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Private Activity Bond Program

WHAT IS PRIVATE ACTIVITY BOND FINANCING?

Private activity bonds are an attractive source of financial assistance to economic development projects in Michigan. They provide profitable firms with capital cost savings stemming from the difference between taxable and tax-exempt interest rates.

Public facilities, which generate a revenue stream, (parking structures, for instance) have traditionally been financed by municipalities through tax-exempt "revenue bonds." Private activity bonds apply this same tax-exempt finance mechanism to the "public purpose" of economic development. The governmental unit borrows money from private capital markets, secured only by the project's revenues rather than the government's full faith and credit. Interest income earned on bonds issued by a governmental entity to finance a project for a private company which has demonstrated a good public purpose is exempt from federal, state, and local income taxes, thereby reducing the cost of capital (including the cost of letters of credit, remarketing fees, etc.) to an average 75-85% of prime.

WHO IS ELIGIBLE?

The Michigan Strategic Fund (MSF) issues private activity bonds on behalf of the borrower and lends the bond proceeds to the borrower. These loans can be made for manufacturing projects and not-for-profit corporation projects and solid waste hazardous waste facilities.*

For manufacturing projects, 95% of the bond proceeds must be used to acquire land, building and equipment directly related to the manufacturing process. Warehouse space and other "non-core" items are ineligible unless they are directly related to the manufacturing process, and then are limited to 25% of the project. At least 70% of bond proceeds must be spent on "core manufacturing" costs. If you acquire existing facilities, a minimum of 15% of the bond proceeds must be used to renovate the facility. Used equipment is generally ineligible. Loans for such purposes as working capital or inventory are not permitted.

****Please note: Per MSF Bond Resolution 2005-258, no volume cap shall be allotted for solid waste disposal facilities which serve the general populous. Also, MSF Board Resolution 2005-300 defines standards for financing Concentrated Animal Feeding Operations (CAFOs).***

The maximum size of bonds is limited to:

- (1) \$1 million free of any restrictions on capital expenditures, or,
- (2) \$10 million subject to the condition that the company's total capital expenditures in the locality over the period of three years before and three years after the date of issuance do not exceed \$10 million.

(Regardless of owner's equity, bonds, conventional debt, all capital expenditures in a municipality where project is located, including the bond, cannot exceed \$10M for period three years prior and three years after issuance of bond. This includes any principal user (e.g. lessees) of the bond-financed facility, and any related parties thereto which are made in the jurisdiction in which the bond proceeds are spent. Borrowers may not have more than \$40M bond indebtedness outstanding nationwide.)

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