Direct Purchase

Private Placement Bonds

(Manufacturing, Non-Profit (501c3) and Municipal)

Texas Economic Development Council

Council of Development Finance Agencies

Introduction to Bond Financing

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imagination at work

GE Government Finance, Inc. (Public Finance)

- GE Capital is the Nation's Largest Direct Purchaser of Privately Placed Industrial Development Bonds

- GE Capital has Purchased over $5 Billion in Tax-Exempt Assets in the Past 5 Years, including IDB, 501c3 and Muni

- GE Government Finance has experience and expertise in a variety of tax-exempt and taxable bond structures

Variable Rate Demand Bonds

Highly structured securities that are generally rated and sold to the public

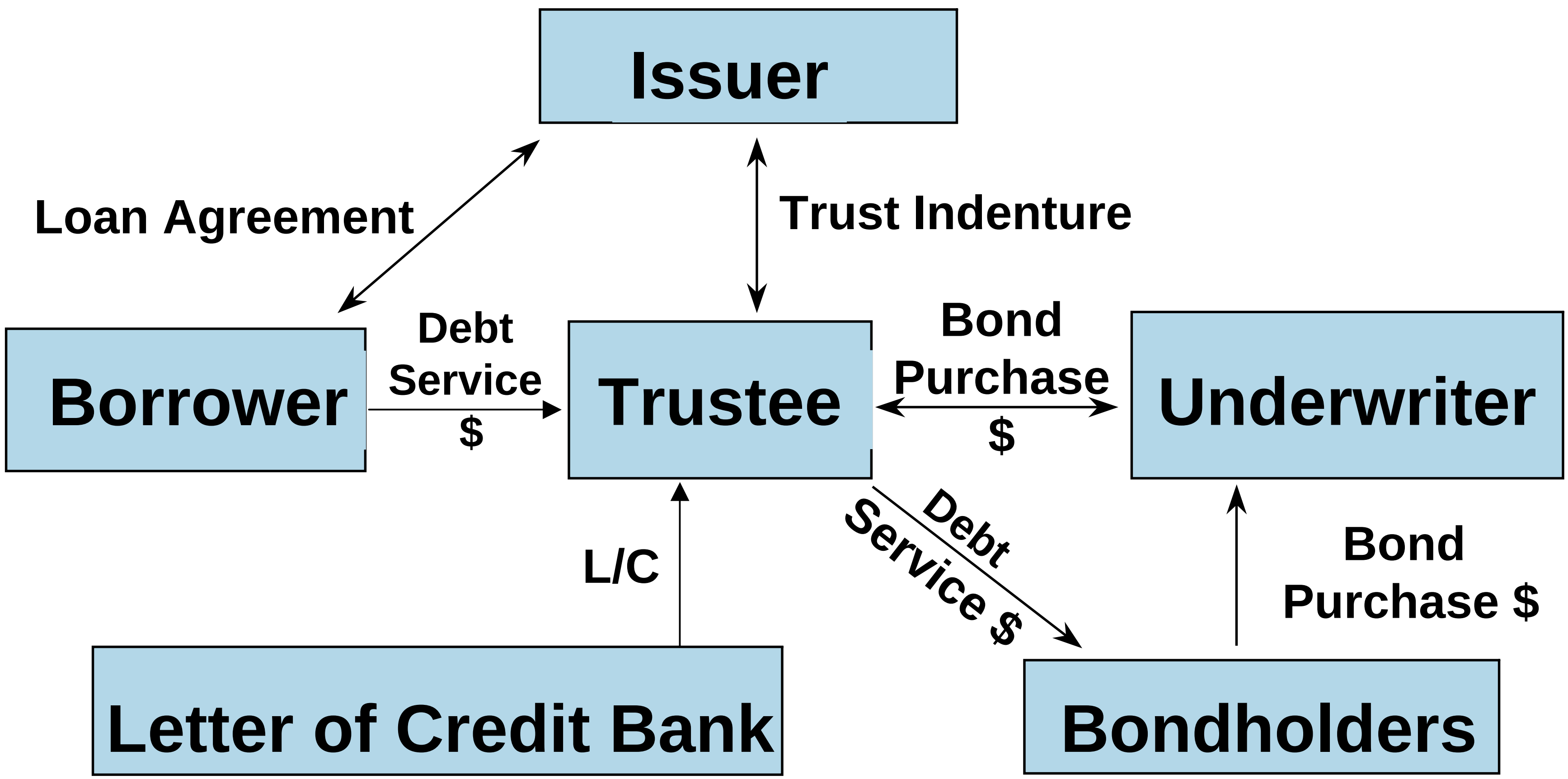
Credit enhancement in the form of a direct pay letter of credit from a financial institution - also provides liquidity support

