

## Private Activity Bond (PAB) Proceedings

### Industrial Development Authorities Benefit the Private Sector

- Industrial Development Authorities (“IDAs”) exist primarily to act as a *conduit issuer* of *private activity bonds*.
- An IDA *private activity bond* (“PAB”) financing is usually designed for private sector users, and the government does not pledge its credit.
- These bonds are used to attract private investment for projects that have some public benefit, and they typically result in reduced financing costs because of the federal tax exemption on interest paid on the bonds.
- A private sector *conduit borrower* is responsible for all principal and interest payments associated with an IDA *revenue bond*.
- IDAs can also issue single-family mortgage revenue bonds to facilitate low-interest loans for first-time homebuyers. In those instances, there is no conduit borrower and the bonds are secured by the mortgages.  
(See text box for definitions of *italicized* terms.)

**Tax-Exempt Bond:** A bond in which the interest income that a bondholder earns is free from federal, state and local taxes.

**Private Activity Bond (“PAB”):** Tax-exempt bond issued by or on behalf of local or state government to provide lower-cost financing benefits for qualified projects.

**Revenue Bond:** Bond that is payable from a dedicated revenue stream that is generated from a project, such as tolls, fees, rents, and other revenue-generating sources.

**Conduit Issuer:** The entity that issues private activity revenue bonds for the benefit of private users to finance revenue-generating projects. The financing is backed either by (i) a conduit borrower’s credit or (ii) funds that private third-party investors pledge toward the project.

**Conduit Borrower:** The private user of revenue bond proceeds who uses the funds to finance a revenue-generating capital project.

### Industrial Development Authority Facts

- IDAs are formed under the Industrial Development Act of Arizona of 1968 (the “IDA Act”). [Title 35, Chapter 5, of the Arizona Revised Statutes]
- State statute requires IDAs to incorporate as a nonprofit corporation, and designates them as independent political subdivisions of the State. [A.R.S. §§35-751(A), 35-702(A)]
- An IDA must be formed on behalf of a municipality or county and only one IDA can be in operation on its behalf at any time. [A.R.S. §35-702(B)]
- In 1981, **the Phoenix IDA** was incorporated as an Arizona nonprofit corporation, and in accordance with the IDA Act, it functions as an independent political subdivision of the State.

### Eligible Private Activity Bond Projects

- IDAs have statutory authority to issue PABs for projects that most Arizona local governments do not have the authority to issue. The IDA Act enumerates 17 types of qualifying projects that IDAs may finance. For a complete list, please refer to [A.R.S. §35-701(8)].
- The Phoenix IDA has statutory authority to issue revenue bonds for projects located anywhere in Arizona, and may also issue bonds to finance projects outside of Arizona, if the out-of-state project provides a benefit within the State, as determined by the Phoenix IDA’s Board of Directors. [A.R.S. § 35-706(A)(16)]

## Private Activity Bond Characteristics

- The IDA Act allows the Phoenix IDA to issue PABs under the federal tax code and state tax code. The IDA Act also allows the Phoenix IDA to serve as a conduit issuer between private lenders and private users with respect to the issuance of private activity revenue bonds. [A.R.S. §§35-706(4), 35-721, 35-722, 35-741]
- The Phoenix IDA has no power to issue general obligation bonds.
- The Act requires that all principal and interest associated with the revenue bond be paid from the conduit borrower's own revenues, as specified in the bond documents. [A.R.S. §35-721(A)]
- The Phoenix IDA's revenue bonds are non-recourse. If a project fails and goes into default, the principal and interest obligation is the conduit borrower's debt obligation, rather than that of the Phoenix IDA, the City of Phoenix, or the State of Arizona.
- In some instances, such as charter schools that receive state funding, Phoenix IDA bonds can be repaid with funds provided by another governmental entity.

**General Obligation (“GO”) Bond:** A municipal bond backed by the credit and "taxing power" of the issuing jurisdiction rather than the revenue from a given project.

## Proceedings

### Phoenix IDA Board of Directors

- State statute requires the Phoenix City Council to approve the appointment of the Phoenix IDA' Board of Directors. [A.R.S. §35-705]
- The Phoenix IDA's Board of Directors approves a resolution indicating the intent to issue revenue bonds for a specific project in a specified amount.

### Phoenix City Council

- State statute requires the Phoenix City Council to approve allowing the revenue bond proceedings to move forward after the Board of Directors has approved a resolution, and in many cases, a public hearing has been held, as required by the federal tax code. [A.R.S. §35-721(B)]
- The Phoenix City Council does not approve any use of City taxpayer dollars with regard to a Phoenix IDA revenue bond. No City dollars are ever used or pledged in connection with a Phoenix IDA revenue bond.

### Arizona Attorney General

- State statute requires the Phoenix IDA to notify the Arizona Attorney General's Office of its intention to issue revenue bonds. The Attorney General has ten days to inform the Phoenix IDA if the project does not qualify for financing in accordance with the state statute. If the Attorney General issues a negative opinion within ten days, the Phoenix IDA's revenue bonds cannot be issued. [A.R.S. §35-721(F)]