

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

Garden Grove Industrial Development Authority (IDA)

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| To: | Matthew Fertal | From: | Chet Yoshizaki |
| Dept: | Director | Dept: | Economic Development |
| Subject: | INDUSTRIAL DEVELOPMENT AUTHORITY ANNUAL REPORT | Date: | December 9, 2008 |

OBJECTIVE

The purpose of this report is to provide the Garden Grove Industrial Development Authority (IDA) an update on the activities of the California Industrial Development Financing Advisory Commission (CIDFAC) for 2008.

BACKGROUND

In 1982, the City of Garden Grove formed the Industrial Development Authority. Under the State of California guidelines, the IDA acts as the official local coordinating body for low-cost development bonds for industrial companies seeking expansion. The IDA's role is to assist industrial-related businesses by facilitating their request for tax-exempt Industrial Development Bonds (IDB).

In the mid-1980s, the IDA assisted three (3) corporations. In 2000, City Council, acting as the IDA, assisted C & D Aerospace under a new State Industrial Development Bond Issuance Program. This was the first project by the IDA in recent years because of restrictions on IDB usage, and the greater ease of using conventional financing.

The IDA can assist the issuance of tax-exempt bonds provided that the company use the bond proceeds to:

- Foster job expansion or job development;
- Fund manufacturing or energy related improvements, and
- Fund land or new equipment acquisition and building construction.

DISCUSSION

Although the IDA can call a special meeting promptly to facilitate IDB financing, the IDA must meet yearly as stated in its By-Laws. At the annual meeting, the IDA review actions of the CIDFAC, which approves the issuance of IDB's and Empowerment Zone Bonds as a partner with local government, and the actions of

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the California Debt and Investment Advisory Committee (CDIAC), which provides policy guidance and oversight with respect to public debt and investment activities.

In the time period between January 1, 2008 and November 13, 2008, there were ten (10) statewide projects approved totaling \$65.463 million in Commercial and Industrial Development Bonds that resulted in creating and/or retaining 452 jobs.

There were no changes to the bond guidelines during this reporting period. Staff will continue to facilitate the issuance of bond financing when appropriate for local business and industrial attraction or expansion.

FINANCIAL IMPACT

None. If another Garden Grove industrial company applied for IDB financing, the IDA would only act as a liaison in the State bond process. Therefore, there is no financial impact to the City.

COMMUNITY VISION IMPLEMENTATION

- Focus on diversity through fostering small business development, retention, and expansion.

RECOMMENDATION

It is recommended that the IDA receive and file this report.


CHET YOSHIZAKI
Economic Development Director

By: 
Paul Guerrero
Senior Economic Development Specialist

Recommended for Approval


Matthew Fertal
Director

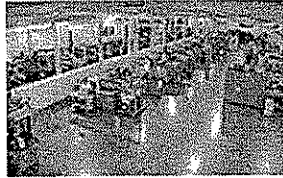
Attachment 1 – CIDFAC Program Summary
Attachment 2 – Fast Facts



California Infrastructure and
Economic Development Bank

"Financing Facilities That Build Communities"

Industrial Development Revenue Bond Program



What are Industrial Development Bonds?

Industrial Development Bonds (IDBs) are tax-exempt securities issued up to \$10 million by a governmental entity to provide money for the acquisition, construction, rehabilitation and equipping of manufacturing and processing facilities for private companies. IDBs can be issued by the I-Bank, local Industrial Development Authorities, or by Joint Powers Authorities.

General Eligibility Requirements

The use of IDBs is governed by both federal and state laws and regulations. The following are some of the key requirements:

- **Manufacturing Facility.** The project financed by the bonds must be a facility used for the manufacturing, production or processing of tangible property (including the processing resulting in the change of such property). No more than 25% of the bond proceeds can be applied to ancillary office, warehouse or other space.
- **Qualifying Costs.** At least 95% of the bond proceeds must be spent on qualifying costs. Qualifying costs are generally capital expenditures such as land, building and equipment and other depreciable property (and can also include capitalized interest during construction).
- **Land.** No more than 25% of the bond proceeds can be used to acquire land.
- **Acquisition of Existing Manufacturing Facilities.** The acquisition of an existing facility can be financed if at least 15% of the portion of the bond amount used to purchase the facility is spent on rehabilitation of the building within a two-year period.
- **Used Equipment.** If bond proceeds are used to acquire used equipment, 100% of the cost must be spent on rehabilitation of the equipment within a two-year period.
- **Maturity.** The average maturity of the bonds cannot exceed 120% of the average economic life of the assets financed.
- **No Working Capital or Inventory.** Bond proceeds cannot be used to finance working capital or inventory.
- **\$20,000,000 Capital Expenditure Limitation.** The capital expenditures for the project, when added to the company's other capital expenditures in the same public jurisdiction as the project for the three years immediately preceding and three years following the closing of the financing of the project, cannot exceed \$20,000,000.
- **\$40,000,000 Aggregate Limitation.** A borrower and certain users may not be the beneficiary of more than \$40,000,000 of certain tax-exempt bonds regardless of the location of the projects, during a three year period after the facility being financed is placed in service.
- **Public Benefits.** The project financed by the bonds must meet certain public benefit criteria established by the California Debt Limit Allocation Committee (CDLAC), which include, among other things, the creation or retention of jobs. CDLAC's criteria for IDBs and other types of private activity bonds can be obtained at www.treasurer.ca.gov/cdlac/.
- **Prevailing Wage.** The prevailing wage must be paid to workers involved in the construction or renovation

of a facility financed with IDBs in compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the Labor Code and implementing regulations. California Labor Code, Division 2, Part 7, Chapter 1, Article 1, Section 1720-1743 can be viewed at www.leginfo.ca.gov/cgi-bin/displaycode?section=lab&group=01001-02000&file=1720-1743.

