



The Basics of Tax-Exempt Bond Financing

Presented by:

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1. Types of Bonds
2. Structural Options
3. Approval Process
4. Federal Tax Law Considerations
5. Securities Law Considerations

Tax-Exempt Bonds

- Obligations of state and political subdivisions the interest on which is exempt from federal income taxation
- Exemption from state income tax usually exempted on bonds issued in state of the issuer

Types of Bonds

- Governmental Bonds
- Private Activity Bonds
- Tax Increment/Special Assessment Bonds

Governmental Bonds

- Schools, courthouses, government office buildings, libraries, water and sewer systems, etc.
- Use and Payment Restrictions

The 10 Percent Test

- 90 % \geq of proceeds used for gov'tal purposes or
- 90 % \geq of debt service is from general tax revenues
- If $> 10\%$ of the proceeds are used for private business purposes and $> 10\%$ of the debt service comes from private sources, the bonds are private activity bonds

Private Activity Bonds

- Exempt Facility Bonds
- Qualified Small Issue Bonds
- Qualified 501(c)(3) Bonds

Exempt Facility Bonds

- Airports
- Docks and Wharves
- Sewage Facilities
- Solid Waste Disposal Facilities
- Facilities for the Furnishing of Water

Qualified Small Issue Bonds

- Manufacturing Facility Bonds
 - Definition of “Manufacturing Facility”
- Size Limitations
 - \$1 million
 - \$10 million election
 - \$40 million limit

Qualified 501(c)(3) Bonds

- Hospitals
- Health Care Facilities
 - Retirement Facilities/Assisted Living Facilities
- Educational Institutions
 - Primary, Secondary, Higher Education

Structural Options

- Fixed Rate Bonds
- Variable Rate Bonds
- Credit and Liquidity Enhancement
- Collateral Options
- Derivatives

