MUNICIPAL BOND LAW PROVISIONS

The following bond provisions are primarily a result of Federal Tax law, with the Oregon Legislative Assembly 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, regulations, letter rulings and technical corrections. Accordingly, contact bond or tax counsel for specific opinions and for an assessment of the particular tax analysis that is relevant to 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
May occur one time for public-purpose and 501(c)(3) bonds issued after December 31, 1985 or those issued before January 1, 1986 and already advance refunded twice before March 14, 1986. Bonds which have been advance refunded two or more times before March 14, 1986 may be advance refunded one additional time. Specific state law requirements must also be satisfied.

Airports, Docks and Wharves
Tax-exempt and not subject to annual State Volume Cap.

Alternative Minimum Tax
Tax on newly issued Industrial Development Revenue Bonds (IDRBs) except for 501(c)(3) bonds. Does not apply to new money bonds issued in 2009 and 2010, and refundings of bonds issued from 2004 to 2008.

American Recovery and Reinvestment Act (ARRA)
Federal legislation passed on February 17, 2009 that provides significant new financing methods for state and local governments by expanding the types of projects that can be financed on a tax-exempt basis, creating several new categories of tax-exempt and tax-credit bonds, and giving issuers the temporary ability to issue governmental obligations as either taxable tax-credit bonds or subsidy bonds. Also increases the tax benefits afforded to banks and other holders of tax-exempt bonds. Majority of provisions are temporary and only apply to obligations issued in 2009 and 2010.

Arbitrage
Arbitrage occurs when proceeds of a tax-exempt bond are used to acquire higher yielding investments. Excess arbitrage profits from all tax-exempt bonds are rebated, except for those earned by government units issuing no more than $5 million per year, school districts issuing no

more than $15 million per year, and for issues in which governmental and 501(c)(3) issuers meet certain minimum spend-down requirements. An issuer failing to qualify for a spend-down exception would rebate the positive arbitrage to the Internal Revenue Service. 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 sec. 148).

Bank Deduction (Qualified)
None, with exception for issuers reasonably expected to issue no more than $10 million of public purpose and 501(c)(3) bonds per year. For calendar years 2009 and 2010, the $10 million figure is increased to $30 million. 501(c)(3) borrowers get a separate $30 million amount.

Blind Pools
The issuer must reasonably expect that at least 30 percent of the proceeds will have been loaned by the end of the first year and 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. In addition, issuer, prior to the issuance date, must have written loan commitments for potential borrowers for at least 30 percent of the net proceeds, provided that this requirement does not apply if the issuance is by the State or by a State created entity providing water-infrastructure financing through a federally sponsored revolving loan program.

Build America Bonds (BABs)
Taxable bonds authorized under ARRA that provide for a 35 percent tax subsidy paid from the U.S. Department of Treasury (Treasury) to the issuer (for Subsidy BABs) or a 35 percent tax credit paid to bondholders from Treasury (for Credit BABs). Limited to governmental purpose projects use. Not available for 501(c)(3) nonprofit or private activity projects. No private activity volume cap limitation. As of the date of this publication, only authorized for bonds issued in 2009 and 2010.

Colleges and Hospitals - 501(c)(3) Non-Profit
Tax-exempt. Not subject to annual State Volume Cap on outstanding tax-exempt debt for colleges.

Credit BABs
Provide for a tax credit to the bondholder equal to 35 percent of the interest payable on the BAB. May be used for refunding purposes, working capital or capital expenditures. Not subject to a 2 percent limitation for costs of issuance. Tax credit is non-refundable but the unused portion may be carried forward to successive years. Bondholder is required to treat amount of credit as taxable income. Credit portion may be stripped.

Electric and Gas Furnishings (Local or Investor Owned)
Tax-exempt. Subject to annual State Volume Cap. Can be used to benefit borrowers that were in business of local furnishing on January 1, 1997.

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

Hazardous Waste Facilities
Tax-exempt. Subject to annual State Volume Cap if more than 10 percent of the proceeds benefit private business.

Heating and Cooling Districts
Tax-exempt. Subject to annual State Volume Cap.

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.

Industrial Parks
Taxable.

Issuance Costs
Limited to no more than 2 percent of bond proceeds for issues benefiting 501(c)(3) or for-profit entities.

