New Jersey Economic Development Authority
*The State’s “Bank for Business”*

**Bond Financing Webinar**

January 19, 2011

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Director, Program Services
Partnership for Action

• Gov. Christie and Lt. Gov. Guadagno created the New Jersey Partnership for Action to serve as the “one-stop shop” for all economic development activity in New Jersey. The three elements of the Partnership include:

1. **Choose New Jersey** - a privately funded, not-for-profit corporation that will help position New Jersey as a world-class leader in the competitive global marketplace, creating a prosperous and vibrant economy for the State and its citizens by effectively leveraging its diverse resource base and utilizing its reputation for innovation.

2. **Business Action Center** - reporting directly to the Lt. Gov., this team brings a customer service approach to coordination and navigation across State and local government agencies for businesses looking to remain, expand or locate in New Jersey.

3. **EDA** - serving as New Jersey’s “bank for business” to stimulate economic development and job creation.
EDA - Who We Are

State financing and economic development agency dedicated to serving as New Jersey’s “bank for business” by offering:

- Financing Assistance
- Access to Small Business Services
- Real Estate Development Assistance
Bond Financing

- Through a federally authorized program, the EDA issues conduit tax-exempt private activity bonds, the proceeds of which are used to provide loans.

Conduit **ISSUER** of tax-exempt bonds (no state guarantee)

Debt repayment solely from project revenue & collateral pledged by **BORROWER**

**LENDER** (Bank) purchases bonds or issues letter of credit (market option)

Interest exempt from federal/state taxes
Bond Financing Overview

• What is a tax-exempt bond?
  - Debt Instrument/Type of Long Term Loan
  - Tax-Exemption of Interest (Federal & State)
  - IRS Code Dictates Eligibility

• Governmental Bonds
  - State Contract Bonds – School Construction

• Conduit Private Activity Bonds – Fixed Asset Financing For:
  - Manufacturing (Qualified Small Issue Bonds)
  - Not-for-Profits (Qualified 501 (c)(3) Bonds)
  - Certain Exempt Facilities (Exempt Facility Bonds – 13 Categories)
## Bond Financing

### Eligibility:

- Borrowers must meet the eligibility requirements outlined in the Internal Revenue Code in order to qualify for tax-exempt bond financing, including:

<table>
<thead>
<tr>
<th>Manufacturing/Processing Facilities</th>
<th>Governmentally owned public airports, docks, wharves</th>
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<tr>
<td>Certain facilities for governmental bodies, which qualify as tax-exempt governmental obligations</td>
<td>Certain not-for-profit 501(c)(3) entities, including service organizations, educational institutions and health care facilities</td>
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<tr>
<td>Commercial and industrial projects in federal Empowerment Zones or Enterprise Communities</td>
<td>Certain assisted living facilities, which qualify as residential rental projects.</td>
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<td>Facilities that furnish water, electric, and gas; sewer facilities; and solid waste disposal, including certain recycling facilities</td>
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Bond Financing

**Available Assistance:**

- $500,000 to $10 million in tax-exempt bonds for manufacturing companies with either a fixed or variable interest rate, and terms up to 20 years for real estate and 10 years for equipment;

- $500,000 with no dollar limit in tax-exempt bonds for qualified not-for-profit organizations.
**Bond Financing**

**Eligible Uses:**

- Tax-exempt bonds for eligible for-profit companies can be used to finance capital improvements and expansions, including real estate acquisitions, new equipment, machinery, building construction, and renovations.

- Tax-exempt bonds for not-for-profit organizations seeking capital to expand community services can be used to finance land and building acquisitions, new construction and renovations, equipment purchases, debt refinancing and working capital.

- Government tax-exempt bonds can be used for projects that are owned and operated for the benefit of local, county and state government bodies.

- Taxable bonds are also available for a wide variety of businesses, such as manufacturing, commercial, warehouse, and distribution, etc. Taxable bonds offer similar flexibility in structuring rates and terms but are not subject to the restrictions placed on tax-exempt financing under the IRC.
Bond Financing

Benefits:

• The EDA issues bonds to provide long-term loans generally with a lower cost of financing, and either a fixed or variable interest rate.
• Bond Financing gives eligible companies and organizations access to capital they are otherwise unable to obtain on their own.

