

INDUSTRIAL DEVELOPMENT AUTHORITY

**TAX-EXEMPT BONDS FOR 501(C)3 ORGANIZATIONS**

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**INTRODUCTION**

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Tax-exempt bonds may be issued by the Industrial Development Authority of St. Louis County, Missouri (the IDA) to finance facilities owned by a 501(c)(3) that are used for its tax-exempt purposes. A 501(c)(3) organization is an organization described in Section 501(c)(3) of the Internal Revenue Code and includes charitable organizations.

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**BENEFITS OF THE PROGRAM**

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The 501(c)(3) tax-exempt bond program offers several advantages:

- Lower than typical interest rates are offered due to the tax-exempt status of interest to the purchasers of the bonds.
- The Authority and other participants are committed to ensuring a smooth and efficient process.

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**ELIGIBILITY**

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In order to qualify for tax-exempt financing, the following criteria must be met:

- Only 501(c)(3) Nonprofits Qualify. Not all nonprofit corporations qualify. Only a nonprofit corporation that has a determination letter or other evidence from the IRS that it is a 501(c)(3) corporation may qualify. The types of nonprofits that qualify as 501(c)(3)s are mainly those that have educational, health care, or religious purposes. It does not include nonprofits such as most social or fraternal clubs, country clubs, etc. Types of projects that are typically financed by nonprofit corporations on a tax-exempt basis include educational facilities, health care facilities, retirement, nursing or other long-term care facilities, YMCA-type facilities, and office buildings for use by the staff of the nonprofit entity.
  - Not Too Religious. Tax-exempt bonds cannot be used for projects that are purely religious purposes such as churches, chapels, schools of theology or divinity or schools as to which the religious instruction is too inherent in what is being financed.
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## PROJECT COSTS, SIZE

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The federal tax law permits the tax-exempt financing of capital costs for certain types of projects:

- Cost of Capital Items. Almost all capital expenditures can be financed. These primarily include land, building, fixtures, machinery and equipment. These include computer systems, telephone and other communication systems.
- Possibility of Refinancing Existing Taxable Debt. Unlike other bond projects, it may be possible to refinance on a tax-exempt basis certain existing taxable conventional debt (e.g., bank loans) even if there was no inducement resolution prior to or within sixty days of the expenditures. This can work only if the proceeds of the taxable loan were actually used for the expenditure rather than to reimburse the borrower for an expenditure out of its own funds.
- Costs of Issuance. Total costs of issuance financed from bond proceeds cannot exceed 2% of the bonds. Costs in excess of this limit (if any) must be paid out of other borrower funds.
- Few Tax Limits; No Volume Cap Allocation Is Needed; No Capital Expenditure Limits. There are few tax law limits on 501(c)(3) bonds. Unlike many bonds for other types of activities by private entities, no volume cap allocation from the State is needed for these bonds. Similarly, there are no limits on the amount of capital expenditures or the use of bond proceeds for land or use for used equipment.
- Bond Size Limitations. Projects over \$2,000,000 must use this regular tax-exempt bonds program. Only smaller projects (i.e., from \$500,000 to \$2,000,000) are eligible for the mini-bond program offered by the IDA, provided a bank or other financial institution purchases the bonds.

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## FINANCING CONSIDERATIONS

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In addition to eligibility and project cost considerations, the following are also important factors:

- Bond Purchaser. Upon request, the Authority will supply contacts at banks that have shown an interest in purchasing bonds. Alternatively, the bonds may be issued to the general public. In this case, the bonds are often backed by a letter of credit from a bank.
- Maturity of Bonds. The average maturity of the bonds cannot exceed 120% of the average reasonably expected economic life of the bond-financed project.
- Term of Bonds. The length or term depends upon the use of the bond proceeds (land, building, machinery, equipment, and other costs) and the expected economic life of the assets and the project. Amortization up to 20 years on land and building is typical. Amortization on machinery and equipment is dependent upon a number of factors including type of equipment, useful life and marketability.

- Interest Rate. Rates are negotiable and can float or be fixed.
  - Floating rates are normally calculated at rates lower than prime.
  - Fixed rates are normally calculated as a spread above an index such as U.S. Treasury Securities.
- Collateral. Tax-exempt bonds are underwritten and collateralized just like any conventional loan for the same project. Thus the bank approval process for bond programs does not differ from conventional financing.
- Reimbursement of Expenditures. Generally speaking, expenditures relating to a project made not more than 60 days prior to the approval of a resolution of the Board of Directors of the IDA declaring the intent of the IDA to issue bonds for the project are eligible for reimbursement from bond proceeds, provided that the bonds are actually issued within a certain period of time thereafter. In addition, certain “*de minimis*” and preliminary expenditures are reimbursable from bond proceeds. In some cases, it may be possible to use bond proceeds for repayment of existing debt.

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## FEES

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Please refer to the SLCEC website for the most current fee schedules.

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## APPLICATION PROCESS

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An application for a bond project must be completed and submitted to the IDA. The application contains a description of the project and will be used by legal counsel to determine project eligibility. It is important that the applicant not finalize any legal transactions, including sales contracts, before the application is submitted and reviewed by the Authority staff.

Once commitment by a bank is obtained and after assurance of eligibility, the project will be submitted to the IDA Board of Directors and, when necessary, to the appropriate municipal or county governing board for approval of the bond issuance. The entire process can be finalized within 60 to 90 days after the application is received.

Please make an appointment with the IDA, which will provide a complete analysis comparing the different programs to ensure the optimum financing program for you.

For additional information contact:

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