FINANCING MANUFACTURING PROJECTS WITH TAX-EXEMPT INDUSTRIAL DEVELOPMENT REVENUE BONDS (IDRB'S)

Under current U.S. Treasury Department regulations, manufacturing projects in the United States can be financed with below market interest rates through the use of tax-exempt industrial development revenue bonds (IDRB's). These are bonds issued in the name of a City, County, or State Authority, which gives them their tax-exemption **(the issuing authority – City, County or State Authority is NOT liable for payment performance on the bonds)**. Tax-exempt means that the purchaser of the bonds pay no federal income taxes on the interest they receive for investing in the bonds.

The bonds function just like a mortgage on a building or a secured loan on a piece of equipment.

Tax-exempt industrial development revenue bonds may be used for:

- Housing - single and multi-family
- Student Loans
- Pollution Control
- Airports
- Sewage Facilities
- Solid Waste Disposal Facilities
- Approximately 20 other specific uses

Specific to manufacturing type projects, IDRB's can be used for:

- Industrial projects for assembling, fabrication, manufacturing or processing, which creates a product for sale
- Energy development projects, production, collection or conversion
- Projects which manufacture or process recycled or reused products and materials

The proceeds of an IDRB can be used for the following purposes:

- Expansion of existing manufacturing / processing facilities
- Construction of a new manufacturing facility
- Acquisition of an existing building and equipment for manufacturing
- Purchase of new machinery and equipment
- Land (limited)
- Costs of architects, engineers, attorneys and permits (limited)
- Costs of bond issuance (limited)
- Landscaping (limited)

The Federal restrictions of the use of IDRB proceeds are as follows:

- 95% of the proceeds must be used for the defined IDRB project.
- 2% of bond proceeds can be used for the costs of issuance.
- 25% of bond proceeds can be used for land costs or other purposes ancillary to manufacturing.
- If a used building is acquired, 15% of the bond proceeds must be used to renovate the facility.
- A notice of public hearing must be held before the bonds can be issued.
- The bond term can be for up to 30 years.

Federal restriction on size of IDRB's:

- The maximum face amount of a tax-exempt IDRB for a manufacturing project is $10 million per company, per public jurisdiction.
- The capital expenditures for the company in the municipality where the project is located cannot exceed $20 million, 3 years prior to and 3 years following the issuance of the bonds, including the bonds.
- Any one manufacturing company cannot have more than $40 million in bonds outstanding throughout the United States.

State requirements and considerations:

- Create new or additional employment (number, duration, type, average wage)
- Expand tax base and increase property, sales or other taxes
- Maintain and promote a stable, balanced and diversified economy

The Financing and Issuing Process:

1. The business owner or financial officer may contact the Wyoming Business Council to review eligibility and required documentation before requesting "volume cap allocation" and final approval from the Governor.
2. The business owner or financial officer may contact an investment banker or financial advisor who specializes in this field of finance. The professional will guide the company through the various steps necessary to issue the bonds.
3. The business owner must seek support for the issuance from a municipality, authority, or political subdivision of the State. This approval comes in the form of an "official intent", which authorizes the issuance of the bonds.
4. TEFRA Hearing: Federal tax law requires that the general public have the right to comment on the proposed IDRB financing at a public hearing.

5. The business owner must involve an attorney who specializes in bonds and a bond-underwriting firm who will market the bond issue.
6. Most IDRB's are backed by a bank letter of credit (LOC) or bond insurance. The LOC is a guarantee by a bank that the principal and interest on the bonds will be paid when they come due.
7. When volume cap allocation is received, documents prepared, LOC received and the bond issue closed, proceeds are deposited with a trustee and disbursed as the project is constructed or acquired. **(<u>Proceeds are generated from the sale of bonds in the open market, they are not Federal, State or Local funds</u>).**