COVID-19 RESOURCE CENTER

orrick

Many organizations eligible for tax-exempt financing are considering short-term taxable lines of credit, or increasing capacity under existing taxable lines of credit, in an effort to better manage cash flow in the coming months. Can organizations allocate draws on taxable lines of credit to capital expenditures and refinance such draws on a tax-exempt basis in the future?

Updated as of March 19, 2020:

Yes, as long as the organization allocates line of credit draw proceeds to capital expenditures no later than 60 days after the expenditure. Proceeds of the draw do not need to be used directly to make the capital expenditures. However, the organization should keep track of the capital expenditures allocated to line of credit draws in some fashion, but it can be fairly informal. The key is keeping track of the aggregate amount of line of credit proceeds that are allocated to capital expenditures. The organization can later roll such amounts into a tax-exempt refinancing transaction. One point to keep in mind is that the portion of the line of credit allocated to capital expenditures should not be paid down. For example, if $5 million is drawn for capital expenditures and $3 million is drawn for working capital, and the line of credit is later paid down to $4 million, only $4 million can be subsequently refunded on a tax-exempt basis. The working capital portion of the line of credit would be treated as being paid down first and only the remaining outstanding amount of the line of credit could be refinanced on tax-exempt basis.