Interest rates generally float - with a weekly reset

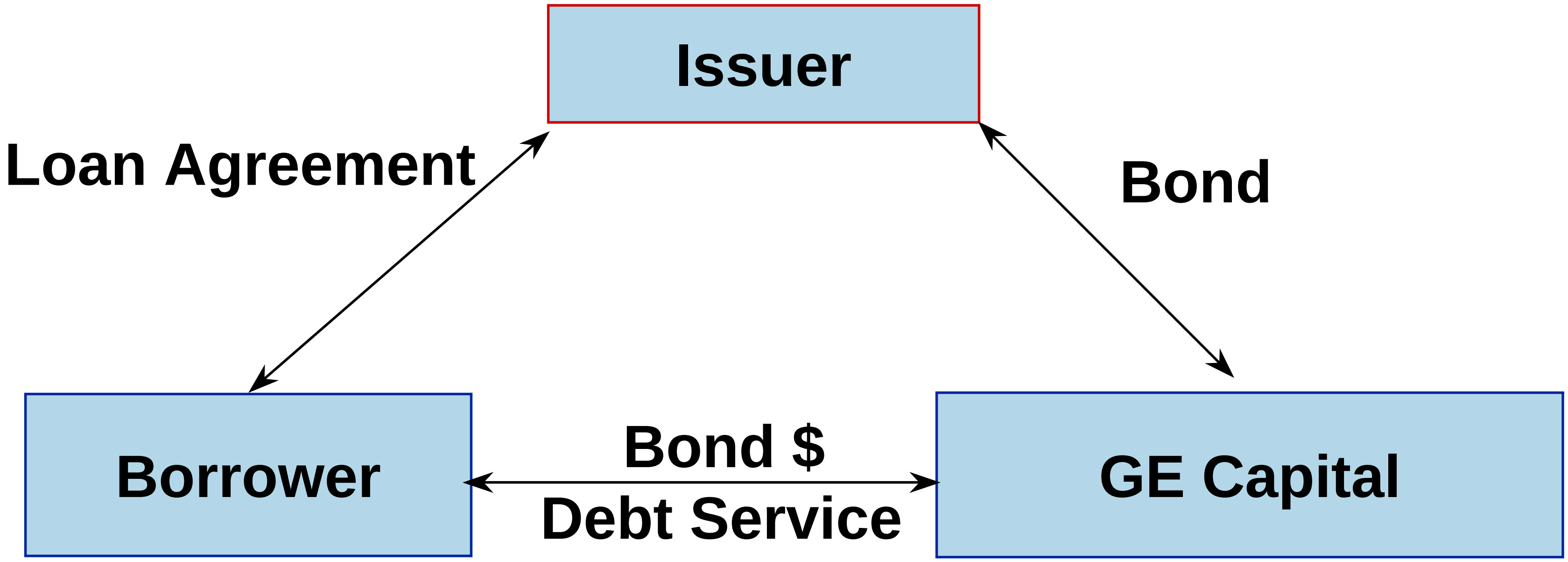
Bond purchaser has option to "put" the bond for repayment at any time with generally seven days notice

Borrower has option to prepay all or a portion of the bonds at anytime with generally thirty days notice

LOC Enhanced Bond Structure



Direct Purchase Bond Structure



Direct Purchase Advantages

- Direct Communication between Bondholder and Borrower - easier to negotiate and make changes
- Limited number of parties to the transaction
- Tailor-Made Structures
  - > Do not need to be "Plain Vanilla"
- Manufacturing Mentality
  - > Being a manufacturer, GE understand the "Ups and Downs"
- Lower Over-all Costs

Direct Purchase Advantages

- Simplified process, standardized documents
- No origination fees, no post closing fees
- Fewer parties involved –
  No need for Underwriter, Trustee (unless required by issuer), Rating Agency, no POS or OS
- No public disclosure of company information required
- Competitive fixed or floating rates (customer's option)
- Tax leases to manage capital expenditure limits (IDBs)

Direct Purchase vs. Variable Rate Demand Bond

Fees

	Direct Purchase	***VRDB***
Annual Fees:		
Letter of Credit Fee	No	Yes
Remarketing Fee	No	Yes
Trustee Fee	No/Yes	Yes
Rating Agency Fee	No	Yes
Upfront/Issuance Costs:		
Bond Counsel	Yes	Yes
Underwriter/Placement Agent	No	Yes
Underwriter's Counsel	No	Yes
LOC Commitment Fee	No	Usually
LOC Counsel Fee	No	Yes
Issuer's Fee	Yes	Yes
Issuer's Counsel	Yes	Yes
Bond Purchaser's Counsel	Yes	No
Trustee Fee	No/Yes	Yes
Rating Agency Fee	No	Yes
Bond Printing Cost	No	Yes

