

TAX-EXEMPT BONDS, POST-ISSUANCE COMPLIANCE & MANAGEMENT CONTRACTS

Alan Bond, BLX Group



Victoria Ozimek, Bracewell LLP

BRACEWELL

Edward J. Jennings, University of Michigan



Kyle Richard, University of Washington



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Discussion Outline

- I. Post-Issuance Compliance Overview
- II. Management Contracts
- III. Measuring and Managing Private Business Use
- IV. Benefits of an Effective Post-Issuance Compliance Program

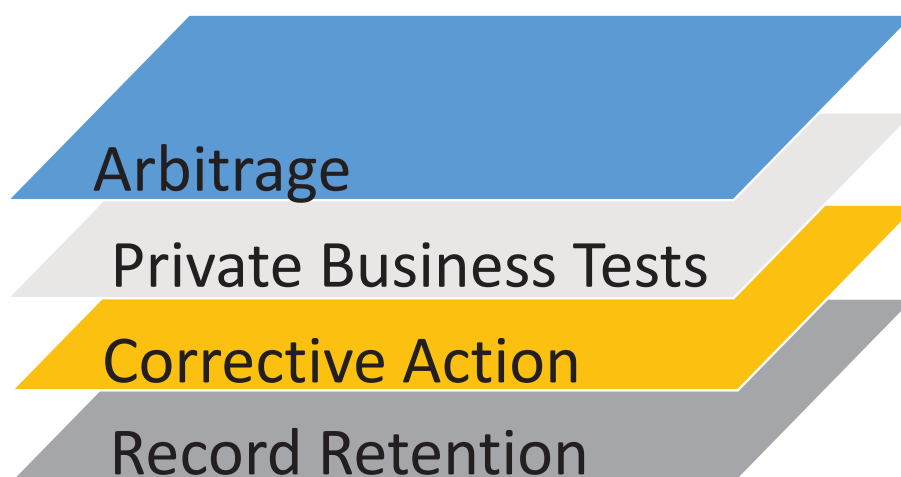
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Post-Issuance Compliance Overview

Why should organizations care? Mitigation of Risk

- There has been increased IRS examination activity focused on tax-exempt debt
- Defending tax-exempt status of bonds in an IRS audit is expensive, stressful, and time consuming
- Financial settlement to protect bondholders can be costly
- Adverse outcomes give rise to disclosure requirement

Tax Compliance Has Many Layers



Post-Issuance Compliance Overview

Requirements for Ongoing Compliance Monitoring

- 1. Yield Restriction:** Bond proceeds may not be invested at a yield that is “materially higher” than the bond yield, except for a “minor portion” and any proceeds held during a temporary period or in a reasonably required reserve
- 2. Rebate:** Any investment earnings above the bond yield must be rebated to the federal government, unless the issuer meets a rebate exception; Generally, this must be calculated every 5 years

Post-Issuance Compliance Overview

Requirements for Ongoing Compliance Monitoring

- 3. Use of Bond Financed Facilities:** Requires monitoring the various direct and indirect uses of bond financed property over the life of the bonds and calculations of the percentage of private business use (PBU)

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