



Memorandum on Taxable Bond Fees

The bond counsel to the Albemarle County Economic Development Authority received an inquiry from another bond counsel to seek the EDA's interest in serving as a conduit for the issuance of a taxable bond for a prospective commercial development in Albemarle County. The EDA has not previously issued a taxable bond. Staff provided an application form to the requester. After reviewing, the requester provided information about the EDA's fee structure relative to other options available to the requester.

The Albemarle County Economic Development Authority administrative fee for bonds is \$750/\$1,000,000 of bonds originally issued (or prorated portion thereof) at closing and annually thereafter. An alternative available to the requester through the Public Finance Authority has a fee structure of \$40,000 at closing plus 3 basis points annually on declining balance. The amount of the financing being would be approximately \$17.225 million.

The Public Finance Authority is a governmental entity established under Section 66.0304 of the Wisconsin State Statutes, authorized to issue tax-exempt, taxable, and tax credit conduit bonds for public and private entities throughout all 50 states.

At its February meeting, the EDA requested that staff explore creating an alternative fee structure for taxable bonds and to develop some options for discussion.

Staff evaluated the PFA structure and note that this approach allows the EDA to recoup a greater fee at the time of issuance, recognizing the greater effort associated with preparing for and administering the issuance, while payments in year 1 and beyond are relatively lower, consistent with the lower level of effort to administer in the outyears. The following scenarios look at meeting the PFA rate; increasing the closing fee and decreasing the annual fee to roughly meet the PFA rate; increasing the closing fee and setting the annual fee to roughly cost +11% more over the life of the issuance than the PFA rate; or increasing the closing fee and setting the annual fee to roughly cost +17% more over the life of the issuance than the PFA rate.

By issuing the bonds through the Albemarle County Economic Development Authority, or another EDA located in the Commonwealth of Virginia, the requester will save annual state tax obligations that would be incurred by issuing through the PFA or another non-Virginia-based conduit issuer. Virginia EDA issued bonds benefit from Virginia tax exemption. Interest paid on these bonds is exempt from Virginia income taxation even if the bonds are taxable for federal income tax purposes.

Background on the EDA authority to issue bonds

Under the state code § 15.2-4908, the EDA can issue bonds in order to perform its special powers. When issuing bonds, the EDA serves solely as a conduit between the borrower and a third-party lender or underwriter.

Under state law, any bonds issued by the EDA do not constitute a debt or a pledge of the faith and credit of the EDA, Albemarle County or the Commonwealth of Virginia. Va. Code §15.2- 4909.B provides that neither the directors of the EDA nor any person executing the bonds shall be liable personally on the bonds by reason of the issuance thereof. Among other things, the bond documents will provide that the applicant indemnifies and holds the EDA, its directors, officers, employees, and agents, harmless from any liability and all costs incurred, including attorney fees, against claims arising from the EDA serving as a bond conduit.

Rate Scenarios for Discussion

\$17,225,000					
Fee Structure	Closing Fee	Annual Fees (total)	Total Fees Collected	% Diff. in Total	Notes
3 Basis Points	\$40,000.00	\$54,258.75	\$94,258.75	-	PFA Structure
3 Basis Points	\$45,000.00	\$54,258.75	\$99,258.75	5%	
3.3 Basis Points	\$45,000.00	\$59,684.63	\$104,684.63	11%	
3.6 Basis Points	\$45,000.00	\$65,110.50	\$110,110.50	17%	
\$750/\$1Mil	\$0.00	\$135,646.88	\$135,646.88	44%	Current EDA Rate