

CITY OF GARDEN GROVE

INTER-DEPARTMENT MEMORANDUM

Industrial Development Authority

To: Scott C. Stiles
Dept: Director
Subject: UPDATE ON THE ACTIVITIES OF THE CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION (CIDFAC) FOR 2015.

From: Kingsley Okereke
Dept: Finance Department
Date: December 8, 2015

OBJECTIVE

The purpose of this report is to provide the Garden Grove Industrial Development Authority (IDA) an update on industrial development bond activities for 2015.

BACKGROUND

In 1980, the California State Legislature passed the California Industrial Development Financing Act ("the 1980 Act"), which enabled every city and county in the state to create a local issuing entity. The Act authorizes each local government issuing entity to issue tax-exempt industrial development bonds (IDBs) to finance eligible capital facilities for manufacturing businesses.

California Industrial Development Financing Advisory Commission (CIDFAC) reviews IDB applications for the provision of public benefits, and approves the sale of IDBs by the local authority. The primary objective of CIDFAC is to provide manufacturers in California with an alternative, low-cost source of funds to finance capital expenditures. Applicants for CIDFAC financing must meet certain eligibility, public benefit and other requirements. The program allows for financing of \$1 million to \$10 million of tax-exempt bonds.

In 1982, the City of Garden Grove formed the City of Garden Grove Industrial Development Authority. The use of IDB loans in the City have been limited, because of the current low interest rate environment. However, in the mid-1980s, the IDA assisted three (3) corporations in the City. In 2000, City Council, acting as the IDA, assisted its first applicant, C&D Aerospace under a new State Industrial Development Bond Issuance Program.

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DISCUSSION

In 2015 there were no outstanding bonds issued by IDA in the City of Garden Grove. Staff recommends the continuation of the IDA program because it is an economic development tool that offers industrial and manufacturing businesses alternative sources of financing for land acquisition, construction, and rehabilitation, and infrastructure improvements for businesses in the city of Garden Grove.

The City of Garden Grove economic development strategy includes providing outreach to both manufacturing business and the brokerage community within the city of Garden Grove. The City's economic development staff will continue to promote the IDA program as part of its economic development strategy.

As of December 1, 2015, The City of Garden Grove IDA has had no requests for IDB financing assistance.

FINANCIAL IMPACT

None. No financial impact to the City and no City sponsored IDB financing occurred in 2015.

RECOMMENDATION

Staff recommends that the IDA:

- Receive and file this 2015 update on the California Industrial Development Financing Advisory Commission activities.



KINGSLEY OKEREKE
Assistant City Manager



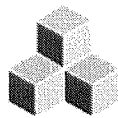
By: Greg Blodgett
Senior Project Manager

Attachment: California Industrial Development Financing Advisory Commission Program and Summary

Recommended for Approval



Scott C. Stiles
Director



CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Program Summary

CIDFAC assists California businesses by providing access to low-cost, tax-exempt industrial development bond (IDB) financing for capital expenditures. Our program allows businesses to borrow funds at competitive rates through the issuance of tax-exempt bonds either supported by some form of credit enhancement (e.g., a bank-issued letter of credit) or placed with sophisticated investors.

Eligible Facilities

IDBs may be used for the following types of projects:

- Industrial projects for assembling, fabricating, manufacturing or processing which create tangible products for sale
- Manufacturing projects which use recycled or reused products and materials for the creation of tangible products for sale
- Agricultural projects which process raw materials into tangible products for resale

Eligible Uses of Bond Proceeds

- Buildings and equipment
- Machinery and furnishings
- Land
- Costs of architects, engineers, attorneys and permits
- Costs of bond issuance

Federal Eligibility Requirements

Federal restrictions on the use of proceeds include:

- 95% of proceeds must be used for the defined IDB project.
- 2% of bond proceeds may be used for costs of issuance.
- 25% of bond proceeds may be used for land costs.
- A Tax Equity Fiscal Reform Act (TEFRA) public hearing in the community where the project is located must be held before the bonds are issued.
- To acquire an existing building, a minimum of 15% of the bond proceeds must be used to renovate the facility.
- The average life of the bond issue cannot exceed 120% of the weighted average of the estimated useful life of the assets to be financed.
- The bond maturities cannot exceed 40 years.

Federal Restriction on Size of IDB Bond issues

Federal restriction on size of IDB issues include:

- The maximum face amount of an IDB issue cannot exceed \$10 million per applicant, per public jurisdiction.
- Total capital expenditures in the public jurisdiction where the project is located cannot exceed \$20 million during the period that runs from three years prior to issuance of the IDB through three years after issuance. The \$20 million cap includes capital expenditures financed with the IDB.
- The total outstanding IDBs by any one company cannot exceed \$40 million nationwide.

California Eligibility Requirements

California's criteria for IDB projects are based on statutory requirements and on California Debt Limit Allocation Committee (CDLAC) public benefits guidelines. The criteria include public benefits associated with the creation or retention of jobs, participation in welfare-to-work programs, average hourly wage paid to workers and the energy efficiency characteristics of the project. Other rules establish requirements when a business relocates from one jurisdiction to another. See the [IDB application](#) and [CDLAC's regulations](#) for more information on California's eligibility requirements.

The IDB Bond Approval and Issuance Process

In California, the IDB bond approval and issuance process includes the following steps:

- The local issuing authority initiates the IDB application process on behalf of the business.
- The local issuing authority or CIDFAC recommends a financing team, which may include an underwriter, financial advisor and trustee.
- Bond counsel conducts a preliminary analysis of the project to ensure compliance with federal tax law requirements.
- Generally, IDBs will require either a financial institution willing to issue a letter of credit for the face amount of the bonds or a qualified institutional investor who is willing to purchase the bonds.
- CIDFAC reviews the IDB application to ensure it meets eligibility requirements.
- CIDFAC staff develops for the Commission a detailed staff report on the issuer's request for Commission approval.
- Upon Commission approval and the receipt of tax-exempt allocation, the finance team, the business and CIDFAC work together to issue the IDBs.