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Bond Financing for Manufacturers & Non-Profits



Bond Financing for Manufacturers & Non-Profits



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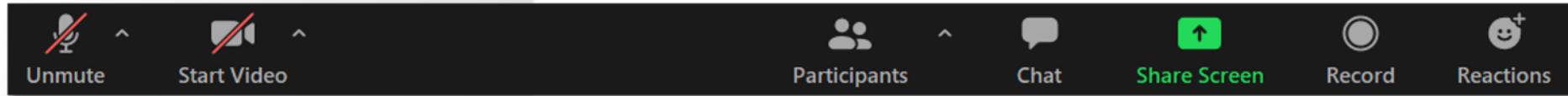
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Bond Financing for Manufacturers & Non-Profits

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BOND FINANCING FOR MANUFACTURERS & NON-PROFITS

November 19, 2024



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WHY TAX-EXEMPT BONDS?

- ▶ Lower interest rates
- ▶ Longer terms (up to 120% of useful life of financed property)
- ▶ May also be state exemptions
- ▶ May be possible to achieve 100% financing

ISSUANCE PROCESS

Inducement Resolution



TEFRA Hearing



Final Resolution



Sale & Close of Bonds

Qualified Small Issue Bonds for Manufacturers

- ▶ The project must be a “manufacturing” facility
 - ▶ Manufacture or production of tangible personal property
 - ▶ Includes the processing resulting in a change in the condition of the property
- ▶ At least 75% of bond proceeds must be used for manufacturing; only 25% may be used for ancillary activities
- ▶ At least 95% of bond proceeds must be spent on capital expenditures

Qualified Small Issue Bonds for Manufacturers

- ▶ Maximum of bonds that may be issued is \$10 million
- ▶ Capital expenditures test – maximum is \$20 million
- ▶ What counts for the capital expenditures test?
 - ▶ Amount of any tax-exempt bonds for the borrower and any related party
 - ▶ Amount of other capital expenditures during a six-year period that begins 3 years before closing and ends 3 years after closing
 - ▶ In each case, include facilities located in the same incorporated municipality (or county if the facility is in an unincorporated area)

Qualified Small Issue Bonds for Manufacturers

- ▶ What can be financed?
 - ▶ Land and site improvement (not exceed 25% of bond proceeds)
 - ▶ Building (primary and ancillary) (if used, 15% rehab requirement)
 - ▶ New equipment (can't finance acquisition of used equipment)
 - ▶ Soft costs capitalized to the project
 - ▶ Company acquisition – look through to the assets and determine what's financeable

Qualified Small Issue Bonds for Manufacturers

- ▶ Volume Cap
 - ▶ Annual allocations to each state based on the state's population times a multiplier, with a minimum amount per state (2024 minimum is about \$378 million)
 - ▶ State determines how to sub-allocate
 - ▶ Allocating entity (e.g., state, state agency, county, home rule unit) awards volume cap to borrowers

Qualified Small Issue Bonds for Manufacturers

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Qualified 501 (c) (3) Bonds

- ▶ Two Core Requirements
 - ▶ All property must be owned by an “Exempt Person” – a Section 501(c)(3) organization or a governmental unit
 - ▶ At least 95% of bond proceeds must used by an Exempt Person - so no more that 5% can be used in a private trade or business
 - ▶ Use in an unrelated trade or business of a Section 501(c)(3) organization is treated as private use

Types of Projects

- ▶ Hospitals
- ▶ School Facilities
 - ▶ Dorms
 - ▶ Classroom Buildings
 - ▶ Athletic Facilities
- ▶ YMCA
- ▶ Cultural facilities

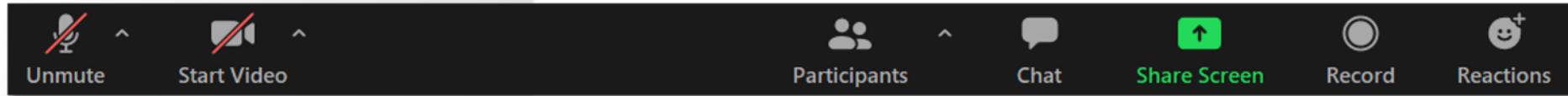
Qualified 501 (c) (3) Bonds – Private Business Use

- ▶ Lease to a private lessee
- ▶ Nonqualified management/service contract (Rev. Proc. 2017-13)
- ▶ Nonqualified research sponsorship (Rev. Proc. 97-14 and Rev. Proc. 2007-47)
- ▶ Any other comparable “special legal entitlement” (naming rights)

EXAMPLES OF POTENTIAL PRIVATE BUSINESS USE

- ▶ Cafeteria managed by ABC Caterers
- ▶ Contracts with private physicians who are not employees of Section 501(c)(3) hospital
 - ▶ Emergency Room
 - ▶ Anesthesiologists
 - ▶ Radiology
- ▶ Management or service contract
- ▶ Research contract by Big Pharma for clinical testing
- ▶ Use of school facilities by others during summer break, such as tennis or soccer programs

Audience Questions



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Intro Federal Finance WebCourse

Dec 9-10 // 12:00 – 5:00 PM Eastern

CDFA 2024 Equitable Lending Learning Series: Equitable Lending Assessment Tools & Spreadsheet Solutions

Dec 10 // 1:00 – 3:00 PM Eastern

CDFA // BNY Mellon Development Finance Webcast Series: Exploring Common Bond Reserve Funds

Dec 17 // 2:00 – 3:00 PM Eastern

Contact Us



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