Summary
Request for City of Waukesha, Wisconsin to Serve as Conduit Issuer
for
Not to Exceed $8,000,000 Industrial Development Revenue Bonds to Benefit
Midwest Engineered Systems, Inc. Project

This will summarize the request of Midwest Engineered Systems, Inc., a Wisconsin corporation, and/or a related entity, and/or a limited liability entity to be formed (collectively, the "Company"), asking that the City of Waukesha, Wisconsin (the "City") consider an Initial Resolution to benefit the Company through the conduit issuance of industrial development revenue bonds ("IRBs") to finance a project located in the City consisting of the (i) acquisition and rehabilitation of an existing approximately 93,000 square foot facility located at 405 Commerce Street in the City of Waukesha, Wisconsin (the "Facility") to be operated by the Company to manufacture custom automation systems, (ii) acquisition and installation of equipment at the Facility, and (iii) payment of certain professional costs and costs of issuance (collectively, the "Project"). Small issue manufacturing IRBs must comply with both Federal (Sec. 144 of Internal Revenue Code) and State (66.1103 Wis. Stats.) laws. In an IRB transaction, a state or local governmental entity issues bonds and loans the proceeds from the sale of the bonds to a private entity for an authorized project. In Wisconsin, cities, villages and towns, as well as duly constituted redevelopment authorities and community development authorities may issue IRBs.

Prior to the Tax Act of 1986, the Tax Code permitted the issuance of tax-exempt IRBs for many types of projects including manufacturing, commercial, and wholesale and distribution facilities, among others. Section 144 of the Tax Code only permits the issuance of qualified small issues for manufacturing facilities. A "manufacturing facility" means any facility used in the manufacturing or production of tangible personal property (including processing resulting in a change in the condition of such property). A manufacturing facility includes facilities, which are directly related to and ancillary to a manufacturing facility, if such facilities are located on the same site as the manufacturing facility, and not more than 25% of the net proceeds of the issue are used to provide such facilities.

These IRBs are municipal bonds; however, they are <u>not</u> general obligations of the City. If the City agrees to issue bonds to benefit the proposed Project:

1. The City will <u>not</u> be liable for payment of the principal and interest on the bonds;

2. The City will <u>not</u> have ongoing responsibilities of monitoring or reporting with regard to the bonds or the Project.

3. The bonds <u>do not count</u> against the City's borrowing capacity. The City will not levy a tax for payment of the bonds.

4. The City will be reimbursed for all fees and costs incurred because of the IRB.

The City acts strictly as a conduit, which enables the Company to borrow at a lower rate of interest.

Because the bonds are issued by a governmental entity, the holder of the bond may exclude the interest on the bonds from gross income for federal tax purposes.

Inducement/Reimbursement

Companies considering IRB financing must obtain an Initial Resolution, also sometimes referred to as an "inducement resolution" or "qualified reimbursement resolution" from the municipality in which the Project being financed is located in order to preserve the option to use IRBs. The Initial Resolution is preliminary approval only and is non-binding as to the City or the Company but is required by Federal tax law and State law. If the Initial Resolution is adopted by the City, this will assure that when and if bonds are issued, all eligible project costs incurred no more than 60 days prior to the date of the Initial Resolution (including reimbursement of equity contributions or refunding of conventional financing), may be included in the ultimate IRB financing. Failure to have a qualified resolution may result in disqualifying certain costs.

By acting as the conduit issuer, the City can grant the Company a significant monetary benefit, at no cost to the City, because the Company will enjoy a lower interest rate as a result of using a bond structure. A lending institution will directly purchase the bonds. The lender for the bonds will look solely to the Company for repayment. Bondholders will not look to the City for payment. The City will assign all of its rights, liability and responsibilities under the bonds to the lender as the bondholder. The Company will be fully responsible for repaying the loan and must make the arrangements with the lender for the payment on the bonds. If the Company is not able to meet its payment obligations, the lender will realize on its collateral and enforce its rights against the Company. The City is not liable for payment.

The foregoing is just a brief discussion of tax-exempt financing. By issuing the bonds, the City will give the Company an interest rate benefit, because the tax-exempt bonds will be tax-exempt in the hands of the bondholders and, therefore, the cost savings passed along to the Company. It must be emphasized that the City will not be liable in any way on the bonds; the bonds are special, limited obligations of the City.

The Company respectfully asks that the (i) Finance Committee consider the Initial Resolution on March 12, 2024 and (ii) Common Council consider the Initial Resolution on March 19, 2024. For agenda purposes, the City should please describe the Initial Resolution as follows:

"Consideration of an Initial Resolution Regarding Industrial Development Revenue Bond Financing for Midwest Engineered Systems, Inc. Project. Information with respect to the job impact of the project will be available at the time of consideration of the Initial Resolution."

A representative of the Borrower will attend the Common Council meeting on March 19, 2024 to answer any questions regarding the proposed Project.