

Industrial Revenue Bonds (IRB)

IRBs issued by state and local governments in Kentucky can be used to finance manufacturing projects and their warehousing areas, major transportation and communication facilities, most health care facilities, and mineral extraction and processing projects. 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. Rather, bond holders look to the “revenue” arising from the project to cover debt service.
- Proceeds from bond issues can be lent by the issuer directly.
- KRS 103 also permits the issuer to hold title to the improvements financed with IRB proceeds. In this event the property owned by the issuer is exempt from local property taxes and is taxed at \$0.015 per \$100 of leasehold value for state property taxes upon approval by the Kentucky Economic Development Finance Authority (KEDFA). **(See reverse side for operating procedures.)** 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.
- The Kentucky Private Activity Bond Allocation Committee (KPABAC) administers bonds regulated by the Internal Revenue Code. The Committee approves 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 2003 the state-ceiling amount is approximately \$306,966,825. KPABAC meets quarterly to allocate the cap. Issuers have 90 days from date of allocation to issue bonds.
- The state ceiling on private activity is divided into two pools, with forty percent reserved for the Local Issuer Pool (\$122,786,730) and sixty percent for the State Issuer Pool (\$184,180,095). "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. "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. On October 1 of each year, any unallocated state ceiling in the Local Issuer Pool reverts to a Single Issuer Pool. On July 1 of each year any unallocated state ceiling in the State Issuer Pool reverts to a Single Issuer Pool. The Single Issuer Pool is the portion of the state ceiling from which allocations are made to any issuer.



- No local project can be allocated more than 10 percent of the amount of the Local Issuer Pool. After October 1 of each year a project may exceed the 10 percent limit. Local projects will be evaluated by KPABAC using the following criteria: creation of new jobs or retention of existing jobs, average employee salary, capital investment, unemployment rate in the county of the project and 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)

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