

TAX-EXEMPT REVENUE BONDS:

Low-Interest Rate Financing for Recycling & Solid-Waste Projects

CalRecycle Zone Works Workshop

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Growth Capital Associates, Inc.

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OVERVIEW:

- Qualified projects undertaken by private corporations can be funded with the proceeds of a tax-exempt revenue bond issue – “Private-Activity Bonds.”
- Tax-exemption results in low-interest rates; similar to rates paid by governmental entities.
- Repayment of the bonds not guaranteed by the government (i.e. City, State or Federal). Borrower must be creditworthy & merit financing for the project.

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INTEREST RATE ADVANTAGE:

	Variable:	Fixed:
<u>Bank LOC (Estimated):</u>		
Interest (4/20/2011):	0.30%	2.90% ¹
LOC Fee:	1.75%	1.75%
Ancillary Fees: ³	<u>0.35%</u>	<u>0.35%</u>
	2.40%	5.00%
<u>Tax-Exempt Loan (Estimated):</u>	2.25%	4.50% ²
1: Bank LOC - Fixed rate for ten years using SWAP mechanism.		
2: Tax-Exempt Loan - Fixed for 10 years.		
3: Including annual fees for rating, trustee and remarketing.		

REVENUE BOND STRUCTURE:

- Bonds are “issued” by a governmental entity to obtain tax-exempt status, proceeds are “loaned” to borrower to fund the project. The issuer acts as a “conduit” to the tax-exempt marketplace.
- Bonds are not guaranteed by the government (city, county, state or federal). Bonds are a special, limited obligation of the Issuer. Borrower is directly responsible for repaying the bonds – principal and interest.
- “Credit Support” for the Bond Issue:
 - Direct-Pay Letter of Credit - Payments of interest and principal to bondholders are made via draws on the direct-pay letter of credit. Borrower reimburses the letter of credit bank for payment of these draws.
 - Tax-Exempt Loan or Private-Placement – Bonds are sold directly to an institutional investor or bank. The investor evaluates the credit worthiness of the borrower/project.
- ***In the end...this type of tax-exempt financing is simply a “wrapper” around a bank loan to lower the interest rate.***

REVENUE BOND QUALIFICATIONS:

- Each project must meet qualifications established by Congress and written in the Federal Tax Code – These rules don't change, "don't ask."
- State of California has created public-policy overlays for evaluating projects (i.e. proven technologies, nature of waste-stream, size of business, etc.).
- Tax-exempt proceeds can only be used to fund the acquisition of fixed, depreciable assets: land, building and equipment.
- Expenses incurred prior to beginning the bond issuance process cannot be paid for with tax-exempt bond proceeds – Refinancings are not permitted.
- Minimum financing need of **about \$2.0 million – maybe less**; bond proceeds can be spent over a 36-month period after issuance.

Recycling/Solid-Waste Disposal Bonds:

- Projects that divert solid-waste materials from the household or commercial waste stream.
- Qualified projects include:
 - Curbside collection facilities
 - Recycling facilities
 - Composting facilities
 - Materials recovery facilities
 - Transfer stations
 - Landfills
 - Waste-to-energy facilities
- No dollar limit on the tax-exempt financing.
- ***State has a grant (free \$) program to pay transaction costs for waste financings.***

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California Pollution Control Financing Authority:

- CPCFA issues tax-exempt debt to fund projects across California. Can issue efficiently to fund projects in any city or county.
- Has allocation of tax-exempt volume-cap to approve projects.
- ***Small Business Assistance Fund (SBAF) – Grant monies to pay transaction costs associated with tax-exempt bond issues for qualified projects. Minimum grant of about \$140,000.***
- Runs a variety of financing related programs - California Capital Access Program (CalCAP), CalCAP ARB Truck Loan Program, Sustainable Communities Grant and Loan Program & California Recycle Underutilized Sites Program.

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Case Study – Waste Recovery West:

- **Transaction Size** - \$1.3 million, smallest tax-exempt debt issued by CPCFA.
- **Purpose** – Collection, sorting and processing of waste tires
- **Use of Funds** – Fund the acquisition of land, buildings and equipment.
- **Locations** – Moved from a leased site in Livermore to an owned site in Stockton.
- **Structure** – Tax-exempt bank loan from US Bank.

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Case Study – Raisch Products:

- **Transaction Size** - \$2.7 Million.
- **Purpose** – Recycle waste, broken concrete & asphalt.
- **Use of Funds** – Fund the acquisition of a relocateable processing plant.
- **Locations** – Plant will be moved between sites in Santa Clara and Alameda Counties.
- **Structure** – Tax-exempt bank loan from Heritage Bank of Commerce.

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Case Study – Al's Plastics:

- **Transaction Size** - \$2.5 Million.
- **Purpose** – Recycle & reprocess waste plastic from consumer and industrial waste streams.
- **Use of Funds** – Fund the acquisition of land, buildings and equipment.
- **Locations** – Moved from an owned site in Vernon to a larger owned site in Pomona.
- **Structure** – Tax-exempt bond issue supported by a direct-pay letter of credit issued by Wells Fargo Bank.

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Case Study – Arcata Community Recycling Center:

- **Transaction Size** - \$5.7 Million.
- **Purpose** – Sort & recycle waste materials from consumer and industrial waste streams.
- **Use of Funds** – Fund the acquisition of land & equipment and construct a dual-stream intermediate transfer facility.
- **Locations** – Located in the Samoa area of unincorporated Humboldt County, supplements operations in Arcata and Eureka.
- **Structure** – Tax-exempt bond issue supported by a direct-pay letter of credit issued by Umpqua Bank.
- **Other** – ACRC is a nonprofit organization.