



## LUZERNE COUNTY'S NON-PROFIT TAX-EXEMPT FINANCING PROGRAM

The Non-Profit Tax Exempt Financing Program is offered by the Luzerne County Board of Commissioners, through a cooperative effort between the Office of Community Development and the Industrial Development Authority.

The following guidelines are intended to give an overview of the Non-Profit Tax-Exempt Financing Program ("Program") under the Internal Revenue Code ("IRC") and the Economic Development Law of Pennsylvania. Luzerne County, through the Office of Community Development and Industrial Development Authority administers the Program.

The Program assists in the financing or refinancing of eligible activities to be used by Non-Profit 501 (c)(3) of the IRC ("Non-Profit") for tax-exempt purposes from the Internal Revenue Service through the tax-exempt bond financing.

Under the Program an applicant can finance eligible activities either through the Capital Market or depending on the size utilizing a conventional bank. Since the interest that is paid on the bonds is exempt from federal and state income tax, the interest rate is reduced. The interest rate on the bonds is dependent on the financial strength of the Non-Profit, the marketability of the assets that securing the issue or credit enhancements. The term of the bonds is tied to the life of the asset being financed.

The IRC permits the tax-exempt financing of certain eligible costs. Some of the provisions include:

**ELIGIBLE COSTS:** Almost all capital expenditures can be financed. These primarily include land, new and existing buildings, new and used machinery and equipment. These include computer systems, telephone, communication systems and vehicles if related to the Non Profit purpose.

**TERM OF BONDS:** The length or term depends upon the use of bond proceeds and the expected average economic life of the assets and the project. Amortization up to 20 years on land and building is typical. Amortization on machinery and equipment is dependent upon a number of factors including type of machinery, useful life and marketability. The weighted average maturity of the bonds may not exceed 120% of the average reasonably expected economic life of the assets financed with bond proceeds.

**REFINANCING OF EXISTING TAXABLE DEBT:** It may be possible to refinance on a tax-exempt basis certain existing taxable conventional debt (i.e. bank loans).

**INTEREST RATES:** Rates are negotiable and can be variable or are fixed.

- Variable rates are normally calculated at rates lower than prime.
- Fixed rates are normally calculated as a spread above an index such as U.S. Treasury Securities.

**COLLATERAL:** Tax-exempt bonds are underwritten and collateralized just as any conventional loan for the same period. In a “Bank Qualified” issuance the bank approval process does not differ from conventional financing.

**REIMBURSEMENT OF EXPENDITURES:** Generally speaking, expenditures relating to a project made not more than 60 days prior to the approval of a resolution of the Non-Profit declaring the intent of the Non-Profit to incur tax-exempt debt for the project are eligible for reimbursement from the bond proceeds, provided that the bonds are actually issued within a certain period of time. In addition, certain “*de minimis*” and preliminary expenditures are reimbursable from bond proceeds.

**COST OF ISSUANCE:** Total costs of issuance financed from bond proceeds cannot exceed 2% of the bonds. Costs in excess of this limit (if any) must be paid out of other funds.

The Program prohibits funding to religious facilities. If the Non-Profit has a religious affiliation, verification that none of the funding will be used to finance religious facilities and that the facility will not be limited to use by, or preference given to persons of a certain religious affiliation.

An application for a project must be completed and submitted to the Authority. The application contains a description of the project and will be used to determine eligibility. Once eligibility has been assured and a commitment by a bank is obtained the project will be submitted to the Authority and County for approval of the bond issuance. The entire process can be finalized within 45 to 60 days after the application is received and the bank has approved the purchase of the bonds.

**MBE/WBE:** It is the policy of the Luzerne County Office of Community Development to encourage applications from minority and women owned businesses. All businesses receiving funding through the Luzerne County Office of Community Development are encouraged to utilize the services of minority and/or women owned businesses.

**EQUAL EMPLOYMENT OPPORTUNITY:** No business receiving funding through the Luzerne County Office of Community Development shall discriminate against any individual because of race, color, religion, sex, national origin, age, disability, or familial status.

FOR FURTHER INFORMATION CONTACT:

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SPONSORED BY THE LUZERNE COUNTY BOARD OF COMMISSIONERS:

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