



COUNTY ADMINISTRATOR'S OFFICE

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TO: Credit-worthy Alameda County Businesses

The American Recovery and Reinvestment Act of 2009 (ARRA) has made available a low-cost, long-term capital expenditure finance program for businesses in Alameda County through a new type of tax-exempt private activity bonds called Recovery Zone Facility Bonds (RZFBs). They are very similar to Industrial Development Bonds, whose tax-exempt rates have averaged less than 1% since Jan 2009, without the manufacturing/knowledge-based user requirement.

The federal government determined the allocations of Recovery Zone bonds to local governments based on employment rate change between December 2007 and December 2008, for cities and counties with populations in excess of 100,000.

Alameda County has been issued an allocation of \$12,966,000 for RZFBs and two cities in Alameda County still have Facility Bond allocation available: Hayward, \$2,750,000; and Oakland, \$7,581,000. Once these allocations have been used, there is an opportunity to obtain "re-allocation" through the State for projects up to \$20 million.

Unfortunately, there is a very short time frame, as applications are due June 1, 2010, the bonds sold before November 30, 2010.

Eligible Users and Uses

Any trade or business is eligible for RZFBs; ***with the exception of*** residential rental, golf courses, country clubs, massage parlors, hot tub and suntan facilities, racetracks, facilities primarily used for gambling businesses or any store, the principal business of which is the sale of alcoholic beverages for off-premise consumption.

The funds have to be used to purchase/finance depreciable property (facilities: purchase, construction or renovation; or equipment) that was acquired after January 10, 2010; the original use of the equipment or facility must occur within the recovery zone; substantially all of property must be used by a qualified business in the active conduct of its business; and existing facilities can be purchased, but land purchased with equity or financed with taxable bonds.

Credit Requirements and Size Limitations

The County issues these bonds on behalf of the borrower, without credit enhancement. To make the bonds marketable, they are sold with a bank "Letter of Credit" (LOC) guarantee, except for smaller equipment bonds that are sold to a leasing company.

Small local, business friendly banks can provide the LOC with "new" Federal Home Loan Bank guarantees, and additional closing costs of 2.5% to 3.5% are typically recouped within a year by interest savings - depending upon bond size.

Therefore the business must meet bank credit requirements that typically are:

- The business has been profitable for the last 2-3 years;
- Existing cash flow is sufficient to accommodate the additional debt service; and
- Able to provide 25-30% equity on facilities and 10% for equipment.

There is also a cost effective minimum as well as a maximum for these bonds:

- \$2 million minimum for variable rate “public” placements with a bank LOC
- \$1 million minimum for fixed-rate, shorter-term equipment bonds that are “privately” sold);
- \$20 million maximum – once the County and city allocations (which can be combined) establishes the current maximum for, but once these once the local allocations are utilized, projects can be submitted to the State re-allocation pool (in July or September).

Tax-exempt Interest Rates and Financing Terms

Bonds that are used for facility improvements, construction or purchase with equipment, can be sold as weekly variable rate, 25-35 year “public placements”, with a bank Letter of Credit (LOC) guarantee.

Tax-exempt interest rates have averaged 2.7% for the last 15 years! That equates to a 4.2% APR, with the 1.5% bank LOC guarantee.

Smaller bonds for equipment are sold directly to bond a purchaser (like a leasing company), with 7 to 10 year terms, and a fixed rate of about 4.6%.

These bonds are very flexible and can be converted to fixed rate and back to variable, can be transferred upon the sale of building (provided the new user is able to obtain a LOC). In addition, there is no prepayment penalty, additional principal payments can be made without premium or penalty and there is no restriction on ownership structure.

Where To Apply & Process

Please complete the attached application form per its instructions and mail, email or fax it to the County’s Tax-Exempt Bond Financial Advisor:

Walter Vennemeyer
Progressive Capital
101 Montgomery Street, Suite 2150
San Francisco, CA 94104
United States of America, procap@jps.net
Phone: 415.388-1535 Fax: 415.388-2314

If your business meets the preliminary criteria, you will be contacted and additional information will be requested.

Additional information and a electronic version of the application is available on the County’s economic development website at:

www.eastbayeda.org/business_resources_incentives/StimulusRecoveryZoneFacilityBonds.htm