Direct Purchase Process

Parallel Tracks for public approval and credit approval

Inducement Resolution
Issuer & Bond Counsel

Public Hearing
Issuer & Bond Counsel

State Application
Issuer & Bond Counsel

Transaction Structuring
GE Public Finance & Borrower

Credit Approval
GE Public Public Finance

Bond Documentation
Issuer, Bond Counsel
& GE Public Finance

Closing
All Parties

Real Estate Investment Parameters

- Owner occupied or credit tenants (must meet manufacturing requirements)
- Minimum approx. $2.0MM in real estate (to be cost effective)
- 1st Lien/mortgage on entire facility to be financed
  - > generally no 2nd mortgages
- Typical LTV is 75% - 80% - maximum 85% for strong credits
  - > financing can be increased based on other collateral
- 15-20 year term / 15-20 year amortization typical (25 years max.)
- Construction finance through bonds available

Equipment Investment Parameters

- New Machinery and Equipment – tax-exempt
- Generally 100% financing
- Terms typically 5-10 yrs depending on quality, degree of specialization and useful life of equipment
- First security interest in assets being financed (UCCs)
- Used Equipment (already owned) – taxable - based on appraised values
- Integrated Equipment purchased as part of an acquisition may qualify for tax-exempt treatment

Some General Credit Considerations

Company Characteristics

- Annual Revenue generally > $10MM (IDBs)
- Tangible Net Worth $\geq$ Proposed GE Exposure (IDBs)
- Cash Flow Coverage of Total/Proposed Debt
- Historical Profitability
- Stable - Knowledgeable Management
- Long-Term Potential of Entity

Covenants

- Cash Flow Coverage of Debt Service
- Maintain Minimum Tangible Net Worth
- Debt to TNW/Net Asset Limits (leverage)

Financial Reports

- Annual Company Reports - Audited or Reviewed preferred otherwise – compiled w/ tax returns

Other Bond Opportunities

- Taxable Bonds and Taxable Convertibles
- Acquisitions – Manufacturing Companies - Integrated Facilities
- What may qualify as manufacturing
  - > Heidelberg type printing presses, processing and packaging equipment
  - > Cement trucks (manufacturing on wheels)
  - > Cement batch plants and asphalt plants,
- Exempt Facility Bonds
  - > Solid Waste - trash or recycling trucks, yellow iron, etc.
  - > Port or Airport Facility Tenants and Port or Airport Equipment
- 501c3 - Refinancing existing debt
  - > same purpose, remaining amount and remaining term

GE Enhances the Bond Market

- GE Capital offers a Letter of Credit
- Committed for up to 15 years
- AAA rated irrevocable direct pay LOC
- Tax-Exempt and/or Taxable transactions
- Provides liquidity and credit enhancement to

Variable Rate Demand Bonds (VRDBs)

Tax Exempt Industrial Development Bonds

Federal Rules – Tax Code Qualifications

1. Manufacturing Facility. Facility, land and equipment.
2. Qualifying Costs. 95% of proceeds must be spent to acquire land, building, equipment and other depreciable property. A minimum of 75% of proceeds must be spent on "core manufacturing" i.e. actual production of tangible personal property. No more than 25% of proceeds can be used for ancillary expenses that support core manufacturing. **No used equipment.** Land cannot exceed 25% of project.
3. Capital Expenditures. The capital expenditures for the project when added to capital expenditures in the three years preceding and the three years following the closing of the financing of the project, in the jurisdiction where the project is located currently cannot exceed **$20,000,000.**
4. $10,000,000 outstanding bonds within a jurisdiction limitation. A company may not have more than $10MM in bonds outstanding at any given time within a jurisdiction.
5. Acquisition of an existing manufacturing facility. Possible for integrated "facility" with 15% rehabilitation requirement. Rehabilitation must occur within 24 months of bond issuance and may use either bond proceeds or other sources of funds.
6. No working capital or inventory.
7. Reimbursement: If the Issuer adopts a resolution authorizing reimbursement of Project expenses, it may be possible to finance those expenses with Bond Proceeds. The maximum reimbursement period is 60 days prior to Inducement (through a Reimbursement Resolution) with approval from Bond Counsel. **IMPORTANT:** An **Inducement Resolution** must be adopted by the governmental unit prior to expenditure of any funds.
8. $40,000,000 aggregate limitation. A new tax exempt IDB cannot be issued if a company has $40,000,000 or more in tax exempt financing outstanding, regardless of location.
9. Maturity. Up to but not more than 120% of the average economic life of the assets financed.