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Exploring Bonds as the
Foundational Financing Tool

Exploring Bonds as the Foundational Financing Tool



Angela Blatt

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Columbus, OH



Caren S. Franzini Fellowship

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The Caren S. Franzini Fellowship was created to develop engaged women leaders in the field of development finance. The Fellowship is open to women who have worked in the development finance industry for less than 10 years and must be employed by a CDFA member organization.

Application Deadline: **March 15, 2024**

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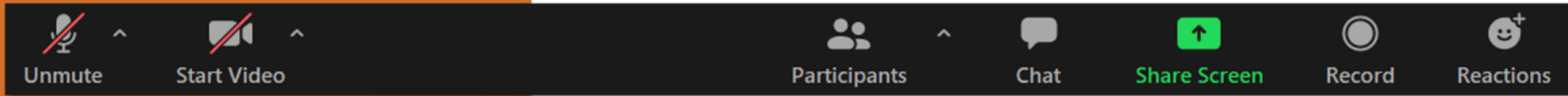
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Defining the Food System Asset Class



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With support from the W.K. Kellogg Foundation, CDFA has been researching how development finance agencies can become more engaged in developing localized food systems through traditional finance approaches. The premise of this project is to suggest and then prove that, if organized and defined properly, the food system can become a defined asset class worthy of traditional investment. Through this work, CDFA aims to advance opportunities and leverage capital to scale local food systems, increase access to better food, and create new living wage jobs in communities across the country.

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Exploring Bonds as the Foundational Financing Tool



Jim Rubingh

Director,
Colorado Agricultural Development Authority
Lakewood, CO

- **Aggie Bond federal legislation 1980**
- **Established by State Statute 1981**
 - Seven Board members
 - Beginning Farmer Program



Colorado Agricultural Development Authority



Tax Exempt Bonds

- **Three-way transaction: Lender-Borrower-CADA.**
- **All bonds are both state and federal tax exempt.**
- **Result is interest rate below commercial rates.**
- **Not guaranteed by CADA.**



Requirements

- State resident
 - Actively involved in agriculture on land purchased
 - Must qualify with lender
 - Own less than 30% of median county farm size
- 
- A green combine harvester is shown in the middle ground, harvesting a large field of golden corn. The scene is set during sunset or sunrise, with a warm, orange glow over the horizon. The background shows a flat landscape with some distant buildings and trees under a clear sky.

Loan Terms

- ❑ Interest Rate fixed or floating
- ❑ Length of Loans
 - Land up to 30 years
 - Depreciable property – 120% of estimated life of assets
 - Max bond \$649,400; breeding livestock \$62,500



What can be financed?



- **Ag Land**
- **Improvements; buildings, corrals**
- **Depreciable property**
- **Farm Machinery**

Fees Charged

- **Application \$50**
- **Legal fees \$1250**
- **Closing Fee $\frac{1}{4}$ of 1% of bond**
- **Annual Fee $\frac{1}{8}$ of 1% of unpaid principal $\frac{1}{16}$ of 1% if paid on time**



Bonds Issued

- ❖ **Beginning Farmer: 402; \$66.6 million**
- ❖ **Agricultural Processing: 4; \$14.9 million**
- ❖ **Sewage Treatment: 4; \$20.5 million**

Jim Rubingh

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Exploring Bonds as the Foundational Financing Tool



Mitchell Smith

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Modernizing Aggie and Manufacturing Bonds

Education · Advocacy · Research · Resources · Networking



Mitchell Smith, DFCP
Senior Director, Government & External Affairs
Council of Development Finance Agencies
February 27, 2024

Qualified Small Issue Bonds

- ▶ Type of tax-exempt private activity bond permitted under the Internal Revenue Code
- ▶ Private activity bonds meet both private business tests or meet the private loan financing test
- ▶ Aggregate authorized face amount is \$1 million or less (\$10 million in certain cases)
- ▶ At least 95% of net proceeds of the bonds must be used for specified purposes
- ▶ Examples: First-Time Farmer Bonds (Aggie Bonds) and Industrial Revenue Bonds (Manufacturing Bonds)

Aggie Bonds in Current Law

- ▶ First Time Farmer Bonds a type of qualified small issue private activity bond used to assist beginning farmers and ranchers with eligible purchases of farmland, equipment, buildings, and livestock
- ▶ Tax-exempt status allows for below-market interest rates for these loans
- ▶ Who is a “first-time farmer?”
 - ▶ Who has not at any time had direct or indirect ownership of, and material participation in, “substantial farmland,” AND
 - ▶ Who has not received financing in an amount which, when added to current financing exceeds \$250,000

Aggie Bonds

- ▶ Maximum issuance is \$450,000, indexed to inflation. Maximum issue for 2024 is \$649,400
- ▶ May be used to purchase agricultural land, depreciable machinery or equipment, breeding livestock, buildings, and refinance existing debts
- ▶ Full issue amount can be used to purchase agricultural land.
- ▶ Only \$250,000 can be used for farm improvements and new depreciable property
- ▶ Only \$62,500 can finance the purchase of used depreciable property

