



Just the Facts:

Industrial Revenue Bonds (IRB)

February 2022

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. The Kentucky Finance & Administration Cabinet’s Office of Financial Management manages the KPABAC. Additional information can be found at:

<https://finance.ky.gov/office-of-the-controller/office-of-financial-management/Pages/kentucky-private-activity-bond-allocation-committee.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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