

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.
- 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 2011, the total state-ceiling amount is approximately \$412,239,865.** 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 two pools, with twenty percent (20%) reserved for the **Local Issuer Pool** and eighty percent (80%) for the **State Issuer Pool**. For CY2011, the administrative regulation requiring the 80/20 split between the Local Issuer Pool and State Issuer Pool was temporarily suspended due to the market dislocation in the municipal bond market. An emergency regulation was enacted to divide the pools with forty percent (40%) reserved for the **Local Issuer Pool (\$164,895,946)** and sixty percent (60%) reserved for the **State Issuer Pool (\$247,343,919)**. "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 July 1st of each year, the remainder of any unallocated state ceiling in the Local Issuer



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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/ourcabinet/caboff/OOC/ofm/>)**

- No local project can be allocated more than twenty-five percent (25%) of the amount of the Local Issuer Pool pursuant to the individual local project limitation in 200 KAR 15:010. For CY2011, the local project limitation of twenty-five percent (25%) was temporarily suspended. 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)

Contact: Katie Smith, Deputy Commissioner
Kentucky Cabinet for Economic Development
Department of Financial Incentives
Old Capitol Annex
300 West Broadway
Frankfort, KY 40601
Phone: (502) 782-1987
Fax: (502) 564-7697
Katie.Smith@ky.gov

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