

## Economic Development Department

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### **El Paso County Nonprofit Bond Policy & Procedures**

Tax-exempt bond financing offers qualifying nonprofit 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. These transactions are designed to raise capital for revenue-generating projects that benefit the public.

#### **Eligible Borrowers:**

Only those nonprofits 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.

Qualified 501(c)(3) bonds may be issued for the benefit of organizations described in Section 501(c)(3) of the federal tax code if the property which is to be provided by the net proceeds of the issue is owned by that organization or by a governmental entity. The most common use of qualified 501(c)(3) bonds is for the acquisition, construction, renovation and equipping of hospitals, other health care facilities such as nursing homes and retirement communities, and educational institutions.

#### **Examples of nonprofits that will qualify as 501(c)(3)s:**

- Private educational facilities
- Hospitals or health care facilities
- Retirement, nursing or long-term care facilities
- YMCA-type facilities
- Office buildings for use by the staff of the nonprofit organization

#### **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.

Bond refinancings or “refundings” are used most frequently to achieve debt service savings on outstanding bonds. Although less frequent, refunding bonds can also be issued to remove or revise burdensome bond covenants or to restructure debt service payments.

- Refunding bonds are characterized as either current refundings or advance refundings. A current refunding is one in which the outstanding (refunded) bonds are redeemed within 90 days of the date the refunding bonds are issued. In an advance refunding, the refunded bonds are redeemed more than 90 days from the date the refunding bonds are issued. Changes to federal tax law in late 2017 eliminated the ability of governments to issue tax-exempt advance refunding bonds. Taxable advance refundings of tax-exempt or taxable bonds are still permitted.

**Issuance Amounts:**

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, nonprofit 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.