Lease Purchase Financing
Most special districts, cities, and counties are 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. There is no time limit for mass transit districts.

Mass Transportation Facilities
Tax-exempt. Subject to annual State Volume Cap unless owned and operated by state or local governments.

Multifamily Housing
Tax-exempt. Subject to annual State Volume Cap. There are income limitations on tenants of rental units financed with multifamily bonds.

Oregon Facilities Authority (OFA)
Created by the Oregon Legislative Assembly, OFA is a statewide issuer with general authority to issue tax-exempt and taxable bonds for nonprofit facilities.

Parking Facilities with Private Use
Taxable.

Pollution Control (Air & Water) with Private Use
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 they are subject to Oregon Ballot Measure 5 limits.

Private Activity Bonds
Subject to a per capita-based annual State Volume Cap. This does not include 501(c)(3) and some other Industrial Development Revenue Bonds (IDRBs).

Recovery Zone
Includes any area designated by an issuer as having significant poverty, unemployment, rate of home foreclosures, or general distress, or any area designated by an issuer as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990. Issuer may designate an area a Recovery Zone, but also includes any area currently designated as an empowerment zone or as a renewal community area.

Recovery Zone Economic Development Bonds (RZEDBs)
Taxable bonds authorized under ARRA that provide issuers a direct federal subsidy of 45 percent of interest or bondholders a tax credit of 45 percent of interest. Subject to volume cap allocation from the federal government. Use restricted to capital expenditures in Recovery Zones, expenditures for public infrastructure and construction of other public facilities, wherever located, that promote economic activity in a Recovery Zone, and expenditures for job training and educational programs, wherever located. Limited to new money governmental purpose projects or programs (including various types of capital expenditures, expenditures for job training and educational programs). Not available for 501(c)(3) nonprofit or private activity purposes. Subject to a 2 percent de minimus original issue premium restriction. Federal Davis-Bacon prevailing wage rules apply to projects financed with RZEDB proceeds. RZFBs are subject to a nationwide volume cap limitation and, as of the date of this publication, must be issued prior to January 1, 2011.

Recovery Zone Facility Bonds (RZFBs)
Recovery Zone Facility Bonds are a type of traditional tax-exempt private activity bond authorized by ARRA that may be used by private businesses in designated recovery zones to finance a broad range of depreciable capital projects. RZFBs are subject to a nationwide volume cap limitation, and as of the date of this publication, must be issued prior to January 1, 2011.

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 IRS Form 8038-G, "Information Return for Tax-Exempt Governmental Bond Issues" or IRS Form 8038-GC, "Consolidated Information Return for Small Tax-Exempt Governmental Bond Issues," As applicable. For private activity bonds use IRS Form 8038 "Information Return for Tax-Exempt Private Activity Bond Issues." For Build America Bonds and Recovery Zone Economic Development Bonds, use IRS Form 8038-B.

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

Single-Family Mortgage
Tax-exempt. Subject to annual State Volume cap. Borrowers receiving mortgage bond loans must return a portion of the subsidy they received from the below market loans if the house is sold within 10 years.

Small-Issue Industrial Development Revenue Bonds (IDRBs)
Tax-exempt. Subject to annual State Volume Cap.

Sports, Convention and Trade Show Facilities that are Privately Used
Taxable.

Student Loans
Tax-exempt. Subject to annual State Volume cap.

Subsidy BABs
Provide for a payment of 35 percent of the interest payable on the BAB paid to the issuer from the Treasury. Sale proceeds are limited to use for capital expenditures, costs of issuance not exceeding 2 percent of the issue price, and a reasonably required debt service reserve fund. Not available for working capital financings and limited to new money capital projects.

Taxable Bonds
Federally taxable. Interest on federally taxable bonds issued by the State of Oregon and any political subdivision thereof are exempt from Oregon personal income taxes.

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

Tax Increment Financing
May be taxable or tax-exempt, depending on facts.

Water, Sewer and Solid Waste
Tax-exempt. Where there is private use of financed facilities, 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 investing such moneys has an approved, adopted investment policy pursuant to State law 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, whether issued as federally taxable bonds or federally tax-exempt bonds.

- Local governments can borrow directly from the Safe Drinking Water Revolving Loan Fund (SDWRLF), 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 the 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.