Qualified Private Activity Bonds

Qualified Private Activity Bonds (PABs) are the development finance tools that drive most projects involving both the public and private sector. When a PAB is "qualified," the interest on the bonds is exempt from federal income taxes, providing the borrower with lower-cost capital than would be available through taxable bonds or traditional bank loans.

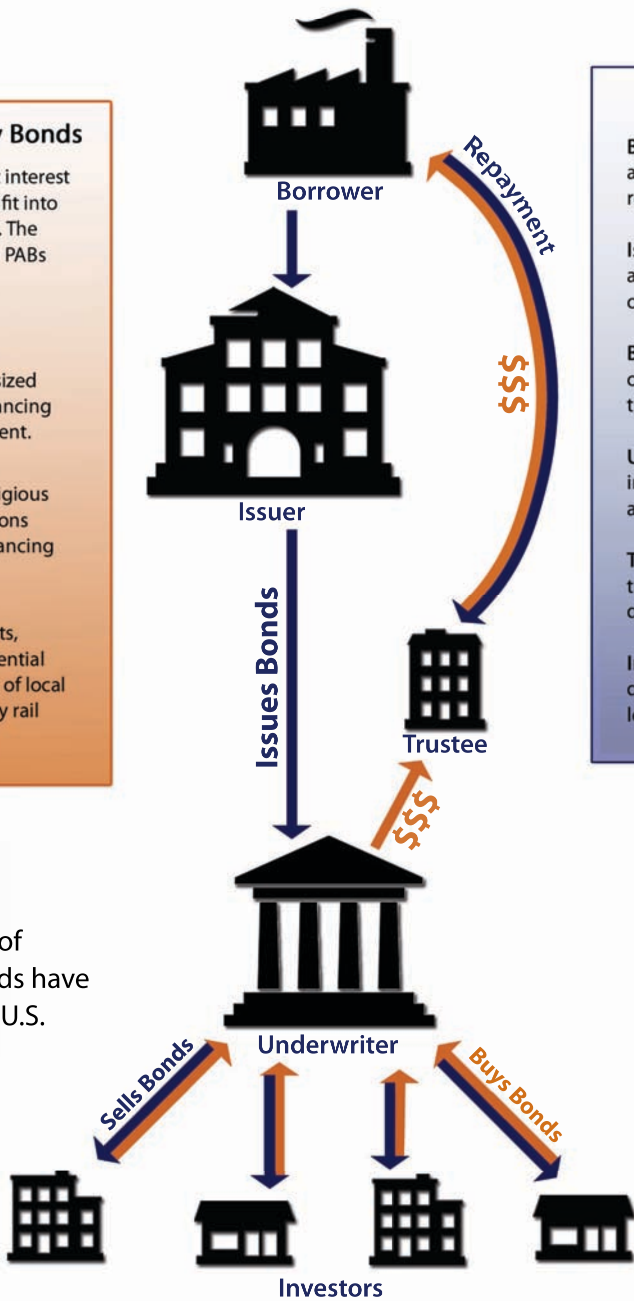
Unlike governmental bonds, PABs enable private entities to access the capital markets. This process is conducted through a conduit issuer, which is an agency or organization granted issuing authority from the state.

In its simplest form, a bond is a loan that is issued and sold to the investing public, while the sale's proceeds are used for project capital. In practice, bond financing is complex and is facilitated by the involvement of an issuer, underwriter, counsel, trustee, ratings agency, and borrower.

Types of Qualified Private Activity Bonds

In order to receive the benefits of a tax-exempt interest rate, private borrowers and their projects must fit into one of the federally-recognized PAB categories. The most common economic development-related PABs are noted below:

- **Industrial Development Bonds**
  Under the Qualified Small Issue Bonds for manufacturing category, small- and mid-sized manufacturers can access tax-exempt financing for their facilities, machinery, and equipment.
- **501(c)(3) Bonds**
  Nonprofit entities, including hospitals, religious or charitable groups, educational institutions and others, can qualify for tax-exempt financing for a variety of purposes.
- **Exempt Facility Bonds**
  A wide range of facilities, including airports, mass commuting facilities, qualified residential rental projects, facilities for the furnishing of local electric energy or gas, high-speed intercity rail facilities, can qualify under this category.



Participant Roles

Borrower - The borrower of qualified PABs must be a private business with a project meeting the requirements of a tax-exempt PAB category.

Issuer - PAB issuers are state or municipal entities and and authorities that support economic development or specific development project types.

Bond Counsel - The bond counsel provides a legal opinion assuring the qualified status, and therefore the tax-exempt eligibility, of the project.

Underwriter - The underwriter is the financial institution that sells the bonds (or directly purchases) and provides the proceeds to the borrower.

Trustee - Acting as a surrogate of the issuer, the trustee facilitates a bond issue by administering funds, disbursements, payments, and more.

Investors - Individuals and institutions invest in qualified PABs, providing the proceeds in return for longterm repayment, plus tax-exempt interest.

QUICK FACT

Since 2005, over $8.5 billion of Industrial Development Bonds have been issued throughout the U.S.

Model PAB Programs

Common Bond Fund Revenue Program - MN
The City of Minneapolis created a pooled bond program for manufacturers and 501(c)(3)s that secures an "A+" rating for participants.

Bond Guaranty Program - AR
The Arkansas Development Finance Authority provides projects with a guarantee backed by the Authority's "A" rating and low interest for participants.

Oregon Express Bond Program - OR
Business Oregon has standardized Industrial Development Bonds for projects under $5 million in order to reduce the time and cost of issuance.

More Resources at www.cdfa.net

- CDFA Online Resource Database
- CDFA Intro and Advanced Bond Finance Courses
- CDFA Bond Finance Resource Center
- *CDFA Advanced Bond Finance Reference Guide*
- *CDFA Development Bond Finance Reference Guide*

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