$10 million bond for 20 years as a direct purchase by a bank:

<table>
<thead>
<tr>
<th></th>
<th>Tax-Exempt Bond</th>
<th>Conventional Loan</th>
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<tbody>
<tr>
<td>Interest Expense</td>
<td>$4,989,949</td>
<td>$7,682,445</td>
</tr>
<tr>
<td>Closing Costs</td>
<td>$ 85,000*</td>
<td>$ 35,000**</td>
</tr>
<tr>
<td>Total</td>
<td>$5,074,949</td>
<td>$7,717,445</td>
</tr>
</tbody>
</table>

*Estimated Savings: $2,642,496

*Bond Counsel – estimated $35,000 plus $50,000 EDA Closing Fee (plus disbursement $2-3,500)
**(10,000 commitment fee plus $25,000 bank’s counsel)

Generally, all closing costs are eligible up to 2% of the amount of the bond issue.
## Bond Financing

*Bonds are sold via Direct Purchase or Public Offering*

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<th>Direct Purchase</th>
<th>Public Offering</th>
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<tr>
<td>A financial intermediary, typically a bank, will directly purchase bonds from the EDA once it has performed a credit review on the applicant’s project.</td>
<td>In a public offering, bonds are purchased by an underwriter and sold to private investors in the public marketplace and may be structured with a bank’s commitment to provide a letter of credit (LOC) or a municipal bond insurance policy.</td>
</tr>
<tr>
<td>The bank sets the interest rate, terms and other financial details.</td>
<td>Market conditions will determine the interest rate, while the bond’s terms and other financial details are set by the LOC provider.</td>
</tr>
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</table>
Bond Financing

**Fees**: 

- Application fee: $1,000

- Closing fee for tax-exempt bonds: 0.5% of tax-exempt bond amount of up to first $15 million; 0.375% of the next $10 million and 0.5% of the bond amount in excess of $25 million

- Closing fee for taxable bonds: one half of the closing tax-exempt bond fee noted above

- Closing fee for not-for-profit corporations and governmental bodies: 0.5% of tax-exempt bond amount up to $10 million and 0.25% above this amount

- Closing fees for conduit bond transactions: capped at $300,000

- Division of Taxation Tax Clearance Certificate Application Processing Fee: $75 for standard processing; $200 for expedited processing (response within three business days)

*All fees are non-refundable.*
SEARCH Day Program

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<tbody>
<tr>
<td><strong>Type of Product</strong></td>
<td>501 (c) 3 Not-for-Profit – school for individuals with autism</td>
</tr>
<tr>
<td><strong>Use of Proceeds</strong></td>
<td>Acquisition of nine acres and 23,000 square feet of building space</td>
</tr>
<tr>
<td><strong>Project Location</strong></td>
<td>Ocean, Monmouth County</td>
</tr>
<tr>
<td><strong>Bond Amount</strong></td>
<td>$2,750,000 (tax-exempt)</td>
</tr>
<tr>
<td><strong>Term of Bonds</strong></td>
<td>25 years; fixed interest for 10 years at 4.4% with rate resets on the 10th and 20th anniversary of the closing date.</td>
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**Tribeca Oven**

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<tr>
<th>Type of Product</th>
<th>Manufacturing – artisan bread bakery</th>
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<tbody>
<tr>
<td>Use of Proceeds</td>
<td>Acquisition of a modern thermal oil oven to reduce energy costs and increase production</td>
</tr>
<tr>
<td>Project Location</td>
<td>Carlstadt, Bergen County</td>
</tr>
<tr>
<td>Bond Amount</td>
<td>$4,000,000 (tax-exempt)</td>
</tr>
<tr>
<td>Term of Bonds</td>
<td>10 years; first six months interest only; fixed interest rate of 5.24%</td>
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### Converted Organics of Woodbridge

<table>
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<th>Type of Product</th>
<th>Exempt facility</th>
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<tr>
<td>Use of Proceeds</td>
<td>Renovation of facility and acquisition of equipment</td>
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<tr>
<td>Project Location</td>
<td>Woodbridge, Middlesex</td>
</tr>
<tr>
<td>Bond Amount</td>
<td>$17,500,000 (tax-exempt)</td>
</tr>
<tr>
<td>Term of Bonds</td>
<td>20 years; interest only for up to 18 months; fixed interest rate of 8%.</td>
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</table>
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Q & A