EDC

OAKLAND COUNTY
ECONOMIC DEVELOPMENT
CORPORATION

Industrial Revenue Bond

FACT SHEET

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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 assist in the financing for private manufacturers of land, buildings, machinery and equipment. The most important tool available to the EDC to perform these activities is its ability to issue tax exempt revenue bonds for the benefit of manufacturing companies.

What are Tax Exempt Industrial Revenue Bonds (IRBs)?

Manufacturing. IRBs are bonds issued by the EDC to assist in the financing of the acquisition, construction, installation or rehabilitation of "manufacturing" facilities (see definition below). As explained below under the heading "PARTIES AND FINANCING STRUCTURE," IRBs have the effect of transforming a conventional loan into a tax-exempt loan, with a lower rate of interest. 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.)

Other Qualifying Facilities. In addition to manufacturing facilities, IRBs can be used to finance facilities for nonprofit 501(c)(3) organizations, which is the subject of another EDC publication. "Solid waste disposal" facilities and "sewage" facilities ("exempt facilities" in Internal Revenue Code parlance) of private companies are also financeable with IRBs. These latter facilities are subject to different and more complex rules than manufacturing facilities.

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 manufacturing company. The interest rate, maturity and other terms are negotiated entirely between the manufacturing company (the "Company") and the bond purchaser, which is typically a bank and often the Company's existing bank.

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.

Parties and Financing Structure

Direct Bank Purchase. Today, requests for IRB financing assistance are most often brought by a Company seeking to finance manufacturing facilities or by a bank on behalf of its manufacturer-customer. Typically, a Company and its bank will negotiate the terms of a loan, with the bank offering alternative taxable and tax-exempt rates. The tax-exempt rate would be based upon the bank purchasing a tax-exempt bond issued by the EDC for the benefit of the Company. If the Company finds the proposed terms of a tax-exempt financing more favorable, it will apply to the EDC for the issuance of a tax-exempt bond, which would contain all of the terms of the loan agreed to between the Company and the bank.

The EDC’s bond represents the tax-exempt aspect of the loan between the bank and the Company. In agreeing to purchase the bond, the bank is committing to make the loan to the Company. By the terms of the bond/loan documents, the bank purchases the bond from the EDC and the EDC loans the purchase price to the Company. In reality, the bank purchases the bond from the EDC but loans the proceeds directly to the Company, which agrees to make payments on the bond directly to the bank. The EDC is a mere “conduit” through which the loan becomes a tax-exempt bond.

Public Sale. Less commonly, IRBs can be issued by the EDC and sold publicly or privately placed by an investment banking firm to institutional investors. In such case, a trustee is appointed for the institutional bondholders. The trustee holds and disburses the proceeds of sale of the bonds to the Company on behalf of the bondholders. To obtain the lowest rate of interest on the bonds and to simplify the sale process, the Company will engage a bank to issue a letter of credit to secure the bonds for the bondholders. This structure is more complicated and time consuming than a direct purchase and invariably is more costly.

In all cases, the bonds are issued by the EDC, but only the Company is responsible for their eventual repayment. The full faith and credit 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 projects for charitable organizations and exempt facilities) is limited to $10 million. 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 cannot exceed $20 million.

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:

Amount	Payable
$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 printing/publication charges	At Bond Closing

EDC Bond Counsel Fees

The law firm of Dickinson Wright PLLC acts as "bond counsel" for the EDC and is responsible for drafting the bonds and bond-related documents and rendering its opinion that the interest on the bonds is tax-exempt. The fees of Dickinson Wright depend upon the size and complexity of the financing. Factors which may affect the fee are the size of the bond issue, whether the interest rate is fixed or floating (single or multi mode) and whether the business or project benefiting from the financing is manufacturing, exempt facility or nonprofit.

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 Catherine Rasegan at (248) 858 5101 or raseganc@oakgov.com. The registered address of the EDC for all correspondence is:

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