



'26 ARIZONA
DEVELOPMENT
FINANCE &
OPPORTUNITY ZONES
SUMMIT

PANELIST

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Arizona IDA

Conduit Revenue Bond Program

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Agenda

- Introduction to the Arizona IDA
- What are Revenue Bonds?
- Why is Tax-Exempt Debt Valuable?
- PABs | 501(c)(3)s
- Case Studies
- Considerations
- Questions & Next Steps



Arizona IDA Background



- **The Arizona IDA is a nonprofit corporation designated a political subdivision of the State of Arizona**, created pursuant to A.R.S. §§ 35-701 – 733 (the “IDA Act”).
- The Arizona IDA is a **“conduit issuer”** and is empowered to issue its special limited obligation revenue bonds to provide proceeds for the financing or refinancing of the costs of the acquisition, construction, improvement, equipping or operating of a “project,” **as defined in the IDA Act.**
- **The Arizona IDA itself has no taxing power** and does not have the power to pledge the general credit or taxing powers of the State of Arizona.
- **The Arizona IDA’s Board of Directors and Management Team** bring diverse experience in **banking, finance, housing, and community development** to their roles, ensuring that Arizona IDA’s activities advance inclusive growth and community impact.



Arizona IDA Mission



- **To support and uplift residents and communities** throughout the State of Arizona by cultivating partnerships, connecting resources, and facilitating private-sector capital for the development of projects that create long-term economic benefits and expanded opportunities for **urban, rural, and tribal Arizonans**.
- As a **conduit issuer**, the IDA enables private entities to access capital to finance “projects” (as defined in the IDA Act).
- **The Arizona IDA does not pledge its own general credit or assets** to the repayment of conduit revenue bonds issued by the Arizona IDA. Repayment on Arizona IDA issued bonds comes solely from the collateral and pledged revenue of the project financed by each bond issuance.
- Except with respect to single family housing bond issues pursuant to the IDA Act, the Arizona IDA can issue its bonds for any eligible project located **within or without the State of Arizona**.



...our program track record



Since 2016, the Arizona IDA has issued bonds totaling more than \$12.6 billion in principal.

Transactions span multifamily housing, healthcare, education, manufacturing, infrastructure, commercial, and government uses, both in Arizona and nationwide.





What Bonds Can Finance

Housing

- Affordable housing developments
- Senior housing

Education

- Charter schools
- University student housing

Infrastructure

- Water and wastewater systems
- Energy facilities

Healthcare

- Hospitals
- Community health centers

Manufacturing & Industry

- Advanced manufacturing
- Solid Waste Disposal facilities



What are Revenue Bonds?

- **Revenue bonds** are debt obligations **repaid solely from project revenues**, not from taxes or the issuer's credit.
- Revenue bonds may take the form of **Private Activity Bonds (PABs)**, including a subset known as **Qualified 501(c)(3) Nonprofit Bonds**, *depending on the borrower and project type.*
- Investors are repaid from **income generated by the financed project** (*rent, tuition, or service fees*).





What are Revenue Bonds?

- When issued on a **tax-exempt** basis, Revenue bonds can provide borrowers with access to **lower borrowing costs** compared to conventional taxable debt.
- Tax-exempt bonds are attractive to investors because the **interest they receive is exempt from federal income tax.**
- Tax-exempt bonds can allow borrowers to pay a lower interest rate while the **investor earns the same after-tax return.**



Why Issue Tax-Exempt Bonds? *(Example)*

Taxable Rate	7.00%	5.00%	3.00%
Multiply by 1 minus marginal tax rate (assume 33%)	x .67	x .67	x .67
Tax-exempt rate	4.69%	3.35%	2.01%

Annual Interest Example

Taxable	\$10,000,000 x	7.00%	=	\$700,000
Tax-Exempt	\$10,000,000 x	4.69%	=	\$469,000

On a \$10,000,000 bond, interest savings would be \$231,000 in the first year alone

Why Buy Tax-Exempt Bonds? *(Example)*

Taxable Bond Rate	7.00%
Tax-Exempt Rate	4.69%
Investor's Assumed Tax Rate	33.00%

\$10,000,000 Bond Example

	<u>Interest Income</u>	<u>Tax Liability</u>	<u>Net Interest to Investor</u>
Taxable	\$700,000	\$(231,000)	\$469,000
Tax-Exempt	\$469,000	N/A	\$469,000

***Actual tax-equivalent yields vary by investor tax rate, state of residence, and prevailing market conditions.*



Private Activity Bonds ("PABs")