Manufacturing Bonds in Current Law

- ▶ Industrial revenue bonds (formerly industrial development bonds) a type of qualifying small issue private activity bond
- ▶ Rules for IRBs established in the Internal Revenue Code of 1986
- ▶ Defines a “manufacturing facility” as one that produces tangible property
- ▶ IRB financing of facilities is limited to those that house the production of tangible property and that are directly related and ancillary to a manufacturing facility.
- ▶ Maximum amount that can be finance with an IRB is \$10 million

The Modernizing Agricultural and Manufacturing Bonds Act (MAMBA)

- ▶ CDFA, along with its members, propose to reform Aggie and Manufacturing Bonds under “The Modernizing Agricultural and Manufacturing Bonds Act (MAMBA)”
- ▶ Contains 6 common sense reforms to Aggie Bonds and Manufacturing Bonds:
 - ▶ Expand the definition of “manufacturing facility”
 - ▶ Eliminate restrictions on “directly related and ancillary facilities”
 - ▶ Increase the maximum IRB size limitation to \$30 million, indexed for inflation
 - ▶ Increase the limitation on bond proceeds for first-time farmers to \$1 million
 - ▶ Repeal the separate dollar limitation on depreciable property for first-time farmers
 - ▶ Modify the definition of “substantial farmland”

The Modernizing Agricultural and Manufacturing Bonds Act (MAMBA)

- ▶ MAMBA's reforms would reinvigorate Aggie and Manufacturing Bond usage as the bedrock finance tools they are
- ▶ Reforms would have drastic impacts on rural development. Farmland values have been increasing since 2000, with real estate values outpacing inflation by magnitudes.
- ▶ Would assist aspiring beginning farmers with land and equipment acquisition with low-cost financing
- ▶ Manufacturing bond reforms would spur investment in smaller manufacturing projects and companies that can be sited in areas with less population and deliver downstream economic development benefits

The Modernizing Agricultural and Manufacturing Bonds Act (MAMBA)

- ▶ MAMBA has been introduced on a bipartisan basis for several Congresses (Currently 118th).
- ▶ Currently introduced in both the U.S. House of Representatives and the U.S. Senate
 - ▶ H.R. 3787 – Sponsors: LaHood (R-IL), Kildee (D-MI), Feenstra (R-IA), and Evans (D-PA)
 - ▶ S. 2723 – Sponsors: Brown (D-OH) and Ernst (R-IA)
- ▶ CDFA regularly communicates with staff of these offices and others to try and move MAMBA to enactment
- ▶ CDFA works with its members to achieve this goal

The Modernizing Agricultural and Manufacturing Bonds Act (MAMBA)



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Exploring Bonds as the Foundational Financing Tool



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CDFA Food Systems Finance Webinar

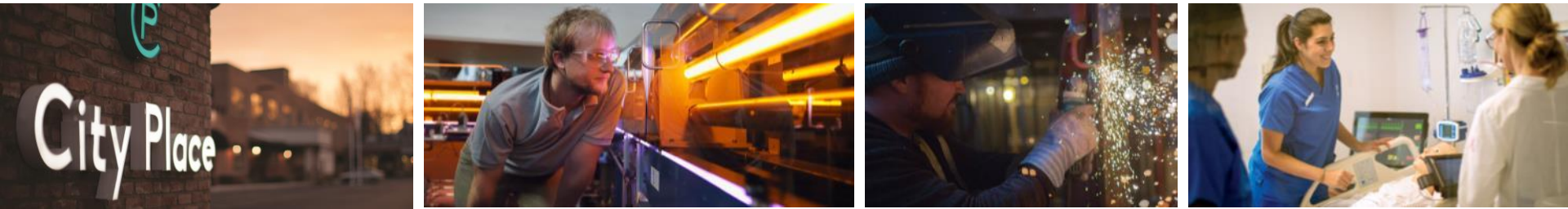
February 27, 2024



Tax-Exempt Bonds for Food Systems



MassDevelopment Overview



- Massachusetts' finance and development agency, working with businesses, nonprofits, banks, and communities to stimulate economic growth.
- FY2022 Results
 - Financed or managed 356 projects
 - Invested more than \$1.7 billion in the Massachusetts economy
 - Created or supported 11,080 jobs and built or preserved 1,778 housing units

Who We Serve



Businesses

Helping companies expand, modernize, and relocate.



Developers

Making the difference at every stage of development.



Housing

Building expertise, from predevelopment to construction.



Manufacturers

Finding skilled employees, opening global markets.



Municipalities

Eliminating blight, revitalizing downtowns, creating opportunities.



Nonprofits

Working with nonprofits to upgrade, renovate and expand.



Banks

Partnering with banks to provide creative financing.

