

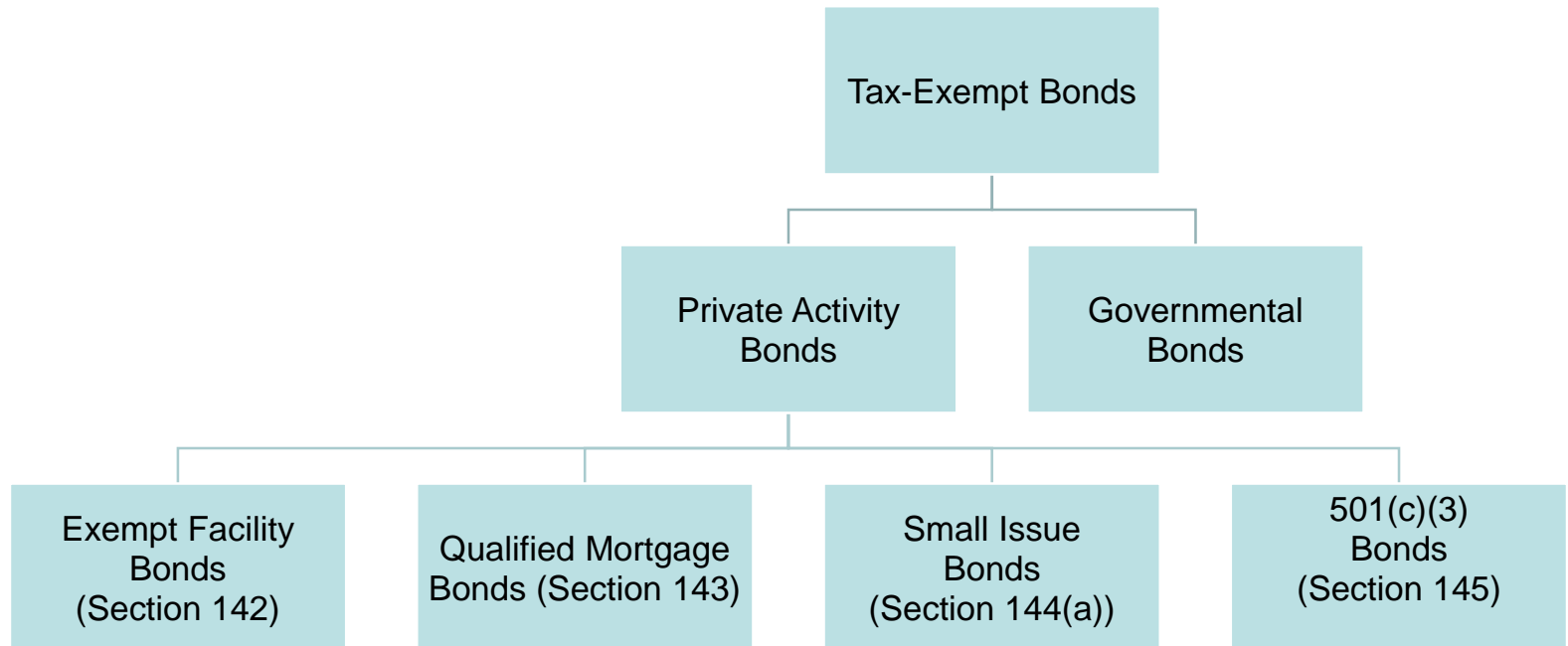


# Private Activity Bonds

# Private Activity Bonds

- Subject to U.S. Treasury Regulations
- Below market interest rates
- Issued in the name of a City, County, or State Authority (NIFA)
- Interest on the bonds is exempt from federal and Nebraska state income tax on the interest (extent of deduction depends upon investor's individual circumstances and type of project financed)
- The proceeds of a private activity bond (or "PAB") generally benefit a private user

# Types of Tax Exempt Bonds



# Allocation of State Volume Cap

- The State Bond Volume Cap resource is limited by federal law
- 2017 Nebraska Volume Cap: \$305,315,000
- An allocation from the State Bond Volume Cap must be obtained for each project that constitutes a “private activity bond” (501(c)(3) bonds)
- Executive Order 98-3
- 50% to Qualified Mortgage Bonds
- 20% to Multifamily, Agriculture, and IDB
- 30% to Governor Discretionary



# Public Purpose

- Create new or additional employment (number, duration, type average wage)
- Expand tax base and increased property, sales or other taxes
- Maintain and promote a stable, balanced and diversified economy



# Eligible Projects

- Small Issue IDBs
  - Manufacturing enterprises
- Exempt Facility
  - Qualified residential rental housing
  - Solid waste disposal facilities



# Eligible Expenses

- Building and Equipment
- Land (25% limit)
- Preliminary costs of architects, engineers, attorneys and permits
- Costs of bond issuance (2% limit)



# Size (\$) of Small Issue IDBs

- \$10 million limit (election)
  - Outstanding bonds for facilities in same incorporated municipality
  - Aggregate amount of capital expenditures for facilities paid or incurred during six year period (3 yrs before issuance, 3 years after)
- No company can use or benefit from a “small issue” IDB if the company’s total outstanding IDBs will exceed \$40 million nationwide



