



INTERCAP INSTITUTIONAL INVESTORS LLC

Rebuilding Louisiana and Mississippi Through the Creative Use of Tax-exempt Finance

**Greg Eden
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In an earlier article describing the extent of damage to real estate in Louisiana and Mississippi there was mention of various financing devices under consideration to assist in the rebuilding and new construction. What has emerged from this process is the creation of the Gulf Zone Opportunity Zone Act that will provide businesses and corporations in Louisiana and Mississippi with the opportunity to finance construction and reconstruction of projects through the issuance of tax-exempt bonds. In Louisiana alone, there will be authority for approximately \$7.9 billion of new tax-exempt bond issuance.

What makes this GO Zone Private Activity Bond legislation so appealing is that it allows private business owners and corporations to borrow money at tax-exempt interest rates to cover the costs of acquiring, constructing, and renovating nonresidential real property located in the affected areas.

Eligible projects may include but are not limited to retail stores, warehouses, manufacturing facilities, industrial plants, office buildings, bank branches, hotels and motels, restaurants, physician office buildings, medical hospitals and clinics. For those entities who have been involved in leasing to federal agencies, this legislation now provides a tax-exempt financing option where none previously has existed. The advantage is that the interest on such bonds is exempt from federal and State of Louisiana income taxes which lowers the cost of funds when compare to conventional financing by 1.5% to 2.0%. Congress has also excluded the interest on the GO Zone bonds from Alternative Minimum Taxation.

Issuance of the bonds in Louisiana does require the approval of Governor Blanco.

The legislation also permits businesses to claim an additional first year depreciation deduction equal to 50% of the cost of new capital investments made in the affected areas. This depreciation is exempt from the alternative minimum taxation, does not require approval of the state, and applies to property placed in service prior to January 1, 2008, or January 1, 2009 for real property.

Greg Eden is an Austin, Texas based attorney and investment banker who serves as CEO of Intercap Institutional Investors LLC.