



Tax Exempt Bonds 101

This webinar will be a basic introduction to Tax-Exempt Bonds. It will include an overview of how they are used and types of projects and organizations that benefit from them as well.

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1



READS Overview

Building With Purpose!

- **Nonprofit real estate development company**
- **Expertise in community development finance, law, owners representation, contract negotiations, board governance, community organizing and architecture.**
- **Secured over \$100 M in financing to develop over 500,000 square feet of nonprofit real estate since 2003**
- **Projects include schools, early care facilities, affordable housing, nonprofit office space, community centers, neighborhood planning.**

2



Agenda/Questions We'll Answer

- **What are Tax Exempt Bonds (TEB)?**
- **Who issues TEB?**
- **Who is eligible to use TEB?**
- **What types of projects can be financed with TEB?**
- **Who buys TEB?**
- **Project comparison/requirements**
- **What is the process to securing TEB?**

3



Housekeeping

- *Mute your phone
- *Type any questions you may have throughout the presentation in the chat bar on the right of the screen.
- *Contact Lauren Bolline at 732-635-1000 x114 or via the personal chat function if you're having technical problems

4



What are tax exempt bonds (TEB)?

- A bond, issued by a municipal, county or state government, whose interest payments are not subject to federal income tax, and sometimes state or local income tax. It is simply a mechanism to borrow money. A government entity can issue bonds on behalf of nonprofits so that nonprofits can borrow at lower interest rates.

BONDS THEMSELVES ARE NOT A LOAN!!! Bonds simply provide an avenue for nonprofits to borrow money more affordably. Bonds are sold to bond buyers. The proceeds of the sale of the bond fund the loan to the nonprofit.

5



Who issues TEB?

- Municipalities, county and state government can issue bonds; however, only a few entities have the ability to issue bonds on behalf of nonprofits. In **New Jersey**, the **Economic Development Authority** regularly issues bonds on behalf of nonprofits. But county improvement authorities do so as well. In **New York**, **Industrial Development Authorities** can issue bonds on behalf of nonprofits; in **Delaware**, the **Delaware Economic Development Authority** can play this role.
- You will need to apply to one of the entities for bonds. Prior to issuance, you will need Bond Counsel (an attorney who specialize in TEB) to provide an opinion that your organization and the project meet the requirements of the TEB program.

6



Who is Eligible for TEB?

- In short, if your organization has a 501(c)3 designation by the IRS, your organization is eligible. However, you will be required to retain an attorney (“bond counsel”) who will review your organization’s tax status and your project to determine if both qualify for the program.

What types of projects are eligible?

- Tax-exempt bonds for not-for-profit organizations seeking capital to expand community services can be used to finance land and building acquisitions, new construction and renovations, equipment purchases, debt refinancing and working capital.

7



Who buys TEB?

- Banks, insurance companies, investment funds, etc. Many non-profits sell their bonds directly to a buyer (i.e. a bank). This is the most efficient form of a bond sale as it keeps the cost of the transaction low.
- However, your project will need to conform to traditional bank lending requirements including loan to value ratios, equity requirements, etc. Some nonprofits hire underwriters who will sell their bonds to institutional or private buyers. While there are higher upfront costs and higher interest rates, often nonprofits can get more advantageous terms.

8



Bond Comparison \$5,000,000 Project

Direct Purchase (i.e. by Bank)

- Amount of Loan = 70% of appraised value or \$3,500,000
- Interest Rate = 5%
- Term = 20 years
- Cost of Issuance = \$100,000
- Payment = \$24,000 mo
- Gap/Equity = \$1,500,000
- Total Cost of Debt = \$5,760,000
- Debt Ser. Reserve = \$75,000

Underwriter/Private Placement

- Amount of Loan = 100% plus of appraised value or \$5,000,000
- Interest Rate = 7.5%
- Term = 30 years
- Cost = \$225,000
- Payment = \$35,000 mo
- Gap/Equity = \$0
- Total Cost of Debt = \$12,600,000
- Debt Ser. Reserve = \$420,000

9

Project Comparison

Greater Brunswick CS Direct Purchase

- TDC* = \$8,000,000
- TEB = \$6,700,000 @4%x20yr
- EDA = \$1,000,000 @5%x20yr
- Equity = \$300,000
- Total \$8,000,000
- Mortgage Payment = \$45,000 mo
- LTV** = 85%
- Cost of Issuance = \$135,000

*TDC = Total Development Costs

**LTV = Loan To Value (the amount of money borrowed as compared to the appraised value)

Teaneck CS Private Placement

- TDC = 11,000,000
- TEB = \$9,900,000 @6.8%x30yr
- EDA = \$0
- Equity = \$1,100,000
- Total \$11,000,000
- Mortgage Payment = \$60,000 mo
- LTV = 100%
- Cost of Issuance = \$345,000

10

Refinance Benefit

Existing Debt

- Outstanding Loan = \$5 mm
- Term = 20 Years
- Current Interest Rate = 6.5%
- Current Mortgage Payment= \$37,000 mo

Refinance

- New Loan = \$5 mm
- Term = 20 Years
- New Interest Rate = 5%
- New Mortgage Payment= \$32,000
- Annual Savings = \$60,000
- Cost of Issuance = \$120,000
- Pay Back Period = 2 years

11



Should you use TEB?

- With out-of-pocket costs of greater than \$100K a rule of thumb, it is only financially advantageous if you are bonding roughly \$3,500,000 or more. However, all projects vary, and this should be considered on a case by case basis.
- Remember a bond is a loan, and you will need to evidence the ability to repay. Projected revenue or future grant income without a track record will most likely not satisfy a lender.
- Ensure your organization has a 501 (c)3 designation and your project is an eligible use.

12



So what is the process?

- **Step 1** – Create a **development budget** outlining all the project costs including acquisition, construction and soft costs (architect, attorney, financing fees, etc. Soft costs generally average about 20-25% of construction and acquisition)
- **Step 2** – Create a realistic **operating budget** evidencing your ability to repay the debt
- **Step 3** – Apply for bonds
- **Step 4** – Retain bond counsel
- **Step 5** – Secure buyer/underwriter

13



Sign-up for free technical assistance from READS on Tax Exempt Bonds:

<http://www.surveymonkey.com/s/33HJPPY>

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14