INFORMATION REGARDING PRIVATE ACTIVITY BONDS

(Tax-exempt and Taxable)

GENERAL INFORMATION

PLACEMENT OF BONDS

Conditions of the bond market and the particular needs of the borrower will determine whether the bonds are publicly offered or privately placed. The responsibility for finding a purchaser for the bonds lies with the borrower.

TERMS

Pricing of the bonds involves the determination of an interest rate or interest rate structures acceptable to the bond purchaser(s) and to the borrower. The issuer of the bonds has no obligation to use its own funds to repay bonds; therefore, the issuer's credit rating is not a factor in determining the interest rate an issue receives. Factors affecting the rate include the maturity, structure of the issue, credit standing of the borrower, credit enhancement, if any, complexity of the issue, collateral, the supply of similar bonds in the market, and prevailing money market conditions. Experience indicates that tax exempt bonds (except in extreme circumstances) bear interest at floating rates as low as 1% and fixed rates as high as 12%. Taxable bonds (except in extreme circumstances) generally bear interest at floating rates as low as 4% and as high as 13%.

The repayment schedule for bonds is negotiable. Various amortizations include level debt service, level principal payments, and balloon payments. Private Activity Bonds may be subject to redemption prior to maturity at the option of the borrower and in some instances contain provisions whereby the bondholder can require early payment by the borrower.

The issuer of the bonds will typically loan the proceeds of the sale of bonds to the borrower for an approved use and the borrower will sign a promissory note obligating itself to make payments sufficient to pay principal, interest, and premium on the bonds.

There is no requirement under Louisiana law that the bonds be secured by a first mortgage on the financed facilities or any other specific security or collateral be provided. Common collateral given to secure bond issues includes: mortgages, bank letters of credit, bond insurance, guaranty agreements, assignments of leases and rents, and certain pledges of revenues.

STEPS INVOLVED IN AN ISSUANCE

The following is a summary of the steps involved in the issuance of Private Activity Bonds issued by the Louisiana Public Facilities Authority. Depending upon the type of bonds to be issued, the steps involved may vary slightly.

STEP 1 An application for approval of a bond issue must be completed and filed together with the appropriate application fee with the LPFA, the issuer of the bonds.

STEP 2 After review of the application to confirm that all requested information has been delivered, the LPFA will place the item on the next Board of Trustees meeting agenda.

STEP 3 At the Board of Trustees meeting, provided that the LPFA desires to approve the issuance of bonds, the bonds are approved and the LPFA authorizes the execution of a "Preliminary Agreement" to issue the bonds. The Preliminary Agreement generally provides that the LPFA will issue the bonds if:

- all subsequent requirements of the LPFA are met;
- all state approvals are obtained;
- a satisfactory placement or purchase is arranged.

Bond counsel is selected by the LPFA at this meeting.

STEP 4 Notice of a Public Hearing is published at least 14 days prior to a scheduled public hearing date and the LPFA conducts a public hearing to allow members of the public to object to the project or the issuance of bonds. (This step is required for most types of tax exempt bonds and for taxable bonds issued for non-manufacturing purposes.) Approval of the Attorney General must be obtained after the public hearing.

STEP 5 Approval of the Attorney General must be obtained after the public hearing.

STEP 6 An application is completed and filed with the Louisiana State Bond Commission together with the preliminary application fee.

STEP 7 The Bond Commission reviews the application at its monthly public meeting and considers approval of the bonds and the form of a Notice of Sale of the Bonds.

STEP 8 To proceed further, the borrower applicant must deliver a firm commitment to purchase the bonds or underwrite the bonds containing the specifics of the bonds (i.e. term, security, interest provisions, collateral, etc.) in a form that will allow bond counsel to prepare the necessary financing documents.

STEP 9 Documents are circulated to all parties and negotiated to an agreeable form.

STEP 10 Application is made to the LPFA requesting final approval of the terms of the bonds and the issuance of the bonds.

STEP 11 Application is made to the Bond Commission for final approval of the issuance of bonds.

STEP 12 Application is made for an allocation from the Louisiana State Volume Cap.

STEP 13 The LPFA Board of Trustees, at a public meeting, grants final approval of the bonds and the documents providing security for the bonds.

STEP 14 A Notice of Sale is published at least 7 days prior to the Bond Commission meetingat which the bonds are requested to be approved and sold.

STEP 15 The Bond Commission at its monthly public meeting grants final approval for the issuance of the bonds and the Bond Commission sells the bonds pursuant to the published Notice of Sale.

STEP 16 30 days must pass from the date the Notice of Sale is published to allow individuals to file suit to object or to prevent the issuance of bonds.

STEP 17 During such 30 day period, bond counsel establishes the closing date and prepares the necessary closing documents.

STEP 18 At the closing, the purchase price of the bonds is exchanged for the bonds and the purchase price of the bonds is deposited for the benefit of the borrower, for use by the borrower, as permitted by the financing documents. The closing fees of the LPFA and the Bond Commission are due at the closing.

TIMETABLE Provided that all steps proceed smoothly, the entire process from application to delivery requires about 90-120 days.

<u>TAX-EXEMPT</u> REVENUE BONDS

AUTHORIZATION Internal Revenue Code and Louisiana laws.

PURPOSE Tax Exempt Private Activity Bonds may be issued by entities (cities, parishes, industrial boards, local public trusts, the Louisiana Public Facilities Authority, harbor and terminal districts, and other special authorities) to finance qualified manufacturing facilities, certain exempt facilities, and non-profit 501© (3) facilities.

