

Lake County Partners



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FY 2008

Lake County

Private Activity Bond Clearinghouse

IRB

Application Information Kit

Manufacturing

Lake County Partners, Processing Agent

For Additional Information, please contact
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Industrial Revenue Bonds – Tax Exempt Financing

Executive Summary

- Industrial Revenue Bonds provide a method of financing the capital expenditures of small manufacturers at interest rates that range from 65% to 80% of the borrower's conventional bank interest rates.
- As a result of these lower rates, a manufacturer that uses IRBs can realize substantial savings versus conventional loans.
- Lake County Partners acts as a conduit for corporations to access these tax-exempt bonds. By contract, Lake County Partners is Lake County's authorized IRB agent and the processing agent for the Private Activity Bond Clearinghouse.
- Lake County Partners, and its predecessor the Lake County Economic Development Commission, have assisted in over eight IRB transactions representing over \$40.0 million in borrowings for Lake County manufacturers in the last nine years.

Eligibility Requirements

Small manufacturers that are financing **manufacturing facilities** and providing **new jobs** qualify.

- **Manufacturers** alter or add value to raw materials. Examples include:
 - Plastic injection molding facility
 - Manufacturers of glass containers
 - Commercial printer
 - Not eligible: Wholesalers, distributors, retailers
- **Small manufacturers** spend less than \$20 million on capital expenditures over a defined six-year period.
 - The six-year period includes the three years prior to the proposed financing and three years subsequent.
 - This test is calculated on a per municipality basis.
 - Existing bonds financing facilities in the municipality also count against the \$20 million limitation, regardless of when the bonds were issued during the six-year window.
- **Manufacturing facilities:** IRB proceeds can be used to finance new construction, new equipment, the purchase of an existing facility, and the refunding of existing Industrial Revenue Bonds. These categories are described in more detail below.
- **Jobs:** New full-time jobs must be created by the project. A prime example would be additional machine operators. There is no set minimum; however, borrowers will be held accountable for their job creation estimates.

What can be financed?

- New Construction
 - New manufacturing facility
 - Expansion to a currently owned facility
- Existing Facilities
 - Purchase of an existing manufacturing facility.
 - At least an additional 15% of the purchase price must be spent on rehabilitation to the manufacturing space.
 - Expansion costs and equipment purchases do not count toward the 15% requirement.
- Equipment
 - New equipment
 - Used equipment, only if the equipment previously resided in the existing building being purchased.
- Refunding of existing IRBs can be accomplished within certain restrictions.

Other restrictions:

To qualify for bond financing, a project must also conform to a series of legal requirements. The following is a summary of some of the major restrictions, but is not intended to be an exhaustive list of those rules. Bond counsel and the company's own attorney can provide specific advice.

- 95% of the bond proceeds must be used for expenditures related to manufacturing. Up to 2% may be used to cover costs of issuance, and 3% may be used to cover other non-qualifying costs.
- Of the 95%, 75% must be used for expenditures directly related to manufacturing. Up to 25% may be used for facilities ancillary to the manufacturing process (i.e. warehouse space, office space, parking).
- Up to 25% may be used to acquire land.
- The average maturity of the bond issue may not exceed 120% of the average reasonably expected useful life of the facilities financed with bond proceeds.
- Property financed with an IRB must be depreciated on a straight-line basis over the periods prescribed for ACRS cost recovery.

Issuance Process – Overview

- **Financing Process:** Work with the Bank to develop a financing plan either to enhance the issue with a letter of credit or to purchase the bonds directly.
- **Working with Lake County Partners:** Apply to Lake County Partners for an Inducement Resolution, which is an action by the municipal approving body inducing

the company to locate its project/expand its facility within the jurisdiction of Lake County. The Inducement Resolution represents an intention to issue bonds subject to review of the documentation and legal opinion of bond counsel.

- There are strict rules about spending money or signing a binding commitment on a project prior to inducement. **Expenditures made more than 60 days prior to inducement are not eligible for tax exempt financing.**
- **Documentation:** Select bond counsel and authorize draft documentation.
 - Bond counsel, an attorney with expertise in bond law, delivers an opinion upon closing of the bonds regarding the tax-exempt qualifications of the issue. Bond counsel also drafts the majority of the bond documents.
 - Lake County Partners has working relationships with several firms that can act as bond counsel, bank counsel and, if necessary, underwriter's counsel. This packaging of services results in lower expenses for the borrower.
- **Public Approval Process/Final Bond Resolution**
 - Return to Lake County Partners with completed documentation for bond resolution hearing (formal approval).
 - Prior to passage of the bond resolution, a public hearing (TEFRA hearing) is held to give the public an opportunity to speak out on the issue. It is extremely rare for any opposition to be expressed in tax-exempt transactions.
- **Volume Cap Application**
 - The State of Illinois is allotted approximately \$625 million in volume cap for Private Activity Bonds each year (\$85 per Illinois resident). The volume cap is divided between state agencies and municipal issuers.
 - The Governor must approve the bond issue under the volume cap limit. If the particular issue is within the issuer's allocation, this approval is a formality. If the issuer has exceeded its volume cap, then the issue is subject to further allotment from the Governor's office.
 - When demand for Cap exceeds the amount of Cap available, Lake County Partners ranks all projects based on job creation, capital investment and other objective criteria and allocates its volume cap based on this ranking.
 - If volume cap has been depleted in a given year, the bond issue can be delayed until the following year. In this case the Bank will generally provide conventional financing to bridge the transaction.
- **Closing and Funding the Transaction**
 - All the bond proceeds are drawn down at closing. Funds not immediately needed may be reinvested with the trustee subject to strict limitations on earnings from those investments. Investment earnings cannot exceed interest expenses.
 - The company has up to three years after closing to expend all the bond proceeds. Funds not spent within three years must be used to redeem bonds.