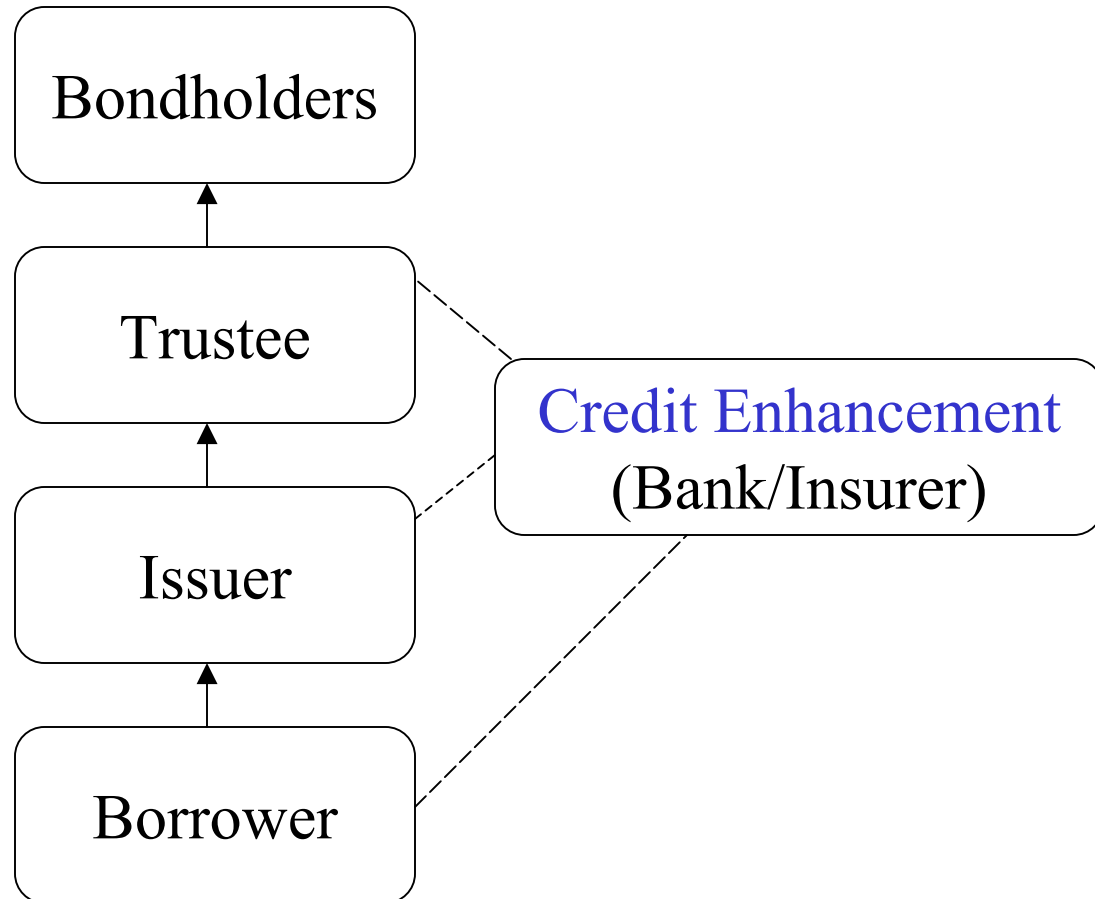
Instrument

Parties

Bonds

Trust Indenture

Loan Agreement/
Lease Agreement



Fixed Rate Bonds

- Term Bonds (bullet maturity)
- Serial Bonds
- Redemption Features
 - Optional and Mandatory Redemptions

Variable Rate Bonds

- Daily
- Weekly
- Monthly
- Semi-Annual

Credit and Liquidity Enhancement

- Credit Enhancement
 - Letter of Credit
 - Bond Insurance
- Liquidity Enhancement
 - Standby Bond Purchase Agreement

Other Collateral Options

- Real Estate Mortgage/Deed of Trust
- Covenants – Tax and Credit Driven
- Revenue Pledges
- Debt Service Coverage Requirements
- Debt Service Reserve Fund

Approval Process

- Application
- Inducement Resolution
- Notice of Public Hearing
- Public Hearing
- Bond Resolution
- Approval of Applicable Elected Representative
- Other Approvals (e.g., volume cap allocation)

Inducement Resolution

- Reimbursement Resolution
- Issuer or 501(c)(3) Borrower
- 60 day window

Public Hearing

- TEFRA Hearing
- 14 day notice requirement
- Description of project, location, amount of bonds, borrower, etc.

Bond Resolution

- Approves terms of the transaction
- Authorizes execution of bond documents

Approval of Elected Representative

- TEFRA Approval
- Valid for one year

Other Approvals

- Volume Cap
- State Environmental Requirements

Federal Tax Law Considerations

- Reimbursement Regulations
- Arbitrage
- Restrictions on Use of Proceeds
- Maturity Limitations
- Depreciation

Reimbursement Regulations

- 60 Day “Look Back”
- Preliminary Expenditure Exception

Arbitrage

- Limits the yield earned on bond proceeds
 - Not greater than yield on bonds
- Rebate requirement
 - Excess earnings paid to Government
- Exceptions

Use of Proceeds

- 5% “Bad Money”
- 2% Issuance Costs
- 15% Rehabilitation Expenditures Requirement
- 25% Limitation on the Acquisition of Land

Maturity Limitations

Average Maturity of Bonds

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120% of Average Reasonable Expected Life of
Financed Facilities

Depreciation

- Straight line depreciation

Securities Law Considerations

- Exemption from Registration
- Anti-Fraud Rules
- Continuing Disclosure

Exemption from Registration

- Securities Act of 1933
 - Exempts “any security issued or guaranteed by the United States, or by any political subdivision of a state”
- Blue Sky Laws
 - No registration required
 - Notice filing and fee

Anti-Fraud Rules

- Rule 10b-5
- Offering Document

Continuing Disclosure

- Rule 15c2-12
- Annual Financial Information
- Material Event Reporting

Follow-Up Questions

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