ELIGIBILITY **QUALIFIED SMALL ISSUE MANUFACTURING BONDS:**

- COSTS PAID OR INCURRED PRIOR TO A PRELIMINARY APPROVAL OF THE ISSUANCE OF BONDS BY AN ISSUER ARE GENERALLY NOT FINANCEABLE FROM THE PROCEEDS OF BONDS.

- At present, only facilities used in the manufacturing or production of tangible personal property (including the processing resulting in a change in the condition of such property) and certain related facilities qualify for financing.

- Total principal amount of bonds outstanding in a particular area for the benefit of the beneficiary, any related party to the beneficiary, and users of more than 10% of the facility financed cannot exceed $10,000,000.

- The beneficiary of the bonds, persons related to the beneficiary, and users of more than 10% of the facility financed may not have capital expenditures within the same area during a period commencing 3 years prior to the issuance of bonds and ending 3 years after issuance of the bonds which, when added to the capital expenditures of the beneficiary, related persons, and other principle users and the principal amount of the bonds outstanding, cause the total of such amounts to exceed $10,000,000.

- Notwithstanding the foregoing, an issue of bonds not exceeding $1,000,000 can be issued for a beneficiary without taking into account capital expenditures described in the immediately preceding paragraph.

- Individual beneficiaries of tax exempt bonds may not have more than $40,000,000 of tax exempt bonds outstanding nationwide.

- If an existing building is purchased with bond proceeds, an amount equal to at least 15% of the amount of proceeds used for such acquisition must be used for renovations (not including expansions) of the building. In the case of the acquisition of other structures (such as docks and wharves) or of equipment, an amount equal to at least 100% of the proceeds used for acquisition must be used for renovation.

- No more than 25% of the proceeds of a bond issue may be used for the purchase of land.

- The bonds may be amortized over a period not exceeding 40 years, provided, however, that the average maturity of bonds may not exceed 120% of the average economic life of the facilities financed.

- No more than 2% of the proceeds of the bonds may be used to pay costs of issuance.

- Bonds cannot be guaranteed directly or indirectly by the federal government.

- Bonds must receive an allocation of the federal volume cap applicable to the State of Louisiana.

- Bonds must be in registered (not bearer) form.

- At least 95% of the proceeds of the bonds must be used to finance land or depreciable property.

- A public hearing must be conducted after publication of a notice, and it is to be reasonably calculated to give members of the public notice of the hearing and an opportunity to be heard.

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EXEMPT FACILITIES BONDS:

- Private Activity Bonds, limited in principal amount only by the volume of bonds permitted in the State and not by the $10,000,000 limit described above, may be issued under certain circumstances for:
    - Airports
    - Docks and wharves
    - Mass commuting facilities
    - Sewage facilities
    - Solid waste disposal facilities
    - Qualified residential rental projects
    - Facilities for the local furnishing of electric energy or gas
    - Local district heating or cooling facilities
    - Environmental enhancements of hydroelectric generating facilities.

- Generally the requirements stated above with respect to qualified small issue bonds are applicable to exempt facilities bonds except the following:
    - $40,000,000 per user limit
    - manufacturing restriction
    - $10,000,000 limit on bonds and capital expenditures

- Airports, docks and wharves, and mass commuting facilities must be owned by a government unit.

- Exempt facility bonds generally must be used to provide facilities that serve the general public or are available on regular basis for general public use (sewage and solid waste disposal facilities are treated as qualifying automatically).

QUALIFIED NON-PROFIT 501© (3) BONDS:

- Project must be owned by a 501(c)(3) corporation.

- At least 95% of the facilities must be used by a 501(c)(3) corporation.

- The following requirements applicable to qualified small issue bonds are also applicable qualified 501(c)(3) bonds:
    - 120% average maturity limit
    - public hearing requirement
    - 2% issuance cost limit
    - prohibition of direct or indirect federal guarantee

STATE VOLUME CAP Federal law imposes a limit, or cap, on the amount of tax exempt Private Activity Bonds that can be issued in Louisiana by the LPFA or any other issuer of bonds. This limit is known as the Louisiana State Volume Cap or Private Activity Bond Volume Cap. Tax exempt bonds, other than (a) qualified veterans' mortgage bonds, (b) qualified 501(c)(3) bonds, © bonds issued as exempt facility bonds for airports, docks and wharves, and environmental enhancement of hydroelectric generating facilities, and (d) a portion of bonds issued to finance high speed intercity rail facilities are subject to the Louisiana State Volume Cap. The Louisiana State Volume Cap is computed and adjusted annually by multiplying the number of residents in the State by an amount set forth in Federal Law. The Governor of Louisiana must issue an Executive Order granting a bond issue an allocation from Louisiana's State Volume Cap prior to the issuance of the bonds in order for the interest on the bonds to be tax exempt.

TAXABLE REVENUE BONDS

AUTHORIZATION Louisiana Laws

PURPOSE Private Activity Bonds, the interest on which is not excusable from federal income taxation, may be issued by entities (cities, parishes, industrial development boards, local public trusts, the Louisiana Public Facilities Authority, harbor and terminal districts, and other special authorities) to finance every type of project financeable with tax exempt bonds and in addition may be issued by certain issuers for any facilities that promote economic development.

ELIGIBILITY

- Unlike tax exempt bonds, taxable bonds are not saddled with the complicated and highly technical restrictions imposed by the federal government.

- Usually taxable bonds must be registered under federal securities laws unless such bonds are secured by a bank letter of credit or fall within one of the other categories of exemption from securities registration requirements.

- Taxable bonds are generally only limited by the State of Louisiana's authorizing laws, which are very broad and allow certain issuers to issue taxable bonds for any purpose that promotes economic development.

- Depending on which type of entity issues the bonds, the bonds may be amortized over a period not exceeding 40 years.