Private Activity Bond Clearinghouse's IRB Application Process

An application is attached. Please fill this out and forward five copies to David Young, the President of **Lake County Partners**. Once your application is considered and approved, it is forwarded onto the host Community's Village/City Board and its committees.

Pre-Submission Requirements:

- You have identified an underwriter for the project
- You have retained a bond counsel
- You have a clear understanding of the project
- You have confirmed that the site's zoning/lot size will facilitate the project

Bond Process:

Do not view these steps as sequential; they can be done concurrently, as long as there is continuous communication between the parties:

- Please answer the questions on the attached application and provide me with five copies, at the above address
- Attach a non-refundable check for \$2,500 to your application, made payable to Lake County Partners
- Attach a copy of your company's last three years and current interim financial statements to your application; we will keep your financials confidential
- Please be advised that the remainder of your fee will be due when the bond is sold (your total processing fee will equal 1% of the total project amount; there is a \$5,000 minimum fee)
- Staff will review your application and forward its recommendation to the appropriate committees
- Staff will contact you to conduct a site tour as part of their due diligence (where applicable)
- Your application will be scheduled for review at a public hearing and by the municipal approval body.
- Concurrent with this process, your Bond Counsel and the Municipal Approval Authority's Counsel will be working to prepare and approve the required documents, including Resolutions, a Notice of Public Hearing, the Bond Purchase Agreement and the myriad of closing documents required to fulfill the tests of the IRS tax exempt regulations and the demands of a Bond Sale and Closing
- The process of securing an Inducement Resolution can take up to 45-60 days after we receive your application.
- The authorization of the bond expires one year after passage by the Municipal Approving Authority, unless it has been extended or the sale has been initiated. It is the responsibility of the applicant to inform the approving authority of the status of its project and request any necessary extension.

Lake County Partner's IRB Application

1. How will the facility be constructed, rehabilitated, or otherwise changed with the proceeds from the Industrial Bond sale? Describe how the proceeds of the Bond sale will be used.

2. Will the facility zoning facilitate the project?

If yes, attach a copy of the zoning map showing the appropriately zoned parcel, as well as a clearly marked map showing the location of the project. If no, do not proceed with the remainder of this form until the appropriate zoning is in place.

3. List the name and address of your company.

Company name:
Address:
City, State, Zip:
Phone:
Fax:
E-mail:
Company President/CEO

4. Identify the contact person at the company responsible for managing the details of this bond issue. If the property of the project is to be owned by a Trustee, please provide the names of all beneficial owners and trustees of the Trust as well as the name and address of the Trust.

5. Identify the owners of the company as well as its officers and operational principals.

6. Identify any corporate officers or policy makers who are related to people who work or serve in Lake County government or the local units of government at the project site. This question seeks to identify any potential conflict of interest with government.

7. Identify corporate contacts with governmental agencies at the federal and state level. At the county level, list only those with the Lake County government.

8. Provide the name and address of your Bond Counsel and the attorney assigned to this case. The Private Activity Bond Clearinghouse will require that all bond issues be reviewed by legal counsel and any legal costs incurred for this purpose shall be borne by you.

9. Describe the business production process from start to finish. Please detail raw materials used, machinery employed, product created, and shipping methods. Identify hazardous product use and disposal methods. Outline the company's history including years at present site.

10. Are there water and sewer utilities on site? What size water in-flow pipe will the company require at the new site? What is the size of the company's present water

in-flow pipe? What size is available to the site? What size sewer pipe is available to handle your discharge, is it adequate?

11. If the company has prepared a traffic analysis, please attach a copy of it. Please attach a statement regarding the volume of traffic and weight classifications of vehicles associated with the proposed site.
12. Identify efforts made by the company to remain at its present location of business, the presumed effect on the neighborhood after the company's departure, and the efforts made to reduce the negative effects of this change in location on the neighborhood and workers.
13. Provide the estimated cost of the project and of any other capital expenditures anticipated in the new located within the next three years.
14. Estimate the number of new permanent and temporary jobs that will be created (by employment category if possible) and probable recruitment source (for example: out of 75 employees, 25 will be recruited nationally and 50 will be recruited from Lake County sources). You should note any intention to work with the Illinois Employment Training Center or any other employment programs in your statement.
15. Identify the average pay scales for your existing and future employees by employment category.
16. Describe the types of skills necessary for the various work force levels in the company.
17. Identify the owner of the facility.
18. Attach one copy of your Employer Information Report EEO-1. If such a form has not been prepared, then the following questions should be answered.
 - a. Describe those actions that the company will take to ensure equal employment opportunities for all people.
 - b. Describe the current work force (as of the first day of the current month): its characteristics of race, sex, creed, national origin, age and handicap.
 - c. Any other statement or evidence that documents the affirmative employment nature of your work force should be included.
19. Identify the Bond Retirement Plan, and the bond purchaser and any conditions of bond issuance.
20. Identify restrictions in any existing debt instruments that are applicable to the issuance of this Industrial Revenue Bond.
21. Summarize any impending or current litigation against the company or which the company has undertaken.

22. Include a letter of bank commitment, a check for \$2,500, a complete copy of your company's last three years' audited financials and the most recent quarterly financials. These items should be conveyed to the Lake County Partners, 28055 Ashley Circle, Suite 212, Libertyville, IL 60048 [(847) 247-0137] with this application.