- Issued by a governmental entity ("Issuer") for a non-governmental entity (the "Borrower")
 - Borrower is typically a **for-profit** entity
 - Project must serve a **qualified public-benefit purpose** (housing, manufacturing, infrastructure, etc.)
- Tax-exempt bonds meeting the PAB requirements under Sections 141-145 of the Internal Revenue Code
 - Interest to investors is **exempt from federal income tax**
 - **Subject to "Volume Cap" allocation** (administered by the Arizona Finance Authority) – *(except for qualified 501(c)(3) issue)*
- Common Uses
 - 4% LIHTC Multifamily Housing, Manufacturing, and other **Exempt Facilities** (water, waste, energy)
- Borrower Responsibilities
 - Provides collateral and repays principal and interest
 - Bears all covenants, reporting, and compliance requirements





Qualified 501(c)(3) Bonds (Nonprofit Tax-Exempt Bonds)

- Issued by a governmental entity ("Issuer") for a qualified 501(c)(3) (the "Borrower")
 - Non-Profit Borrower **must own or operate** the project
 - The project must **advance the organization's charitable, educational, or community mission**
- Tax-exempt bonds under Section 145 of the Internal Revenue Code
 - Interest to investors is **exempt from federal income tax**
 - Section 145 establishes a special category of Private Activity Bonds for qualified 501(c)(3)s
 - **Not subject to state "volume-cap" allocation**
- Common Uses
 - 501(c)(3) owned & operated Charter schools, hospitals, community facilities, etc.
- Borrower Responsibilities
 - Provides collateral and repays principal and interest
 - Bears all covenants, reporting, and compliance requirements



Case Study – For-Profit Affordable Housing Project



Ulysses Development Group
Announces Financial Closing Of
Salt River Flats 2 In Phoenix

UDG closes on financing
for Salt River Flats 2



Salt River Flats 2



- Arizona IDA issued **\$34.5 million** in multifamily housing revenue bonds

***Utilizing \$34.5M volume cap allocation from the Arizona Finance Authority*

- Bonds to be repaid via pledge of **Rental Income**

- The project will encompass:

- Approximately 168 units for families & individuals
- Units reserved for those earning 60% of the AMI



Case Study – 501(c)(3) Healthcare project



Sage Memorial Hospital
NAVAJO HEALTH FOUNDATION

HEALTHCARE

Sage Memorial Hospital wins 2025 Deal of the Year award

The transaction, which supports the Navajo community in Ganado, Arizona, represents a major landmark in furthering Native American health care infrastructure, overcoming hurdles tribal governments typically face in issuing municipal debt to open a replicable path to market other indigenous health systems can follow.

SAGE MEMORIAL HOSPITAL
LOCATED IN GANADO ON THE NAVAJO NATION RESERVATION IN APACHE COUNTY, ARIZONA



Sage Memorial Hospital



- Arizona IDA issued **\$80 million** in hospital revenue bonds
- Bonds to be repaid via pledge of **Hospital Revenues & Federal Tribal Health Funding**
- The project encompassed:
 - A new replacement hospital
 - A new outpatient clinic and medical office building
 - **Onsite workforce housing** for healthcare personnel

Arizona IDA Issuer Counsel – Kutak Rock



Firm Profile

Kutak Rock is a national law firm established on the principles of fairness and integrity, dedication to an inclusive and engaged workplace and an unwavering commitment to our clients. We work seamlessly across geography and time zones to provide the best and most responsive legal services in a multidisciplinary practice. We have earned a reputation across the U.S. for providing excellent legal services in a practical, cost-conscious manner.

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Considerations



Financing & Eligibility

- Am I applying as a **for-profit or nonprofit** borrower?
- What will be my project's **source of revenue** to repay the bonds?
- How would I describe my **credit strength or financial position** as the borrower?
- Do I already have a **lending or investment partner** for a private placement?
- Would my project **require a Volume Cap allocation** from the Arizona Finance Authority?
- Does my project meet the **qualified use requirements**?
- Have I engaged a **municipal or financial advisor** to help evaluate options?
- Will the project involve **taxable and tax-exempt components**, and if so, how will those be structured?
- Have I identified **Bond Counsel and Borrower Counsel** who are experienced in conduit transactions?

Project Readiness & Feasibility

- Is my **project timeline** realistic for a bond financing and/or volume cap allocation process?
- Are **permits, zoning, and site control** already in place or still in progress?
- Do I have **financial projections or a business plan** that supports long-term feasibility?
- Could my project face any **political, public, or community opposition**?





QUESTIONS?

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