

# Just the Facts:

## Industrial Revenue Bonds (IRB)

January 2018

Industrial Revenue Bonds (IRB) may be issued by **state and local governments** in Kentucky to help finance industrial buildings as defined by KRS 103.200. Bond funds may be used to finance the total project costs, including engineering, site preparation, land, buildings, machinery and equipment, and bond issuance costs.

- Generally, the issuer serves as a conduit to provide a lower interest rate to the borrower, but the issuer is not obligated for debt repayment. Bondholders look to the “revenue” arising from the project to cover debt service. Bond proceeds from bond issues can be lent directly by the issuer.
- KRS 103 also permits the issuer to hold title to the improvements financed with IRB proceeds. In this instance, the property owned by the issuer may be exempt from local property taxes during the duration of the bond issue. This property may also be eligible to be taxed at a reduced state rate of \$0.015 per \$100 of leasehold value, if such reduction receives the prior written approval by the Kentucky Economic Development Finance Authority (KEDFA) as required by KRS 103.210 and KRS 132.020. **(See KEDFA operating procedures as it relates to this review process.)** Any portions of such projects financed by private capital are subject to the full state and local property taxes applicable to private ownership.
- Communities may negotiate for payments by industrial tenants to replace portions of local property taxes lost through public title to the property. These agreements are commonly referred to as Payment In Lieu of Tax (PILOT) agreements.

### Kentucky Private Activity Bond Allocation

The Kentucky Private Activity Bond Allocation Committee (KPABAC) administers bonds regulated by the Internal Revenue Code. The Committee approves the issuance of industrial revenue bonds with tax-free interest earnings (to bond buyers) for qualifying projects within annual ceiling amounts authorized by the I.R.C. **For CY 2018, the total state-ceiling amount is approximately \$467,689,845.** KPABAC meets quarterly to allocate the cap. Issuers have 90 days from the date of allocation to issue the bonds.

The state ceiling on private activity is divided into three pools, with thirty percent (30%) reserved for the **Local Issuer Pool (\$140,306,954)**, ten percent (10%) reserved for the **Energy Efficient Project Pool (\$46,768,984)** and sixty percent (60%) for the **State Issuer Pool (\$280,613,907)**.

- "Local Issuer Pool" means the portion of the state ceiling from which allocations for local projects are made to issuers of affected bonds issued on behalf or for the benefit of an entity which is not a state agency.
- "Energy Efficient Project Pool" means the portion of the state ceiling from which allocations for manufacturing facility energy efficient projects are made to any issuer pursuant to KRS 103.282.
- "State Issuer Pool" means the portion of the state ceiling from which allocations for state projects are made to issuers of affected bonds issued on behalf or for the benefit of a state agency.

Local projects will be evaluated by KPABAC using the following criteria: creation of new jobs or retention of existing jobs, average hourly wages and benefits, capital investment, unemployment rate in the county of the project, any state economic development incentives awarded to the company and previous private activity bond cap allocated to the company (KRS 103.285; 132.020; 132.095; 132.200 and 200 KAR 15:010).

On July 1st of each year, the remainder of any unallocated state ceiling in the Local Issuer Pool and Energy Efficient Project Pool will become available volume cap from which allocations are made to any issuer, in accordance with the procedure set forth in 200 KAR 15.010. Additional information can be found at: <http://finance.ky.gov/services/ofm/Pages/KyPrivateActivityBondAllocationCommittee.aspx>.

## Fees

There is a \$500 non-refundable application fee payable upon submission of an application for local issue IRBs seeking approval by KEDFA of the reduction in the state property tax rate.

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