MUNICIPAL BOND LAW PROVISIONS

The following bond provisions are primarily a result of Federal Tax law, with the Oregon Legislature amending within the Federal framework. This list is not comprehensive. Qualified bond counsel should *always* be consulted for legal determinations prior to bond issuance. The Internal Revenue Code and state laws and statutes are continually being amended by new legislation and regulations; letter rulings and technical corrections. Accordingly, contact bond or tax counsel for specific opinions and the tax situation for your issue.

Abusive Bond Deals
There are penalties against fraudulent tax shelters. The Internal Revenue Service can seize all money earned by participants in an abusive deal or go to court to stop an abusive deal before it goes to market.

Advance Refundings
The Tax Cuts and Jobs Act of December 2017 eliminated the use of tax-exempt Advance Refunding bonds as of January 1, 2018.

Airports, Docks and Wharves
Tax-exempt. Not subject to Annual State Volume Cap.

Arbitrage
Proceeds of a tax-exempt bond used to acquire higher yielding investments. Excess arbitrage profits from all tax-exempt bonds rebated, except for government units issuing no more than $5 million per year and issues in which Governmental and 501(c)(3) issuers spend 10 percent of the proceeds of an issue by the end of six months, 45 percent by the end of the first year, 75 percent within 18 months, 95 percent within two years, and 100 percent by the end of three years. An issuer failing to comply would either rebate the arbitrage or pay a penalty equal to 3 percent of the difference between the unexpended proceeds and the required expenditure amount. Applies only to the portion of an issue used for construction projects. Arbitrage earnings on proceeds placed in bona fide debt service funds are not subject to the rebate requirements for issues under $100,000 or for debt service funds of fixed-rate governmental bonds having a maturity of at least five years. (IRC sect. 148).

Bank Deduction (Qualified)
None, with exception for issuers reasonably expected to issue no more than $10 million of public purpose or 501(c)(3) bonds per year.

Blind Pools

The issuer must reasonably expect that at least 95 percent of proceeds will be lent by the end of the third year after issuance, and must pay all issuance costs within six months after issuance.

Colleges and Hospitals - 501(c)(3)Non-Profit
Tax-exempt. Not subject to annual State Volume Cap on outstanding tax-exempt debt for colleges. However, individual private nonprofit institutions other than hospitals may not have more than $150 million in bonds outstanding.

Electric and Gas Furnishings (Local or Investor Owned)
Tax-exempt. Subject to Annual State Volume Cap.

Governmental Bonds
Tax-exempt bonds are not allowed for convention centers, sports facilities, certain parking structures, and industrial parks.

Hazardous Waste Facilities
Tax-exempt. Subject to Annual State Volume Cap. Tax-exempt bonds issued for a public cleanup project are classified as private-activity bonds if more than 10 percent of the proceeds benefit private business.

Hedge Bond Restrictions
Issuers not qualifying for temporary periods should reasonably expect to spend 10 percent of the proceeds of an issue in the first year after issuance, 30 percent by the end of the second year, 60 percent by the end of three years, and 85 percent by the end of five years.

Heating and Cooling District
Tax-exempt. Subject to Annual State Volume Cap.

Oregon Facilities Authority (OFA)
General authority given to the State to issue tax-exempt bonds for nonprofit facilities.

Industrial Parks
Taxable.

Issuance Costs
No more than 2 percent of bond proceeds for IDB issues.

Lease Purchase Financing
Most special districts, cities, and counties allowed to do lease purchase financing for real and personal property over a period of not more than 20 years. School districts are allowed up to 30 years. No time limit on mass transit districts.

Mass Transportation Facilities

Tax-exempt. Subject to Annual State Volume Cap unless owned and operated by state or local governments.

Minimum Tax
Tax on newly issued IDBs except for 501(c)(3) bonds. Outstanding & future bonds held by businesses subject to tax as part of "book income".

Multifamily Housing
Tax-exempt. Subject to Annual State Volume Cap. Income limitations on tenants of rental units financed with multifamily bonds.

Parking Facilities
Taxable.

Pollution Control (Air & Water)
Taxable.