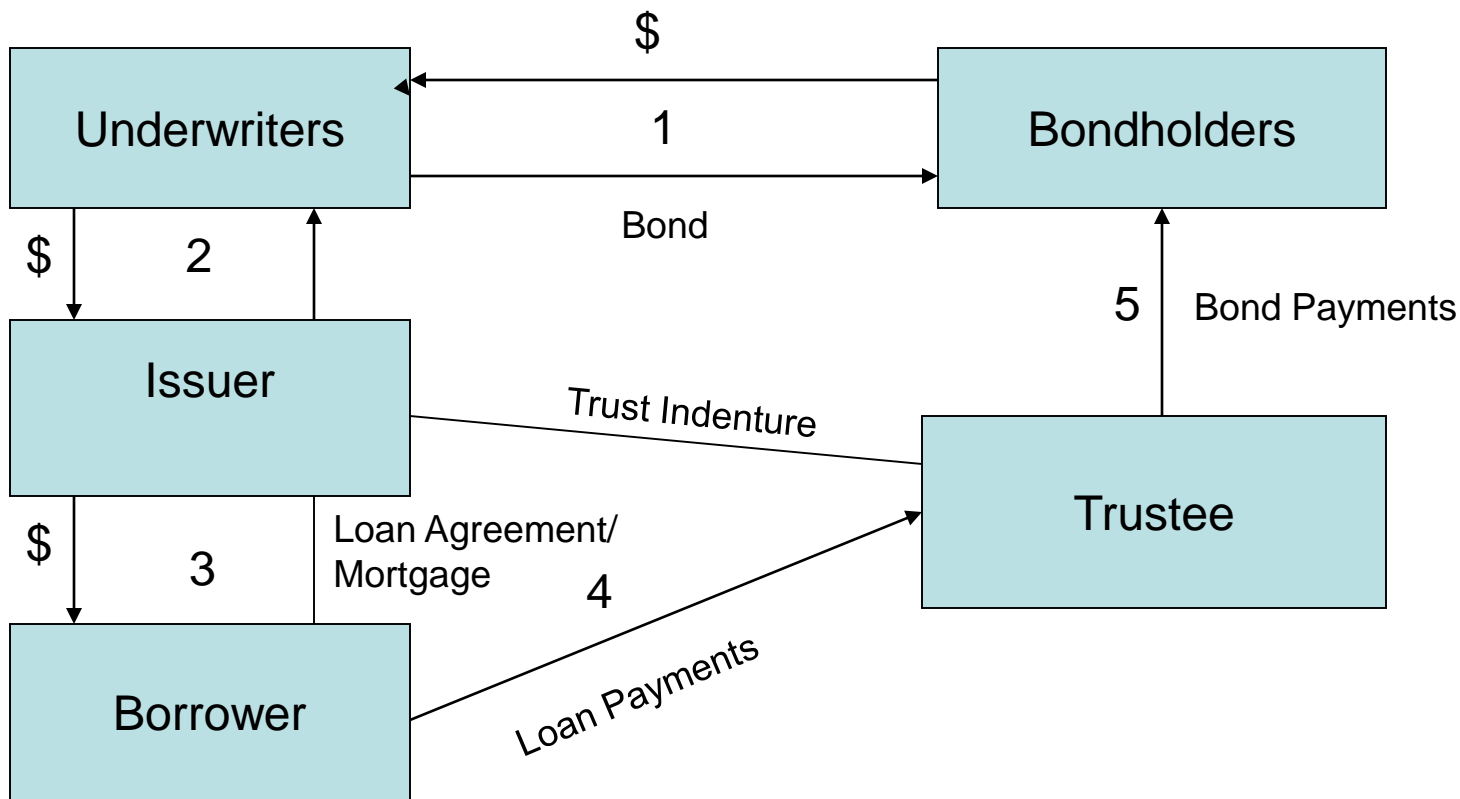


# Federal Restrictions

- At least 95% of the proceeds must be used for land or depreciable property
- No more than 2% of bond proceeds used for costs of issuance
- No more than 25% of bond proceeds may be used for land costs
- If an existing building is acquired, rehabilitation in an amount at least equal to 15% of the bond proceeds must be used to renovate the facility
- The life of the bond issue may not exceed 120% of the estimated useful life of the assets being financed



# A Bond Transaction



Uses: Finance land or depreciable property



# Parties to the Transaction

- Issuer (NIFA/City/County)
- Borrower
- Trustee
- Investment Banker/Underwriter
- Letter of Credit Lender
- Bond Counsel for Issuer
- Counsel for Borrower



# Credit Enhancement

- Guarantee that the principal and interest on the bonds will be paid when due
- Private Placement vs. Public Sale
  - Public Sale: NIFA requires a rating of “AA” or better by Moodys, Standard and Poors, or Fitch Ratings
  - Private Placement: must use NIFA’s Private Investor Letter



# NIFA Bond Issuance Process

- Submit tax-exempt financing application to NIFA
- NIFA staff review to determine project eligibility
- NIFA Board will consider the adoption of an Intent Resolution. Costs incurred more than 60 days prior to Intent Resolution will not qualify for tax-exempt financing
- Applicant contacts a financial institution or an investment banker (deal structuring)
- Applicant hires bond counsel to draft documentation for the financing
- Documents submitted to NIFA and its legal counsel for review



# NIFA Bond Issuance Process

- Submit a request to NIFA for private activity bond allocation
- Public Hearing on the project (at least 14 days) prior to final Board approval
- Applicant may request final approval from the NIFA Board when all terms are finalized
- NIFA may then approve a final Bond Resolution
- After adoption of the Bond Resolution and subject to final review by NIFA staff and NIFA counsel, all parties may execute documents and close the bond issue



# NIFA Contacts

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