



LUZERNE COUNTY'S PRIVATE ACTIVITY BOND PROGRAM

The Private Activity Bond 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.

Private Activity Bonds ("PAB") are a category of bond that can be tax-exempt if they meet the Internal Revenue Code ("Code") requirements of one of the qualified PAB categories of bonds. The tax-exempt bonds that are typically issued by the Luzerne County Industrial Development Authority ("Authority") are Small Issue Bonds and 501 (C) (3) Bonds.

Small Issue Bonds for manufacturing facilities are one category of qualified private activity bond (commonly known as Industrial Development Bonds ("IDBs") or Industrial Revenue Bonds ("IRBs")). The Tax Reform Act of 1986 is legislation that significantly redefined tax exempt bonds and created two broad categories of tax-exempt bonds – Governmental and Private Activity Bonds. While the Tax Reform Act authorized qualified Private Activity bonds, it also placed several limitations on their use, and reduced pre-1986 demand as a financing tool.

IDBs are typically exempt from both federal and state tax for the purchaser allowing for the borrower to benefit from lower interest rates. IDBs offer savings in contrast to "Prime" based commercial loans or the corporate bond market. Savings can be in the 200 basis point range depending on the credit worthiness of the applicant.

IDBs are structured and sold as "conduit" issues under which bond payments are secured by the corporation and any credit enhancement, provided through bond insurance or a bank letter of credit. Investors have no recourse to the Authority as issuer if bonds are not repaid.

Small Issue Bonds are subject to the volume ceiling or cap on private activity bonds. The annual "cap" for each state that is being phased in to reach \$225 million per year or \$75 per-capita by 2007 (from \$50).

The Code defines a "manufacturing facility" to include facilities "directly related and ancillary to a manufacturing facility" if not more than 25% of the net proceeds of the issue are used to provide such facilities. The use of IDBs is limited to a "manufacturing facility, defined as any facility that is used in manufacturing or production of tangible personal property, including processing resulting in a change in the condition of such property.

Capital Expenditures by users of IDBs cannot exceed \$20 million in the related municipality during a six-year period beginning 3 years before the date of issue to 3 years after the date of issue. The total outstanding principal nationwide cannot exceed \$40 million.

Not-For-Profit (“NFP”) organizations, known as 501 (C)(3) entities are generally eligible for tax-exempt financing when they meet the requirements of the Code relating to Qualified 501 (C)(3) bonds. These NFP bonds can be issued as “bank qualified”. Bank qualified issued bonds allow certain financial institutions, particularly commercial banks to deduct 80% of the interest associated with purchase of bank-qualified issues.

The Authority as bond issuer cannot issue more than \$10 million of governmental to NFPs organizations in a calendar year. IDBs do not qualify for “bank qualified” treatment. The majority of IDBs were transacted in this manner prior to the Tax Reform Act of 1986. Bank qualified bonds are transacted with lower issuance fees. NFP bonds are exempt for the volume cap.

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:

Luzerne County Office of Community Development
54 W Union St., Wilkes-Barre, PA 18711
Wilkes-Barre – (570) 824-7214
Hazleton – (570) 459-1814
Pittston – (570) 693-3800

SPONSORED BY THE LUZERNE COUNTY BOARD OF COMMISSIONERS:

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