What We Offer



Real Estate

- Technical Assistance
- Development Projects



Finance

- Bond Financing
- Grants to Non-Profits
- Loans & Guarantees

Tax-Exempt Bond Financing

Eligible Borrowers

- Non-Profit 501(c)(3) Organizations
- Assisted Living/Long Term Care Facilities
- Hospitals and Health Care Centers
- Manufacturers (Small Issue IDBs)
- Environmental Enterprises
- Governmental Entities
- Affordable Rental Housing
- Charter Schools, Independent Schools, Colleges and Universities

Eligible Uses

- New Equipment
- Building Acquisition and Expansion
- Land Acquisition
- New Construction
- Debt Refinancing (for Non-Profits)
- Some Project Soft Costs

Primary Benefit – *Interest income to bondholder is exempt from Federal income taxes, so interest rate to Borrower is reduced by approximately 21%.*

Tax-Exempt Bond Financing

- Provides a cost-effective method to finance capital projects
- Advantages:
 - Lower cost of capital (tax-exempt vs. taxable interest rate)
 - Increased debt capacity
 - Bonds can be privately placed with banks to ensure customer maintains their existing banking relationship
 - Bank purchases the bond directly with credit approval process the same as traditional commercial loan
 - Flexible structuring options including draw down bonds for construction projects
 - Bonds can be coupled with other funding sources such as New Market Tax Credits

501c3 Tax-Exempt Bond Case Study

Food Bank of Western Massachusetts



501c3 Tax-Exempt Bond Case Study

Food Bank of Western Massachusetts

- The Food Bank of Western Massachusetts had outgrown its previous location due to the surge in food insecurity across western Massachusetts
- New location needed to be twice the size of the current facility, have several more times the amount of frozen and refrigerated storage space, and be at the crossroads of major highways, Interstate 91 and the MA Turnpike
- The Food Bank provides healthy food to approximately 106,000 individuals and families every month including children, elderly, disabled or unemployed persons and veterans

501c3 Tax-Exempt Bond Case Study

Food Bank of Western Massachusetts

Project Costs:

Land & Site Prep
\$2,500,000

Construction
\$18,300,000

Soft Costs \$2,700,000

FF&E \$1,500,000

Capitalized Interest \$830,000

Closing Costs \$700,000

TOTAL \$26,530,000

Funding Sources:

Capital Campaign
\$10,400,000

Equity from sale of New
Market Tax Credits
\$6,400,000

Food Bank Cash
\$230,000

501c3 Tax-Exempt Bond
\$9,500,000

TOTAL \$26,530,000

501c3 Tax-Exempt Bond Case Study

Food Bank of Western Massachusetts

- \$9,500,000 tax-exempt bond
- 10 year fixed interest rate
- Draw down bond during 12 month construction period
- Interest only payments for first 5 years then converts to principal & interest payments
- Proceeds used to construct, furnish & equip a 63,000 sq. ft. food warehouse & distribution facility
- More than 2X size of current facility
- PB Partners, Inc. (People's Bank) purchased the bond
- 50 FT and 2 PT existing jobs.
10 FT and 3 PT new jobs projected



Food Bank of western MA New Facility



Value-Added Proposition to Food Systems Businesses

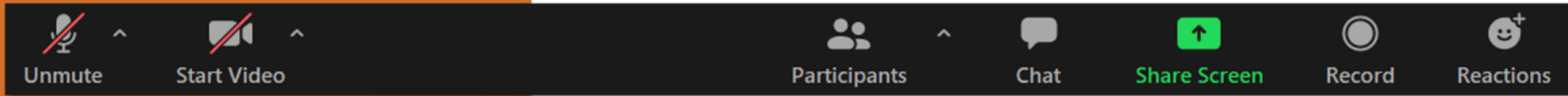
- Tax-exempt bonds provide financing at below market interest rates
- Borrower's maintain their relationship with their bank
- Issuers can often fill financing gaps through non traditional lending programs (loans and guarantees) where necessary or appropriate
- Issuers are a key partner in economic development and can help to bring other public/quasi public resources to the table

Contact Information

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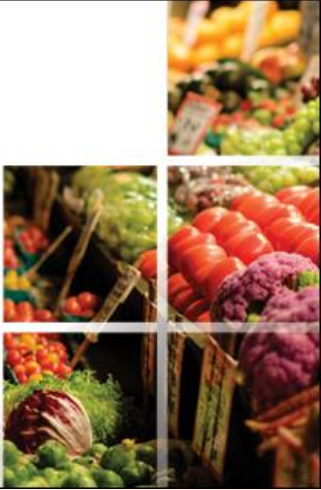
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Food Systems Finance



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Empowering Agriculture with PACE Financing

Tuesday, June 25, 2024 / 2:00 PM - 3:30 PM Eastern

Driving Food Systems Investments with Tax Credits

Tuesday, September 24, 2024 / 2:00 PM - 3:30 PM Eastern

Reframe, Build, Plan to Advance Food Systems Finance

Tuesday, November 26, 2024 / 2:00 PM - 3:30 PM Eastern

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Daily: 12:00 PM - 5:00 PM Eastern

Advanced Bond Finance Course

March 6 - 7, 2024

Daily: 12:00 PM - 5:00 PM Eastern

CDFA // BNY Mellon Development Finance Webcast Series: The Re-emergence of Bond Banks

Tuesday, March 19, 2024 / 2:00 PM - 3:30 PM Eastern

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