

Tax Exempt Industrial Revenue Bonds

Overview

In Mahoning and Trumbull Counties, small issue industrial revenue bonds (IRB), also known as industrial development bonds (IDB), can be used for manufacturing purposes. The bonds are issued by public entities on behalf of private, for-profit companies. The bond buyers provide the funds needed by the company. Interest earned by the bond buyers is exempt from federal (and some state) income tax. As a result, the bond buyers are willing to accept a lower interest rate.

Eligibility

- Acquire land/buildings; construct facilities; renovate facilities; acquire new or used equipment.
- Minimum of 70% must go to core manufacturing (i.e., the direct manufacturing or production of tangible personal property).
- No more than 25% of the proceeds may be used to acquire land.
- When purchasing an existing facility, at least 15% of the bond proceeds must be allocated for rehabilitation;
- Balance used for: related items (e.g., loading docks, rail spurs, temporary storage areas, employee parking, production office space);
- non-qualifying items can utilize a maximum of 3% of the proceeds (e.g., non-temporary storage, general administrative office, showrooms); and
- a maximum of 2% can go for bond issuing costs.

Rate/Terms

Maximum Amount	\$10 million; no borrower may exceed \$40 million nationwide; no borrower may exceed \$10 million in total capital expenditures in the same city/county as the IRB project during the 3 years preceding and the 3 years after the IRB project
Minimum Amount	None specified by IRS: projects below \$1.5 million may not be cost effective given the fees involved
Interest Rates	Set by private capital markets; typically comparable to U.S. Treasury Bonds with similar maturities, or lower with bank letter of credit; can be fixed or floating
Terms	Negotiable; max 120% of asset's economic life
Amortization	Negotiable
Issuing Fees	3% -to- 6% depending on bond size
Bank Letter of Credit	May be required
Personal Guarantees	May be required
Reserve Fund	May be required

Contact

Youngstown/Warren Regional Chamber at 330.392.6140

This summary is prepared as a reference, and should not be construed as the actual law. For more information, contact the Youngstown/Warren Regional Chamber.

Use Of Fund Restrictions

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- minimum 95% of bond proceeds must be used for land and/or depreciable assets.
 - all funds must be expended within 3 years.
 - if project involves purchase of a manufacturing facility, project must include rehabilitation work equal to at least 15% of the purchase price financed with IRBs.
 - maximum 25% of bond proceeds may be used to buy land.
 - maximum 2% of bond proceeds may be used for pay fees associated with issuing costs.
 - minimum 95% of bond proceeds must be used directly for manufacturing and related activities.

Fees

IRB funding is expensive compared to other project financing. Among the major fees are:

Issuing Costs:

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| Lawyers -- | bond counsel (gives opinion on tax exempt status) and attorneys for the bond buyer; company; and the bank issuing letter of credit (if any) |
| Other -- | buyer's fee; trustee's fee, bank (if any) fee; printing costs (if any); |
| Annual Costs: | trustee's fee; letter of credit fee |

Prevailing Wages Process

Ohio prevailing wage rates must be paid for construction, renovation and equipment installation

In Ohio, the issuance of tax-exempt bonds are approved by the local Community Improvement Corporation (CIC) and the city or county (if the project is in an unincorporated area) government where the project is located. The political entity must also conduct a public hearing on the project. Once approved an "Inducement Resolution" is issued. No funds may be expended by the company prior to approval of the Inducement Resolution.

Companies typically arrange to sell the bonds prior to requesting approval from a CIC and political entity. Bonds are typically sold either to underwriters/investment banks through "private placements," or through the Ohio Department of Development (ODOD) bond programs. The ODOD program offers lower fees, but does not offer floating rates or amortization options.

Information on the ODOD "Small Project-Pooled IRB Program" (\$400,000 -to- \$1.5 million) and the "Ohio Enterprise Bond Fund" (\$1.5 -to- \$10 million) programs are available from the Regional Chamber of Commerce. For information on private placements, consult a bank or bond underwriter.

No matter how the bonds are sold, the State of Ohio must officially designate part of its statewide tax-exempt bond allocation for the project in writing. This is known as the Volume Cap Program. There are two ways to receive a Volume Cap allocation from the state: lotteries held four times a year, or through the Director's discretionary approval. Application requires a \$1,000 application fee and a 0.75% refundable deposit for the lottery approach, or a \$2,000 application fee if applying through the Director's discretionary approval.

If approved, issuer has 90 days to issue bonds. A 30-day extension is possible of a 1% extension fee. If bonds are not issued within applicable time frame, the deposit is forfeited and the authority to issue bonds lapses.