

## **PRIVATE ACTIVITY BONDS**

### **Overview**

- Private Activity Bonds (PAB) are tax-exempt bonds issued by or on behalf of the City and County of Denver.
  - PABs are often issued to help attract private investments into certain qualified projects that will have a public benefit, like affordable housing.
- Due to the tax-exempt nature of the bonds, the IRS limits the amount of PABs allocated each year.
  - The IRS allocates a certain amount of PAB capacity to states based on population, and, in turn, Colorado allocates PAB capacity to local issuers such as Denver.
- Through PABs, the City can borrow at tax exempt rates for private entities to lower the borrowing costs for those entities, but the City does not pledge its credit for these bonds.
  - The City is merely the tax-exempt bond issuer, and the underlying borrower pays the City an issuance fee.
- PABs do not count toward the City's debt capacity, and the ratings, if any, are based on the credit of the underlying borrower.
- PABs are special, limited obligations payable solely from the revenues and funds pledged from the underlying borrower.
  - The underlying borrower, not the City, is financially liable to the bond purchaser.
- In the past, the City has issued PABs for Parkhill Village West to provide 156 affordable housing units, for 2300 Welton to provide 233 affordable housing units, for The Colburn to provide 92 affordable housing units, and for The Stella to provide 132 affordable housing units.
- PABs are very different types of bonds from General Obligation Bonds. General Obligation Bonds require voter approval and are an obligation of the City. PAB bonds do not require a vote and do not count toward the City's debt capacity.