Monsanto

FROM
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JUL 26 1991

DATE: July 26, 1991

cc: Dave Caldwell - E3SA
Steve Littlejohn - B2ND
Loren Wassell - G4WF

SUBJ: **Tax Exempt Industrial Revenue Bonds**
Water Treatment Project

REF:

TO: J. J. Bagley

Pursuant to our conversation, below please find my attempt to put in plain language a very technical concept called CAP. At issue is critical funding for the pre-treatment water project for pollution reduction at the W.G. Krummrich plant.

Phase I of the project was initiated in 1989, and was supported by $13 million in tax-exempt industrial revenue bonds from the State of Illinois. Phase II requires capitalization at a level of $8.6 million. $6 million worth of capital allocation has been secured by the Southwestern Illinois Development Authority, leaving the need for the remaining $2.6 million allocation.

CAP is derived from a formula for each state, based on that state's population, which provides a total dollar figure for the state to allocate to capital projects, if those projects meet certain public benefit requirements set forth by the U.S. government.

The State then has a finite amount of capital allocation available for distribution to political subdivisions(usually cities, counties or development authorities). Some areas are more active than others, therefore, about the middle of the year, subdivisions indicate whether they will utilize the their allocation for the year. If they can not, the allocation is returned for distribution to areas which have eligible projects which exceed their allocation. The competition can be fierce, as projects are positioned for their required capitalization.

Example: Illinois has $500 million for distribution and ten counties. Eight counties indicate they will use all of their allocation and could use more, the other two will have $50 million left. The $50 million then goes back to the pot for distribution on a competitive basis to the eight counties, who have projects meeting the criteria.

Gaining tax exempt status significantly reduces the costs of funds for a project.

Your assistance in this matter is greatly appreciated. Should you have any additional questions on capital allocations, please do not hesitate to inquire.

DSW 136193

Kevin S. Cahill

K— Who decides how much more the development authority can use?

THE GOVERNOR & HIS ECON DEV. ADVISORS

K