Port Districts
Port Districts may impose assessments, issue warrants, issue special assessment bonds and issue Bancroft bonds in connection with projects they are authorized to construct. As with cities and counties, no vote is required for the issuance of Bancroft bonds, but subject to Measure #5 limits.

Private Activity Bonds
Subject to a per capita-based Annual State Volume Cap. $160,186,750 for Oregon in 1997. Greater of $50 per person or $150 million. Does not include 501(c)(3) and some other IDBs.

Private Use Bonds
Industrial Development Bonds (IDBs/IDRB/IRB). Tax exempt if no more than 10 percent of proceeds used by private entity.

Property and Casualty Insurance
Tax-exempt interest income included to offset loan loss reserve.

Pubic Use Bonds
General Obligation, Revenue, and Tax Assessment. Tax-exempt if no more than 10 percent of proceeds are used by private entity. For bonds to finance power plants: $15 million or 10 percent of proceeds, whichever is less.

Reporting Requirements
All issuers of tax-exempt bonds must report certain information about bonds issued by them during each preceding calendar quarter. For bonds other than private activity bonds, use Form 8038-G, “Information Return for Tax-Exempt Governmental Bond Issues,” or Form 8038GC, “Consolidated Information Return for Small Tax-Exempt Governmental Bond Issues.” For

private activity bonds use Form 8038 "Information Return for Tax-Exempt Private Activity Bond Issues."

SEC Rule 15c2-12
If issue greater than $1 million (with some exemptions), the underwriter must review POS and send upon request to investors, within minimum time period; if competitive the issuer must send.

Single-Family Mortgage
Tax-exempt. Not subject to Annual State Volume cap. Scheduled for elimination after September 30, 1990. Loan origination limits for bonds issued after December 31, 1988. Borrowers receiving mortgage bond loans made beginning January 1, 1991 must return the subsidy received from the below market loans if the house is sold within 10 years.

Small-Issue IDBs
Tax-exempt. Subject to Annual State Volume Cap.

Sports, Convention and Trade Show Facilities
Taxable.

Student Loan
Tax-exempt. Subject to Annual State Volume cap.

Taxable Bonds
Federally taxable. Interest on bonds issued by the State of Oregon or any city having a population of 85,000 or more, are exempt from Oregon personal income taxes.

Tax-Exempt Bonds
Most state and local bonds exempt from federal income tax except non-qualified private-activity bonds (PAB), arbitrage bonds, and non-registered bonds. (IRC sect. 103)

Tax Increment Financing
Taxable in many cases; tax-exempt under cap for restricted redevelopment areas.

Water, Sewer and Solid Waste
Tax-exempt. Subject to Annual State Volume Cap except government-owned solid waste.

Other Hints, Notes and Facts on Oregon Municipal Bonds

- Bond reserves may not be invested for a term of more than 18 months, unless the local government investor has an approved, adopted investment policy which authorizes such a long-term investment.

- Most special districts and Oregon counties can do lease-purchase financing for real and personal property over a period of not more than 20 years.

- School districts may issue bonds to fund asbestos abatement in school buildings, school equipment or property with lease purchase agreements. The purchase period can be up to 30 years.

- Mass transit districts may enter into lease-purchase agreements and obtain financing through the issuance of Certificates of Participation. There is no limit on term or type of property which may be financed.

- Interest earned on Oregon local government municipal bonds are exempt from State income tax.

- Local governments can borrow directly from the State Water Pollution Control Revolving Fund, instead of issuing bonds which would be purchased by the Fund.

- Port districts may impose assessments in order to issue: improvement warrants, special assessment bonds, and Bancroft bonds for projects which ports are authorized by existing law to construct.

- Port districts may have up to $1.5 million outstanding in loans from the Port Revolving Fund. The loan term is 20 years and the minimum interest rate is 5 percent.

- Issuers of Bancroft bonds may sell assessment contracts which support the bonds and use the sale proceeds to pay-off the bonds.

- The Oregon Facilities Authority (OFA) may be used for assembling and financing of lands for hospitals, housing, educational and cultural uses and for the construction and financing of facilities for such uses, financed through the issuance of revenue bonds secured solely by the properties and rentals thus made available.