



## **Business Financing Bond Programs Fact Sheet**

Dane County has three bond programs available to assist with business development, expansion and relocation projects in Dane County:

### **Recovery Zone Facility Bonds Midwestern Disaster Area Bonds Industrial Revenue Bonds**

These programs provide low cost financing for projects ranging from land acquisition, construction, reconstruction or renovation of nonresidential real property including retail, commercial and manufacturing, to agricultural facilities and equipment. Each program places a different emphasis on what the bonds may be used for -- please read the information below to determine which program may be right for your business.

Because of bond fees, and processing costs, projects with an estimated cost of less than \$2,000,000 generally are not cost effective.

### **Participants**

Dane County: Project review, issues bonds  
Business: Business development project  
Bond counsel: Determines project eligibility  
Bank: Buys the bonds or issues letter of credit  
WI Dept. of Commerce: Project and application review

### **Process**

Once the County has reviewed your project, and the County Board adopts an initial resolution expressing its intention to issue the bonds on behalf of the business or borrower, you will be required to fill out a Re-allocation Application with the WI Department of Commerce.

### **Fees and Expenses**

Dane County does not charge any fees for these programs, however the WI Department of Commerce does charge a \$300 nonrefundable application fee for the Midwestern Disaster Area and Recovery Zone Facility Bonds and a nonrefundable closing fee of 0.1% of the bond amount up to a maximum of \$10,000. The \$300 application fee will be subtracted from the closing fee.

Generally, the proceeds of the bond issue can be used to finance eligible project costs that have been incurred within 60 days prior to the approval of the initial resolution.

Interested businesses should contact Olivia Parry, Dane County Economic Development Specialist, at 608-266-4270, or [parry@co.dane.wi.us](mailto:parry@co.dane.wi.us).



## Recovery Zone Facility (RZF) Bonds

The Recovery Zone Facility (RZF) Bond Program was created through the American Recovery and Reinvestment Act (ARRA) and targets projects in communities experiencing economic and fiscal distress. The program allows private companies to borrow using RZF Bonds to finance projects to create local jobs. Counties and major cities throughout the U.S. have been allocated maximum amounts of bonding authority for these bonds. The Dane County Board of Supervisors and County Executive formally designated the County as a Recovery Zone by resolution in September, 2009. The RZF Bonds issued through this application process may be used to finance eligible projects within Dane County.

The RZF Bond Program provides access to tax exempt financing for projects that would historically not qualify for tax exempt financing. The bonds are "private activity bonds" and allow private businesses to access the tax-exempt municipal bond market to lower their borrowing costs.

**Eligible Costs:** RZFBs may be issued for any depreciable property if;

- (a) such property was constructed, reconstructed, renovated, or acquired by purchase by the taxpayer after the date on which the designation of a "recovery zone" took effect;
- (b) the original use of which in the recovery zone commences with the taxpayer; and
- (c) substantially all of the use of which is in the recovery zone and is in the active conduct of a "qualified business" by the taxpayer in the recovery zone.

"Qualified business" is defined to include any trade or business except for residential rental property or prohibited projects including any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises. Davis-Bacon Act federal prevailing wage requirements do not apply to RZFBs.

**How it works:** While the County issues the RZFBs, the bonds are not direct obligations of the County. The bonds are repaid from revenues from the private development project. The credit risk is borne by the bank that issues the letter of credit and/or the bond investors.

Dane County will work with existing businesses to facilitate WI Department of Commerce review. Interested businesses must demonstrate a firm commitment

from a financial institution or bond underwriter to purchase the bonds demonstrating that the project is credit worthy. Documentation supporting this criteria **is required** before an application can be accepted for review. Projects must demonstrate their potential jobs creation, jobs retained, and potential for long-term regional economic benefit.

**Timeline:** RZF Bonds must be issued before December 31, 2010.

Interested businesses should contact Olivia Parry, Dane County Economic Development Specialist, at 608-266-4270, or [parry@co.dane.wi.us](mailto:parry@co.dane.wi.us).



## Midwestern Disaster Area (MDA) Bonds

Midwest Disaster Area Bonds (MDAs) are targeted toward the redevelopment of areas in Wisconsin affected by the flooding that occurred in 2008. They offer the ability for a private business to receive tax-exempt financing.

The proceeds must be used in a county declared as a federal disaster area (Dane County qualifies). Total allocation for WI: \$3,830,112,000. The Dane County allocation is \$50 million.

**Eligibility:** While MDAs were initially targeted toward businesses that were directly affected by the flooding disaster, the Governor has extended eligibility to other businesses not affected by the flooding.

**Eligible costs:** Proceeds of the bonds may be used to finance the cost of:

1) Acquisition, construction, reconstruction or renovation of nonresidential real property (including fixed improvements associated with such property, but not equipment and movable fixtures). Nonresidential real property projects can include:

- Manufacturing facilities
- Retail businesses and shopping centers
- Auto dealerships
- Restaurants
- Office buildings
- Warehouses and storage facilities
- Medical office buildings and other medical facilities
- Commercial development
- Agricultural facilities

- 2) Qualified residential rental housing
- 3) A public utility project

**How it works:** Bondholder accepts a lower interest rate for the tax-free income. Even though MDAs are issued by Dane County, they are not general obligations of the County. The company or business that will use the financing pays the interest and principal on the bonds. The local government is in partnership with the business, lending its name, but not its credit, to the bond issue.