- **Credit Requirements.** The borrower must generally secure a letter of credit in the amount of the bonds from a bank with a long-term credit rating of at least "A3" from Moody's Investors Service (Moody's), or an "A-" from Standard & Poor's (S&P) or Fitch Ratings, Inc. (Fitch). An unrated private placement with a Qualified Institutional Buyer is also possible under certain conditions.

Benefits of IDB Financing

- **Low Interest Rates** - generally 20% to 30% below comparable commercial alternatives.
- **Long-Term Financing** - longer than conventional financing, often up to 30 years.
- **Comprehensive Funding** - funds can be used for construction and take-out financing for land, buildings and equipment.
- **Assumable** - the bonds are assumable if the business is sold to an entity engaged in a qualified use.
- **No Prepayment Penalty.**

The IDB Process

The IDB financing process can generally be completed within 120 - 150 days. The I-Bank 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.

Stage 1 - Pre-Qualification

- Pre-Application
- Federal Requirements
- State Requirements

Stage 2 - Approvals

- Inducement Resolution by Issuer
- Application to Issuer for Final Approval
- Noticed Public Hearing ("TEFRA")
- Letter of Credit Commitment from Bank
- State Tax-Exempt Allocation Approvals

Stage 3 - Bond Issuance

- Documentation

- » Final Resolution of Issuance by Issuer
- » Bond Sale
- » Funding

How to Apply

Applications are accepted on a continuous basis and the I-Bank Board of Directors normally meets each month to consider approval of complete applications received at least twenty working days prior to the meeting date. For additional information, please contact Tara Dunn at (916) 322-2571 or tdunn@ibank.ca.gov.

Disclaimer:

Nothing contained herein should be construed or relied upon as legal advice. Instead, this information is intended to serve as an overview of the general subject of the use of tax-exempt bonds by manufacturing companies, from which better-informed requests for advice, both legal and financial, can be formulated.

[Policies and Procedures for Revenue Bond Financing - Updated 08/2008](#)

[Policies and Procedures for Bond Financing for Economic Development Facilities \(pdf, 21k\)](#)

[Industrial Development Revenue Bond Fees \(pdf, 5k\)](#)

[Industrial Development Revenue Bond Financing Brochure \(pdf, 1.8MB\)](#)

[Pre-Application \(Word 2000\)](#)

[Pre-Application \(Word 95\)](#)

[Pre-Application \(pdf, 265k\)](#)

CONTACT:

Tara Dunn
Public Finance Officer, Bond Financing Programs
California Infrastructure and Economic Development Bank
P.O. Box 2830
Sacramento, CA 95812-2830
E-mail: tdunn@ibank.ca.gov
(916) 322-2571 (Voice)
(916) 322-6314 (FAX)

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Bill Lockyer
California State Treasurer

California Industrial Development Financing Advisory Commission

About CIDFAC

Overview

- [Program Summary](#)
- [Background](#)
- [Commission Members](#)
- [Governing Statutes, Regulations and Policies](#)
- [CIDFAC Budget Information](#)

Programs

Tax-exempt, industrial development bonds (IDBs) are an important tool that helps local communities grow their economies and provide good-paying jobs. Working with a team of experienced professionals, CIDFAC operates a [variety of IDB programs](#), including its core and small business programs, an equipment purchasing program, empowerment zone bond financing and an energy program.

Procedural Information and Requirements

Applicants for CIDFAC financing must meet certain [eligibility, public benefit and other requirements](#). Additionally, they must provide certain documentation concerning the proposed IDB project and the project sponsor and user, pay application and closing fees, and fulfill other procedural requirements.

In 2008, the IDB approval process was streamlined when the state's IDB allocation was transferred to CIDFAC. The practical result is a more user-friendly CIDFAC that gives applicants quicker access to capital. Applicants now are not required to go through a two-step process – first obtaining approval for project financing from CIDFAC, then obtaining tax-exempt allocation from the California Debt Limit Allocation Commission (CDLAC). Instead, applicants now can receive financing approval and tax-exempt IDB allocation at a single CIDFAC meeting. The new process puts applicants in position to issue bonds after just one stop. For more information regarding the 2008 allocation process, see Tax-Exempt Allocation from the 2008 Industrial Development Bond Pool [[CIDFAC Allocation Notice](#)]

Fast Facts Industrial Development Bond (IDB) Financing Calendar Year 2008

Projects Approved

10

IDBs for Approved Projects

\$65.463 million

Jobs Created by Projects Approved

452

- [2007 Information](#)