

501(c)3 Tax-Exempt Bond Program

Financial constraints can limit the expansion plans of many 501(c)3 not-for-profit organizations whose project costs are dependent on fund raising pledges and collections. Because these collections can be irregular and sometimes insufficient, the progress of capital improvement projects can be impeded or postponed altogether, leaving the community without a vital service. Tax-exempt bond financing offers qualifying non-profit organizations the ability to access a low cost of capital for their long-term financing needs, which helps the organization reduce financing costs, improve cash flow and utilize the savings to expand programs without having to sacrifice needed capital improvement projects.

Eligible Borrowers:

Only those non-profits which are designated as 501(c)3 corporations by the Internal Revenue Service will qualify. The 501(c)3 certification must be evidenced by a determination letter from the IRS or other qualifying evidence. Examples of non-profits that will qualify as 501(c)3s are educational facilities, health care facilities, retirement, nursing or long-term care facilities, YMCA-type facilities and office buildings for use by the staff of the non-profit organization.

Fees:

-Application fee of \$1,000.00
-Annual fee of one-tenth of one-percent of the outstanding principal amount of the bonds. Annual fee capped at \$250,000.

Eligible Costs:

In general, tax-exempt financing may be used for the construction or acquisition of land and buildings, and for the purchase of equipment, furniture, fixtures or leasehold improvements. Certain closing costs can also be financed in the bond amount, provided that not more than 2% of the bond amount is applied to these costs.

Amount:

There is no maximum limit on the dollar amount of bonds which can be issued on behalf of 501(c)3 organizations. Because, however, of the initial transaction costs associated with this type of financing, it is typically not advantageous to issue bonds for projects which are below \$1,000,000 in size.

BENEFITS OF THE 501(c)3 TAX-EXEMPT BOND PROGRAM:

- **Lower-cost financing:** Since interest earned on the bonds is exempt from federal and state income taxes, interest rates are lower than those available through conventional financing. By utilizing low cost debt, non-profit organizations can preserve their investment portfolios and alleviate the need to postpone capital projects that may typically be dependent on fundraising campaigns.
- **Long-term financing:** This type of financing can provide longer terms than those typically offered through conventional bank loans: average maturity of the bonds can be up to 120% of the economic life of the assets being financed.
- **100% project financing:** With this type of financing, qualifying non-profits may be able to finance many of the ancillary costs of the project, including site preparation, capitalized interest during construction and some issuance costs.
- **Rate options:** Fixed and floating rate options are available through the placement agent of the borrower's choice.

For additional information and application materials, please visit our website <https://www.sbsd.virginia.gov> or call 804-786-1049.

Virginia Small Business Financing Authority
600 East Broad Street, Suite 300
Richmond, VA 23219