Dane County will work with existing businesses to facilitate WI Department of Commerce review. Interested businesses must demonstrate a firm commitment from a financial institution or bond underwriter to purchase the bonds demonstrating that the project is credit worthy. Documentation supporting this criteria is required before an application can be accepted for review. Projects

must demonstrate their potential jobs creation, jobs retained, and potential for long-term regional economic benefit.

**Other requirements:** If the bonds are used to acquire existing buildings, the borrower must spend at least 50% of the cost of acquisition on rehabilitation of the building. No more than 25% of the bond proceeds can be used to acquire land. No more than 2% of the bond proceeds can be used to pay issuance costs. Borrower can only use the bond proceeds to reimburse eligible costs that are incurred within 60 days prior to the adoption of the initial resolution.

Proceeds of the bonds may not be used to finance any skybox or other private luxury box, health club facility, golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other gambling facility, or liquor store. This is stipulated under federal law.

Commerce recommends designation to the Governor's office. Governor's office designates the bonds as Midwestern Disaster Area Bonds.

Issuer/Borrower has 120 days from designation date to issue bonds. Issuer/Borrower has 15 days after the bond issue to notify Commerce of the issuance.

**Timeline:** Bonds must be issued before January 1, 2013.

Interested businesses should contact Olivia Parry, Dane County Economic Development Specialist, at 608-266-4270, or [parry@co.dane.wi.us](mailto:parry@co.dane.wi.us).





## Industrial Revenue Bonds (IRB)

The Industrial Revenue Bond (IRB) Program allows Dane County to support industrial development through the sale of tax-exempt bonds. The proceeds from the bond sale can be used by businesses to finance capital investment projects at, primarily, manufacturing facilities. Even though IRBs are municipal bonds, they are not general obligations of the municipality. The company or business that will use the facilities pays the interest and principal on the bonds. The local government is in partnership with the business, lending its name, but not its credit, to the bond issue.

**Eligibility:** Federal law defines eligible projects. IRBs are a means of financing the construction, expansion and/or equipping of, primarily, manufacturing facilities. Manufacturing generally includes nearly every type of processing that results in a change in the condition of tangible property. The proceeds of the bond issue may be used to finance the cost of land, construction of new or expanded facilities, purchase of equipment, and the payment of certain costs incurred in the issuance of the bonds. Prospective IRB users should consult with bond counsel on project eligibility and the use of bond proceeds.

**Advantages:** Unlike most conventional loans, IRBs can offer businesses a convenient, long-term, and often a fixed-rate financing package. Similar to other municipal bonds, the interest earned on IRBs is exempt from federal income taxes. As a result, the bond buyer is willing to accept a lower rate of interest in exchange for tax-free income. Typically, interest rates on IRBs may be from 1.5 to 2.5 percentage points below corporate bonds. The terms of the bond issue are negotiable and can be structured to meet the needs of the borrower. The costs of issuing the bonds can be spread out over the term of the bond issue.

**How it works:** The business must secure the buyer or the underwriter of the bond issue. The bonds are sold by the municipality, which in turn, lends the proceeds of the sale to the business. The funds come from private lenders or from public markets. Tight credit standards apply. The facilities and equipment are pledged as collateral for the loan. A letter of credit or bond insurance is often required.

Dane County will work with existing businesses to facilitate WI Department of Commerce review. Interested businesses must demonstrate a firm commitment from a financial institution or bond underwriter to purchase the bonds demonstrating that the project is credit worthy. Documentation supporting this criteria is required before an application can be accepted for review. Projects must demonstrate their potential jobs creation, jobs retained, and potential for long-term regional economic benefit.

**Are there any limitations?** Federal tax law imposes some limitations on IRBs. The maximum size of a bond issue is \$10 million, subject to certain conditions. For bond issues exceeding \$1 million, capital expenditures at the business's location(s) in the municipality during the three years before and the three years after the date the bonds are issued cannot exceed \$20 million. Also, the total amount of IRBs outstanding at all related operations of the business, in all states, may not exceed \$40 million. "Exempt" projects, such as water, sewage and solid waste disposal facilities, do not have to comply with the \$20 million limit. Businesses should consult with bond counsel on whether any of these limitations apply.

The tax code also limits the amount of most types of tax-exempt private activity bonds (bonds which benefit nongovernment persons or businesses) that can be issued in each state each year. This limit is called the unified volume cap. Businesses pursuing IRB financing must apply for an allocation of volume cap or bonding authority from the Department of Commerce. Businesses that receive an allocation of volume cap are also required to notify the Department on the project's impact on employment.

**Timeline:** Ongoing

Staff Contact: For more information, please contact Olivia Parry, Dane County Economic Development Specialist at 608-266-4270, or [parry@co.dane.wi.us](mailto:parry@co.dane.wi.us).