# Development Finance:
# Tax-Exempt Debt

**Port Authority as a Conduit Issuer for Tax-Exempt Debt**

Governmental, nonprofit (501c3), qualified “private activity” and “exempt facilities” can be financed with tax-exempt bonds.

The Port Authority is a frequent issuer of tax-exempt conduit debt and has completed transactions for 3CDC, the Cincinnati Zoo, and various private schools.

**Benefits of Tax-Exempt Debt**

The principal advantage of tax-exempt debt is the lower cost of interest. Investors in tax-exempt bonds do not pay federal income tax on interest payments received on the bonds. These investors are willing to accept an interest rate lower than the interest rate on comparable taxable bonds. Some states exempt the interest on tax-exempt bonds from state income taxes, thus magnifying the benefit of tax-exempt financing.

**Types of Tax-Exempt Conduit Bonds**

There are many forms of conduit tax-exempt debt. The most common in this market are: 501(c)(3) Bonds, Industrial Development Bonds (also known as Small Issue Manufacturing Bonds), and Exempt Facility Bonds. All of these bonds require a “State or Local” government issuer to issue the bonds.

***501(c)(3) Bonds***

501(c)(3)s are organized for charitable purposes and serve the common good. Facilities owned and used by 501(c)(3)s can be financed with “qualified 501(c)(3) bonds”. Note that not all non-profits and charities will qualify - the borrower must have received a 501(c)(3) determination letter from the IRS.

Traditional qualified 501(c)(3) bond projects include:

- Hospital facilities owned by a 501(c)(3);
- Cultural facilities owned by a 501(c)(3) (e.g. museum or zoo);
- And school facilities for private 501(c)(3) primary and secondary schools.

Key requirements:

At least 95% of the bond proceeds must be allocated for capital expenditures including land, building, and equipment.

The average maturity of the bonds cannot exceed 120% of the average economic life of the assets financed.

Proceeds may finance up to 3 years of future capital needs.

Reimbursement for prior capital expenditures, subject to certain limits and requirements, including an Issuer board reimbursement resolution or evidence of an interim loan.

Gifts from a fundraising campaign that are restricted to pledges related to bond financed facilities will require a paydown of bonds equal to the amount of the gift within 12 months of receipt.

***Industrial Revenue Bonds / Small Issue Manufacturing Bonds***

Industrial Revenue Bonds ("IRB"), also known as Industrial Development Bonds ("IDB") or Small Issue Manufacturing Bonds are issued to facilitate economic and industrial development. They are tax-exempt bonds issued by a governmental entity to provide money for the acquisition, construction, rehabilitation, and equipping of manufacturing and processing facilities for private companies.

Key requirements:

Maximum amount – $10 million

Qualifying Costs – At least 95% of the bond proceeds must be spent on a "manufacturing facility".

Manufacturing Facility - a facility used for the manufacturing, production or processing of tangible personal property. No more than 25% of the bond proceeds can be applied to ancillary office, warehouse or other space. Land – No more than 25% of the bond proceeds can be used to acquire land.

Acquisition of Existing Manufacturing Facilities – The acquisition of an existing facility can be financed if at least 15% of the portion of the bond amount used to purchase the facility is spent on rehabilitation of the building within a two-year period.

Used Equipment – If bond proceeds are used to acquire used equipment, 100% of the cost must be spent on rehabilitation of the equipment within a two-year period.

Maturity – Average maturity cannot exceed 120% of the average economic life of the assets financed.

No Working Capital or Inventory – Bond proceeds cannot be used to finance working capital or inventory.

Historical and forward looking (3 years) capital expenditure limitations apply.

### *Exempt Facility Bonds*

Eligible projects include: Airports, docks and wharves; mass commuting facilities; hydroelectric enhancements; water furnishing; sewage facilities, solid waste disposal facilities; residential rental facilities; local electric/gas facilities; local heating/cooling facilities; hazardous waste disposal facilities; high-speed intercity rail facilities; public educational facilities; green buildings; highway or surface freight; transfer facilities; Enterprise Zone facilities; Midwestern Disaster facilities.

Key Requirements:

25% of the proceeds can be used for the acquisition of land.
If used to acquire existing structures or equipment, facilities must undergo substantial rehabilitation.

Facilities must be depreciated for tax purposes using the straight-line method.
Weighted average maturity cannot exceed 120% of the average useful life.

### Role of the Port Authority

The Port of Greater Cincinnati Development Authority is an economic development agency that initiates projects to stimulate growth and increase property values throughout Hamilton County. As a quasi-governmental agency, the Port Authority is an eligible issuer of conduit tax-exempt bonds. Within these deals, the Port Authority acts as a conduit and assumes no responsibility to repay bonds from its funds. The Port Authority is deeply committed to bringing its relationships, tools and expertise to benefit the project / owner, and regularly works with the relationship bank and other members of the project team to achieve the best structure possible.

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