AGENDA ITEM NO. 3.a.

CITY OF GARDEN GROVE

INTER-DEPARTMENT MEMORANDUM

Industrial Development Authority

To:	Matthew Fertal	From:	Economic Development
Dept:	Director		
Subject:	INDUSTRIAL DEVELOPMENT AUTHORITY ANNUAL REPORT	Date:	December 14, 2010

OBJECTIVE

The purpose of this report is to provide the Garden Grove Industrial Development Authority (IDA) an update on the activities of the California Industrial Development Financing Advisory Commission (CIDFAC) for 2010.

BACKGROUND

In 1982, the City of Garden Grove formed the IDA. Under the State of California guidelines, the IDA acts as the official local coordinating body for low-cost development bonds for industrial companies seeking expansion. The IDA's role is to assist industrial-related businesses by facilitating their request for tax-exempt Industrial Development Bonds (IDB).

In the mid-1980s, the IDA assisted three (3) corporations. In 2000, City Council, acting as the IDA, assisted its first applicant, C&D Aerospace under a new State Industrial Development Bond Issuance Program.

The IDA can assist the issuance of tax-exempt bonds provided that the company uses the bond proceeds to:

- Foster job expansion or job development
- Fund manufacturing, furnishing, or energy related improvements,
- Fund land or new equipment acquisition and building construction, and
- Fund cost of architects, engineers, attorneys and permits.

DISCUSSION

Although the IDA can call a Special Meeting promptly to facilitate IDB financing, the IDA must meet yearly as stated in its By-Laws. At the annual meeting, the IDA reviews actions of the CIDFAC, which approves the issuance of IDB's and Empowerment Zone Bonds as a partner with local government, and the actions of the California Debt and Investment Advisory Committee (CDIAC), which provides policy guidance with respect to public debt and investment activities.

In March 2010, CIDFAC was updated by State staff on the Legislature, which approved legislation to implement the provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) that contained several provisions that enhanced the CIDFAC programs. Most notable was the provision that expanded the federal definition of 'manufacturing facility' to include businesses that produce intangible, as well as the customary tangible, products. Up until now, low-cost, tax-exempt IDB financing could be used to finance capital costs incurred by manufacturers that produce tangible products, i.e., personal property with physical attributes.

Now, IDB financing includes capital costs incurred by businesses that produce intangible property, i.e., patents, copyrights, formulas, processes, designs, trademarks, know-how, etc. Examples of knowledge-based businesses include software developers, the biotech, pharmaceutical and nanotech companies.

In April 2010, CIDFAC was updated by State staff on the revised point system taking effect for projects that appear after June 2010. The two main changes were designed to reward green manufacturing projects, and to enhance the formula for awarding points for job creation. Under the current point system, some projects that created a substantial number of jobs were not getting points.

As of November 16, 2010, the IDA has had no request for IDB financing assistance.

FINANCIAL IMPACT

If an industrial company applied for IDB financing, the IDA would only act as a liaison in the State bond process. Therefore, there is no financial impact to the City.

RECOMMENDATION

It is recommended that the Industrial Development Authority:

- Receive and file this report.

Jim Dellalonga

JIM DELLALONGA
Senior Project Manager

Greg Blodgett

By: Greg Blodgett
Senior Project Manager

Recommended for Approval

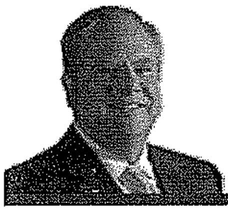
Matthew Fertal

Matthew Fertal
Director

Attachment 1: CIDFAC Program Summary

mm(h:Staff/IDA Annual Report sr 121410v2.doc)

Attachment 1



Bill Lockyer
California State Treasurer

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 Committtee (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 characterisitics of the project. Other rules establish requirements when a business relocates from one jurisdiction to another. See the IDB application and CDLAC's procedures 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.