

GENERAL PROCEDURES

Tax-exempt bond financing through the IDA typically follows the steps below, although each issuance is unique and the procedures may vary depending on the individual circumstances.

1. Applicant decides to construct or renovate a facility within the City of Alexandria (the "Project").
2. Applicant 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.
3. Applicant obtains a commitment to purchase or place the bonds from a bank or investment banking firm which structures credit requirements (collateral, insurance, ratings etc.)
4. Applicant completes and files an application requesting the IDA to issue its bonds in an amount estimated to cover the eligible costs of the Project.
5. Notices of a public hearing are published.
6. The IDA holds a public hearing on the Project and, if the application is in order, adopts a resolution approving the application.
7. The City Council meets and adopts a resolution approving the bond issue. 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 and revised documents are circulated. All documents are finalized.
8. Financing documents are prepared and the final resolution authorizing the issuance of the bonds is adopted by the IDA.
9. All parties meet to execute the bond documents and close the bond issue. At closing, the bond proceeds are deposited in a special account to be requisitioned by the borrower to pay for costs of the Project.

NOTE: The Applicant agrees to make all payments of principal and interest on the bonds, and the IDA has no obligation to make payments on the bonds or to pay costs of the Project.

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POLICIES & PROCEDURAL GUIDELINES

The IDA has established the following policies and procedural guidelines governing its consideration of industrial revenue bond applications:

1. Projects will be considered for approval on a case-by-case basis.
2. The IDA charges the applicant administrative fees.
3. The IDA pays no costs, taxes, etc.; the applicant pays all expenses associated with the financing.

PROGRAM FEES

Administrative fees for a new money tax-exempt bond issue are:

- ▶ Application fee of \$2,500
- ▶ plus 1% of first \$1,000,000
- ▶ plus ¾% of next \$4,000,000
- ▶ plus ½% of the amount over \$4,000,000

Different fees apply for refunding issues, taxable debt in conjunction with tax-exempt issues and other actions and approvals of the IDA.

The IDA pays no costs, taxes, etc., and all legal fees and publication costs incurred by the IDA in processing the case are borne by the borrower.



INDUSTRIAL
DEVELOPMENT
AUTHORITY
OF THE
CITY OF ALEXANDRIA



FOR MORE INFORMATION

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**BOND
FINANCING
PROGRAM**

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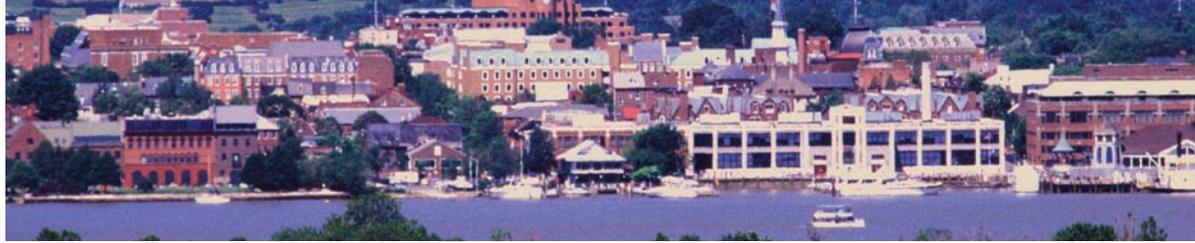




ABOUT THE INDUSTRIAL DEVELOPMENT AUTHORITY

The Industrial Development Authority (IDA) of the City of Alexandria, Virginia provides financing assistance to qualified businesses and organizations wishing to make an investment within the City of Alexandria. A seven-member body appointed by the Alexandria City Council for staggered four-year terms, the IDA was created by ordinance of the City Council according to the Industrial Development and Revenue Bond Act (Chapter 49, Section 15.2 of the Code of Virginia). The IDA acts as a conduit, issuing bonds and lending proceeds to 501(c)(3) organizations, small manufacturers and others. The financial markets set interest rates on such bonds below comparable rates for taxable financings because bondholders can exclude interest on the bonds from their gross income.

The IDA's bond financing program is a proven success in enabling non-profit organizations to purchase real estate and construct and equip facilities in the City. Applicants include some of the most active corporate organizations in Alexandria and generate significant tax revenues and jobs within the City. The IDA works closely with the Alexandria Economic Development Partnership, Inc. to promote the bond financing program, and all income generated by the IDA is dedicated to new and ongoing economic development efforts.



