

An Overview of Private Activity Bonds

Expanding companies, particularly in manufacturing, sometimes seek new sources of funding for capital expenditures. The State of Utah offers one such source of liquidity in the form of Private Activity Bonds (PAB).

PABs are tax-exempt bonds issued by or on behalf of a local or state government for the purpose of providing special financing benefits for qualified projects. Sometimes referred to as conduit bonds, PABs allow governments to borrow on behalf of private companies, acting as a cost-effective alternative to corporate bonds.

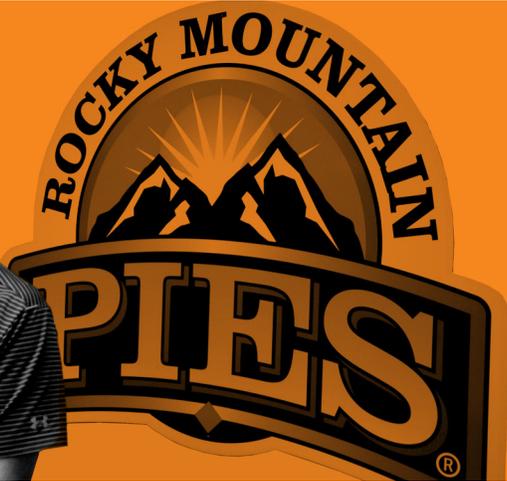
In Utah, a good portion of state PAB funds go toward manufacturing investments or other business expansion projects. Several EDCUtah clients have utilized PAB financing in the past.



Colby Cooley, Vice President of Business Development
Economic Development Corporation Of Utah

“Early on, we used the Private Activity Bond program as a tool to help us acquire manufacturing equipment. Our success is, in part, because we were able to access funds to help us at the start-up of our company.”

MARK "PAR" GRANDINETTI
President, Rocky Mountain Pies



Utah's PAB Program

The Private Activity Bond (PAB) Program is Utah's tax-exempt bonding authority creating a lower cost, long-term source of capital under the Federal Tax Act of 1986. The Federal Government allocates over \$37 billion per year to states on a per capita basis, with Utah receiving \$357 million for 2021. Of that, nearly \$43 million went to Manufacturing projects.

Private Activity Bonds are issued for the benefit of private individuals or entities and are issued on a tax-exempt basis if they are “qualified,” meaning they fit under any of the seven categories outlined by the Internal Revenue Code. (Utah uses four of the categories.)

The owner (buyer) of a tax-exempt bond does not pay federal income tax on the interest received on such bonds; consequently, tax-exempt bonds bear lower interest rates than bank loans or taxable bonds. This lower borrowing cost is passed on directly to the borrowing entity.

Program Benefits

The Utah Department of Workforce Services (DWS) oversees the program. Generally, per the Utah program website, benefits include:

- State and Federal laws allow manufacturing companies to use a city or county's name and tax-exempt financing status to issue tax-exempt bonds.

- If all tax requirements are met, bond issues are exempt from federal income taxes and possibly state and local taxes.
- Interest rates of tax-exempt bonds are usually lower than taxable bonds.
- There is no guarantee, debt, liability, obligation or pledge of faith by the city or county issuing the bonds.
- Governmental entities are willing to do this because PABs meet a public purpose or create a public benefit, i.e. creation of jobs from a new manufacturing facility.
- Tax-exempt bonds provide an alternative, low-cost, source of funds to finance capital expenditures.

Application Fees

Application fees are due at the time of application submission for review and approval by the Board. Omission of fees will render applications incomplete and subject to disqualification.

The Application Resubmission Fee only applies to projects that were previously submitted, approved and received an allocation of volume cap, but were not able to issue the bonds. Resubmitted applications must be the same exact one that was previously approved. Any changes to the application, including the amount of volume cap requested, will be considered “First Time” applications.

Application Amount	First Time Application Fee	Application Resubmission Fee
Under \$3,000,000	\$1,500	\$750
\$3,000,000 – \$5,000,000	\$2,000	\$1,000
Over \$5,000,000	\$3,000	\$1,500

“With competitive financing packages, the PAB Manufacturing bond has helped CSS Composites expand our facilities and equipment to meet market demand for our products and services.”

“Thanks to the State of Utah for being so business friendly and having programs like the PAB bonds. The program allows rural communities to encourage more businesses to locate and bring much needed jobs to their areas.”

JIMMY SEEAR
Co-Founder CSS Composites



Funding Caps

DWS notes that the cap for Manufacturing projects is \$10 million per application and \$20 million for the life of a project. The web site indicates that applications for bond funding under \$3 million are accepted (see Application Fees below) but does not indicate a minimum size.

Application Process and Timing

DWS will send interested parties a spreadsheet that serves as an application. Note the application is very detailed in terms of financial and other required information. It is subject to GRAMA inquiries but applicants can protect trade secrets and other information that could potentially lead to competitive disadvantages.

Completed applications are generally due about 50 days prior to the next PAB quarterly board meeting. An exact schedule is displayed in the Excel worksheet.

Things We've Learned

A recent EDCUtah project has secured \$10 million through PAB, and is applying for another round. Based on conversations we've had with the project's executive, here are some things about the PAB program to keep in mind:

1. Applicants should be prepared for the considerable amount of time it takes to fill out the application, and for the PAB board to review it.
2. A few key points:
 - Bonds cannot be used for operational expenses.
 - Bonds can only be used to purchase brand new equipment. Used equipment is not approved.
 - If the bond is used to build or purchase a building, the Bond holder will have to occupy a minimum of 60% of the building. The building will also have to be a minimum 80% of the square footage as manufacturing. Office, storage, rented space will not be counted towards manufacturing square footage.

Need Help?

Specific EDCUtah investors in the legal and financial services sectors are experienced in the PAB process. We can make connections to these resources upon request.

DWS Web Site

For more information, visit: <https://jobs.utah.gov/housing/community/pab/index.html>

How else can we help?



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