

CATTARAUGUS COUNTY CAPITAL RESOURCE CORPORATION-2011 REVIEW:

MISSION: *The purpose of the Cattaraugus County Capital Resource Corporation is to retain, promote, attract and develop job and business opportunities and economically sound commerce and industry in cities, towns and villages in Cattaraugus County. The CCCRC strives to foster and grow 501 (c) (3) entities in Cattaraugus County by helping them to be competitive and profitable by offering:*

- Financial Assistance, Business Incentives, Tax Exemptions, Bonds
- Improved Utilization & Development of Local Infrastructure

2011 was a very busy and active year for the Cattaraugus County Capital Resource Corporation. The past year brought many changes not only “internally” to the CCCRC, but more importantly many “external” changes in the ways the CCCRC can assist and promote economic development growth and retention for 501 (c) (3) entities here in Cattaraugus County.

It is to be noted that what is outlined below could not *and* would not have been possible with out the direction, guidance and most of all support, from the CCIDA Board Members, Staff & our Counsel, along with the members of the County of Cattaraugus Legislature.

The merit of establishing the Capital Resource Corporation, with great help from our Host Government, the County Legislature in 2010 has once again proven to be an asset with the issuance of a tax exempt Bond to the Olean YMCA in May of 2011. Through the issuance of the bond from CCCRC, the Olean YMCA has already reaped the benefits of tax exempt bond financing with savings in the hundred’s of thousands of dollars per year. This will keep the Olean YMCA finically stable and will allow for continued growth to its already 65 employees. Their services and programs are very much needed in our County.

With the help of our Bond Counsel, we put together a brochure that outlines the benefits and processes of the CCCRC. This brochure was presented to well over 35 501 (c) (3) entities over the past 2 years.

We continued to market and outreach the CCCRC through out the County in 2011. Again, since its inception, the CCCRC has issued two (2) tax exempt bonds in the combined amounts of nearly \$26,000,000. All in told, this represents entities with combined employment of nearly 1,000 people.

The CCCRC conducted well over 20 meetings in 2011, with hopes of another project/application in 2012-2013, again in the Health Care field. We are going to be setting up seminars and a continued outreach agenda for 2012.

ACCESS TO TAX-EXEMPT FINANCING

The CCCRC provides access to revenue bond financing. Interest on such financing may be (1) exempt from **both** federal and state income taxation (tax-exempt revenue bonds), or (2) exempt from **only** state income taxation (taxable revenue bonds).

The CCCRC is authorized to issue taxable and tax-exempt revenue bonds for qualified projects. Qualified projects include commercial, industrial, manufacturing, tourism and certain types of projects for not-for-profit corporations. The CCCRC acts a conduit financing entity for the financing of qualified projects with the proceeds of the sale of bonds. Banks, investment bankers, insurance companies and other financial institutions selected by the benefited company, purchase the bonds. Typically, the bonds are structured so as to convey the project to the CCCRC, then selling or leasing the project back to the benefited company with the lease or purchase payments being equivalent to the debt service payments due on the bonds.

This type of structure enables the benefited company to realize significant exemptions from certain United States (Federal) taxes and provides the same security to the financial institution purchasing the bonds as in a conventional financing at a lower cost to the client (in most cases the rates are a net two (2)% below conventional rates for eligible projects.

BENEFITS OF CCCRC BONDS

Eligible projects depending on the type of project financed and the financing structure, bonds issued by the CCCRC may have a lower interest rate than conventional financing structures. CCCRC tax-exempt bonds provide the holders of such bonds with certain exemptions from United States (Federal) income taxes, resulting in significantly lower interest rates (perhaps as much as 2% lower than comparable conventional rates) for the eligible project. CCCRC bonds (both tax-exempt bonds **and** taxable bonds) also provide the holders of such bonds with certain exemptions from income taxes imposed by the State of New York and municipalities within New York State (including the City of New York).

Using bonds issued by the CCCRC to finance a project may also enable a company to borrow at fixed rates and for a longer term that might not otherwise be available in the conventional financing market. In addition, projects financed with CRC bonds are eligible for real property tax abatements. CCCRC tax-exempt bonds may be used to finance projects as small as several hundred thousand dollars and as large as federal and state law will allow. The actual amount of CCCRC bonds to be issued will depend on the type of project, the financing structure of the project, and the requirements of the lender. In many cases, depending on the lender, the project may qualify for 100% financing.

PROJECTS ELIGIBLE FOR TAX EXEMPT BONDS

A company should consider financing its project with tax-exempt CCCRC bonds if the project constitutes a manufacturing facility, a not-for-profit facility, or an exempt facility (i.e. airport, dock or wharf, mass commuting facility, solid waste disposal facility or hazardous waste facility) as defined by the Internal Revenue Code (the Code). The use of tax-exempt CCCRC bonds could lower your net interest rate 2% to 3% per year.

Monies generated from the sale of CCCRC tax-exempt bonds issued to finance manufacturing or exempt facilities may only be used to finance land, building and equipment costs, not working capital, inventory, operating expenses or stock-in-trade. Monies generated from the sale of CCCRC tax-exempt bonds issued to finance not-for-profit facilities can also be used to finance working capital and to refinance certain existing conventional loans

It is important to understand that CCCRC issues bonds on a non-recourse basis and provides no credit enhancement. The bonds of CCCRC are not a debt of Cattaraugus County or the State of New York. Accordingly, the ability of the CRC to sell the bonds is premised solely on the creditworthiness of the Company. The bonds are paid out of the rental payments paid by the Company under a lease agreement or through the installment purchase payments paid by the Company under an installment sale agreement between the Company and CRC. The payments are typically assigned by the CRC to a corporate trustee who ensures that the funds are disbursed to the proper recipients.

The property involved will generally be used as collateral and the direct guaranty of the Company will generally be required. While CRC involvement does not guarantee the bonds in any way, the involvement by the CRC does convey certain value to the lender, including: (1) lower start-up costs based on incentive packet (2) a known, or predictable, phase-in of property taxes and (3) a local commitment to the project.

Before proceeding with a bond transaction it is important to weigh the cost of funds if the Company borrowed the money directly through a commercial lender transaction against the additional costs of documenting a bond transaction, in the form of bond counsel fees and, potentially, letter of credit fees,

underwriter fees, underwriter counsel fees, letter of credit issuer counsel fees, trustee fees and other incidental costs.

The projects that generally qualify for tax exempt bond financing are as follows:

- (a) a manufacturing facility within the meaning of 144(a)(12) of the Code.
- (b) a facility for a 501(c)(3) organization under 145 of the Code.
- (c) an exempt facility under 142 of the Code (e.g. the following types of facilities: airport, dock, wharf, mass commuting, sewage, solid waste disposal, qualified residential and hazardous waste).

An added benefit of tax exempt bond financing is being able to access the public market without incurring the cost of registration with the Securities and Exchange Commission, allowing the Company to obtain a long term, fixed rate financing or lower variable rate with a long term commitment which is available in the public market at an affordable cost.