ELIGIBLE PROJECTS

Under applicable federal and Virginia law, a variety of projects can be financed with bonds issued by the IDA including the following:

- ▶ Headquarters and other facilities for 501(c)(3) organizations (other than primarily religious organizations)
- ▶ Medical facilities
- ▶ Elementary and secondary school facilities
- ▶ Pollution control facilities
- ▶ Higher education facilities
- ▶ Parking facilities
- ▶ Small manufacturing facilities

Working capital and certain interest payments on tax-exempt bonds often may also be included in the financing. It should be noted, however, that no portion of the proceeds of tax-exempt bonds may be used to provide any airplane, skybox or other private luxury box, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises. In addition, proceeds of tax-exempt bonds issued for the benefit of non-profit 501(c)(3) organizations cannot be used in connection with a trade or business unrelated to the 501(c)(3) organization's exempt purpose. Certain other federal and state restrictions may apply in determining whether a particular project is eligible for financing through the IDA.

Under federal tax law, the refinancing of tax-exempt debt issued on or after August 16, 1986 is generally possible if the proceeds of the new tax-exempt debt are used immediately to pay off the old tax-exempt debt and certain other limitations are met. Because of ambiguities under Virginia law, however, the ability of an exempt organization to refinance existing debt will vary depending on the circumstances. In certain cases, the organization may be required to obtain the approval of a Virginia court before proceeding with the transaction.

MINIMUM SIZE OF A TAX-EXEMPT FINANCING

While the law imposes no minimum size on tax-exempt financings, the complexities involved in structuring and obtaining approvals for such financings can result in transaction costs which are higher than those for comparable taxable financings. These transaction costs may make it prohibitive to undertake financings of less than a certain size, since the advantage to the borrower of lower interest rates would be offset by the increased transaction costs. Generally, a bond financing is most efficient when the size of the financing is at least \$1-\$2 million. To reduce these higher transaction costs, it is often possible to combine present projects with projects to be financed within the next few years or to combine financings for an exempt organization and its affiliates in a single issue.

FINANCING ALTERNATIVES

The same options available to a borrower in a taxable financing may be used in structuring a tax-exempt financing. Interest rates may be fixed or variable repayment schedules can be arranged to meet the cash flow needs of the applicant. Ratings or various forms of credit enhancement may be employed to improve the interest rate. Issues relating to credit and security must also be considered in structuring the financing. For publicly sold bond issues, an underwriter is engaged to ensure that each of these matters is addressed in a way that will accommodate the exempt organization's desire to minimize its debt service and the constraints imposed by the financing while addressing bondholders' concerns with payment and security.

Bank Qualification; New Rules for 2009 and 2010 under the American Recovery and Reinvestment Act of 2009 (ARRA). In general, banks and other financial institutions cannot purchase and hold tax-exempt bonds at



an effective interest rate because their carrying costs allocable to those investments are not deductible. Under an exception to the general rule, banks may deduct 80% of their carrying costs allocable to "bank-qualified" tax-exempt obligations, which are subject to eligibility restrictions and dollar amount limitations. ARRA significantly expanded existing bank qualification provisions for bonds issued by the IDA for the benefit of 501(c)(3) conduit borrowers; however, the ARRA rules apply only to bonds issued in 2009 or 2010. Pursuant to ARRA, an individual 501(c)(3) organization may finance up to \$30 million in bank qualified debt in each of calendar years 2009 and 2010, provided that the bonds are properly designated and are otherwise eligible. The advantages of bank-qualified debt are many. Bank qualified bonds generally carry a lower net interest cost than other tax-exempt obligations, issuance costs are generally lower than for publicly sold debt and such bonds can typically be issued more quickly than publicly sold debt. Non-profit 501(c)(3) borrowers should inquire about their lender's capacity and interest in holding bank qualified bonds if considering a new project or refunding bond transaction in 2009 or 2010.

HOW TO APPLY

As early as possible in the planning of the project, the applicant should contact the IDA for specific information on procedural considerations and to determine the information the IDA will need to evaluate the request. The Internal Revenue Code requirements to preserve the tax exempt status of the interest on the bonds are complex, and it is essential that applicants consult with legal counsel knowledgeable in the area of industrial development revenue bonds prior to submitting an application to the IDA. At this stage, it is also necessary for the applicant to approach potential lenders on a preliminary basis.

Please see the Bond Financing Application for more information and to review specific program requirements.

