enhance" the bonds by obtaining a letter of credit from a major financial institution to secure the payment of debt service. The Company's ability to obtain such a letter of credit, and the terms upon which the letter is issued, will depend entirely upon the credit of the Company. Investment banking firms selected to underwrite or place the bonds will often be able to assist in obtaining and negotiating a letter of credit.

### **FINANCING STRUCTURE**

In every case, the Company will execute a loan agreement with the EDC, pursuant to which the EDC agrees to loan the proceeds of its bond to the Company and the Company agrees to repay the loan in accordance with the payment terms of the bonds. The EDC executes a trust indenture with the trustee for the bondholders, which provides the terms pursuant to which the bonds are to be issued and repaid. Other documents, such as mortgage or guaranty, may be executed to secure either the bonds themselves or the issuer of a letter of credit or other enhancement.

Upon the sale and delivery of the bonds, i.e., the closing of the transaction, the bond proceeds are deposited with the trustee for loan to the Company. The Company generally requisitions bond proceeds from the trustee as needed to pay project costs. The Company retains full ownership of the financed facilities, subject only to such liens as already exist or may be imposed as security in connection with issuance of the bonds.

Although the bonds are issued by the EDC, only the Company is responsible for their eventual repayment. The full faith and credit of the local municipality of the County of Oakland is not involved in any way.

**DOLLAR LIMITATIONS (\$10 MILLION)**

The total amount of funds that can be raised by IRBs for a single project (other than certain public projects and projects for charitable organizations) is limited to \$10 million. This \$10 million is reduced by the total amount of "capital expenditures" paid or incurred by or for the benefit of the owner of the project (and any occupant of more than 10% of the project) over a period of three years before and three years after the date of issue of the bonds.

**OAKLAND COUNTY EDC FEE SCHEDULE**

The following schedule of fees payable by the applicant to the Economic Development Corporation of Oakland County has been adopted.

<u>Amount</u> .....	<u>Payable</u>
\$500.00.....	Upon Application
\$500.00.....	Upon Issuance of a Resolution Inducement
\$500.00.....	Upon Approval of the Project Plan
1/8% of the face amount of the bond issue . . . . .	At Bond Closing
All variable processing costs including General counsel review and printing/ Publication charges incurred .....	At Bond Closing

**BOND COUNSEL FEE SCHEDULE**

The fees of Howard & Howard as Bond Counsel depend upon the size and complexity of the financing. For bond issues in excess of \$1.5 million, which are secured by a letter of credit, the minimum fee is \$15,000 plus actual out-of-pocket expenses (such as photocopying, overnight mail and facsimiles). Factors which may affect the fee are the type of credit enhancement, whether the issue will be rated by a national rating agency, whether the interest rate is fixed or floating (single or multi-mode) and whether the business benefiting from the financing is manufacturing, solid waste disposal or non-profit.

**INQUIRIES AND INFORMATION**

All inquiries relating to The Economic Development Corporation of the County of Oakland or any additional information on economic development and business assistance can be directed to Mary Langhauser at (248) 858-0879. The registered address of the EDC for all correspondence is:

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