

## Private Activity Bonds: Background, Uses and Restrictions

Tax-exempt private activity bonds (“PABs”) represent a critical source of financing for important qualified projects and programs, including infrastructure, affordable housing, economic development, the funding and refinancing of student loans, and much more. PABs help spur private investment and allow state and local governments to harness the private sector’s experience and expertise toward public projects and initiatives, and therefore should be preserved and enhanced.

- **Private activity bond:** A bond is a “private activity bond” when a private business (or businesses) uses more than a de minimis amount of the bond proceeds, or make more than de minimis use of the facilities or programs financed with those proceeds.



PABs are tax-exempt bonds issued by or on behalf of local or state government for the purpose of providing financing for qualified projects and programs.

### What Private Activity Bonds Do and Don't Do

#### What DO Private Activity Bonds Finance?

- Airports
- Port facilities
- Mass-commuting facilities, including high speed rail
- Water and wastewater treatment
- Roads, bridges and other transportation facilities
- Solid waste disposal facilities
- Manufacturing facilities
- Affordable rental housing properties
- Qualified public educational facilities
- Mortgages for first-time, lower income borrowers
- Student loans
- Nonprofit hospitals, universities and other facilities for charitable organizations

#### What DON'T Private Activity Bonds Finance?

- Stadiums
- Office towers
- Hotels
- Golf courses
- Car dealerships
- Oil refineries
- Biotechnology
- Software production

*PAB Restrictions and Issuances (see next page)...*

*Municipal Bonds for America (MBFA) is a non-partisan stakeholder coalition of municipal bond issuers, State and local government officials, and regional broker dealers working together to explain the many benefits of municipal bonds, highlighting the federal tax-exemption which enables financing of vital infrastructure projects at the lowest cost to residents while maintaining the integrity and value of the municipal bond market and providing the highest quality investments for municipal bond investors.*

May 2017

Municipal Bonds for America Coalition – [www.munibondsforamerica.org](http://www.munibondsforamerica.org)

- Restrictions imposed by the Tax Reform Act of 1986:** Congress has instituted limits on the ability of state and local governments to issue PABs on a tax-exempt basis. The 1986 Tax Reform Act expanded the definition of “private business use,” limited the annual volume of tax-exempt PAB’s that could be issued (volume caps vary state-by-state), and limited the facilities and programs which tax-exempt PAB’s could finance. In addition, tax-exempt PABs can only be used to acquire land or existing facilities on a limited basis. Elected officials, following a public hearing, must approve them.

