

Tax-exempt Bond Financing
For
Livestock Nutrient Management

Introduction

Tax-exempt industrial revenue bond financing for processing or manufacturing and qualified environmental facilities remains one of the most competitive financing options available for the acquisition or construction of facilities and equipment. Companies planning investment in certain environmental facilities and who are otherwise capable of securing bank financing meet the basic eligibility requirements.

Bond Financing for Agri-Business

Tax-exempt industrial revenue bonds are available to finance certain capital expenditures related to facilities commonly used in agri-business with interest rates 100 to 300 basis points (1% to 3%) below that of conventional debt. The two main categories of qualifying expenditures include Manufacturing and Processing Facilities and Qualified Environmental Facilities. This memorandum is intended to provide agri-businesses with a brief summary of the program and more specifically for Livestock Nutrient Management projects as Qualified Environmental Facilities.

Qualified Environmental Facilities

Tax-exempt industrial revenue bonds are now available to finance capital expenditures associated with the handling and/or processing of byproducts and livestock nutrients. Expenditures related to the recycling or disposal of such byproducts as whey, pulp, hulls, and animal renderings can be financed with these bonds as can a wide variety of other agricultural capital expenditures, including those for containment or processing of livestock nutrients and nutrient water treatment facilities.

Unlike general manufacturing tax-exempt bonds, there is no limit to the amount of capital spending that can be financed through tax-exempt environmental bonds.

Does Your Project Qualify?

1. Does the project involve environmental facilities?

The Internal Revenue Code of 1986 (the "Code") limits the availability of tax-exempt financing to manufacturing facilities and equipment, or facilities for the handling or recycling of livestock nutrients.
2. What is a solid waste environmental facility?

Regulations define solid waste environmental facilities as property or any portion thereof used for the collection, storage, treatment, utilization, processing, or final disposal of solid waste, i.e. livestock nutrients. Treasury Regulation, Section 1.103-8(f)(2)(ii)(b).
3. What costs are eligible for tax-exempt bond financing?

Any costs incurred for property or any portion thereof used for the collection, storage, treatment, utilization, processing, or final disposal of livestock nutrients up to the point that the livestock nutrients have value. Typically, in a livestock nutrient facility, value occurs at the time the nutrients leave the containment facility for field application.
4. Will the project result in an increase in the number of employees at the project location, the retention of jobs, or some other public benefits?

State law requires that the project result in some public benefits, including increased employment, job retention or some other benefit. Most definitely, all livestock nutrient environmental facilities provide public benefit through proper containment and handling of livestock nutrients.
5. Would the applicant otherwise qualify for a conventional bank loan?

From the bank's perspective, the credit analysis is essentially the same for a conventional loan and tax-exempt bond financing. Therefore, a bank willing to due a conventional loan can benefit the project by utilizing tax-exempt bond financing.
6. Have any costs been paid with respect to the project?

In order to reimburse the applicant for costs paid with respect to the project from bond proceeds, the Colorado Agricultural Development Authority must adopt a reimbursement resolution within 60 days of the date the cost was paid.
7. Does the applicant have any other tax-exempt bonds outstanding?

The Code limits the total amount of tax-exempt debt outstanding at any time for a private company to \$40 million for private-activity industrial revenue bonds. There is no such limitation for the issuance of bonds to finance environmental facilities.

The Bond Financing Process

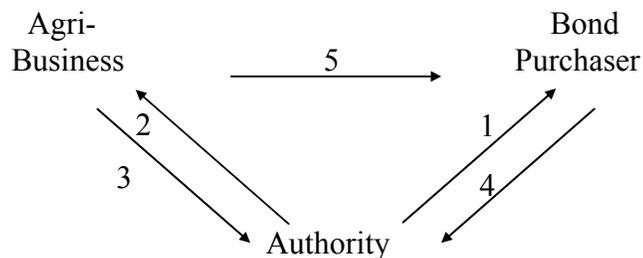
The bond issuance involves a number of steps, most of which can be pursued concurrently with the bank credit approval process.

The Process

PHASE:	Pre-Qualification	Application	Issuance
STEPS:	<ul style="list-style-type: none"> - Identify Environmental Expenditures - Complete Application 	<ul style="list-style-type: none"> - Submit Application - Resolution Approval - Public Hearing 	<ul style="list-style-type: none"> - Issuance Approval - Documentation - Bond Sale
TIME:	The CADA Board meets the fourth Thursday of each month.	Thirty Days	Sixty Days

How Does the Transaction Work?

The financing structure is fairly simple. The Program involves the Bond Purchaser, Agri-business, and the Colorado Agricultural Development Authority. The financing is accomplished as follows: in simultaneous transactions the Bond Purchaser purchases the bonds from the Authority; the Authority makes the loan to the Agri-business from proceeds of the bond sale; and then assigns the promissory note it receives from the Agri-business to the Bond Purchaser as security for the bond. Since the Bond Purchaser is secured by the promissory note, the Purchaser will typically be the applicant's bank. Payments are made from the applicant to the Bond Purchaser to repay the bond.



- 1) Bond purchased by Bond Purchaser from the Authority;
- 2) Bond proceeds lent by Authority to the Agri-business;
- 3) Agri-business gives promissory note to Authority;
- 4) Promissory note assigned to Bond Purchaser as security for the Bond; and
- 5) Agri-business makes loan payments to the Bond Purchaser.

As provided above, the bank will perform the credit analysis. The credit analysis is completed to determine collateral and down payment requirements, terms, and the tax-exempt interest rate. Since the bond issuance is non-recourse to the Authority, the bank maintains the same risk as conventional debt financing.

What is the Cost of the Program?

Application Fee

Each applicant must submit a \$200 application fee with the completed application.

Costs of Issuance

In addition, a bond issuance fee will be charged at time of closing. This includes all costs of issuance of the Bonds, including but not limited to the fees and disbursements of bond counsel, printing and recording expenses, and any other out-of-pocket expense incurred by the Authority in connection with the issuance of the Bonds.

Questions?

Any questions concerning the Livestock Nutrient Management Program should be directed to:

Executive Director
Colorado Agricultural Development Authority
700 Kipling St., Suite 4000
Lakewood, CO 80215-8000
303-239-4114
(Fax) 303-239-4125
coloradoagriculture.com