GENERAL PROCEDURES FOR REVENUE BOND FINANCING IN VIRGINIA

Presented by: Michael W. Graff, Jr.

GENERAL PROCEDURES FOR REVENUE BOND FINANCING IN VIRGINIA

- The Borrower decides to construct or renovate a facility (the "Project"). Before substantial expenditures are made toward the Project, in the case of a 501(c)(3) Borrower the Borrower's governing board passes a reimbursement resolution to maximize the amount financeable. In the case of a manufacturing Borrower, the local industrial development authority's "official intent" resolution must fulfill this function.

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- The Borrower consults with Bond Counsel who determines that the Project qualifies for financing under federal and state laws and that the interest on the Bonds will be exempt from state and federal income tax.
- 501(c)(3) Borrowers.
- "Qualified Small Issuer" manufacturing Borrowers.

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- The Borrower completes and files an application requesting the local Industrial Development Authority to issue its Bonds in an amount estimated to cover the cost of acquisition, construction, renovation and equipping of the Project. Preliminary discussions with a bank or investment banking firm should be held at this time.

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- Bond Counsel prepares a resolution (the "Inducement Resolution") to be presented to the Authority approving the application and publishes a notice of public hearing with respect to the Project.

- The Authority holds a public hearing on the Project, and if the application is in order, adopts the Inducement Resolution.

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- The Inducement Resolution and certain documentation prepared by Bond Counsel are forwarded to the Board of Supervisors, Town Council or City Council (as appropriate) for approval.

- The Board of Supervisors, Town Council or City Council meets and adopts a resolution approving the bond issue.

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- The Borrower goes to a bank or investment banking firm and formally requests a commitment to purchase or place the Bonds and/or provide a credit support for the Bonds.

- The bank or investment banking firm analyzes the Project and the financial strength of the Borrower to repay the Bonds and agrees to finance the Project.

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- Bond Counsel applies to the Virginia Small Business Financing Authority for an allocation of bond issuing authority from the State Reserve, which is valid for 90 days.

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- Bond Counsel prepares bond documents and a final resolution authorizing the issuance of the Bonds.

- The final resolution and bond documents are reviewed by all parties to the transaction.

- The final resolution authorizing the issuance of the Bonds is adopted by the Authority.

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- All parties meet to execute the bond documents and close the bond issue.

- The Borrower agrees to make all payments of principal and interest on the Bonds and the Authority has no obligation to make payments on the Bonds or to pay costs of the Project.

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- At closing, the bond proceeds are deposited in a special account to be used by the Borrower to pay for costs of acquisition, construction, renovation and equipping of the Project. Only 2% of the bond proceeds may be used to pay for issuance costs.
- Depreciation rules.
- In the case of a manufacturing Borrower, only 25% of the bond proceeds may be used to pay for land.
- Manufacturing Borrower: limits on financing "used facilities."
- Manufacturing Borrower: capital expenditures limits.

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- Although a bond issue typically follows these steps, each financing is unique and the procedures may vary depending on individual circumstances.

Questions or Comments?

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