

## General Structure

- Industrial Revenue Bonds (IRBs) are used in Kansas to finance acquisition and construction of a broad variety of industrial, commercial and industrial properties under K.S.A. 12-1740 et seq on behalf of private businesses or non-profit agencies.
- IRB's require a governmental entity to act as the "Issuer" of the bonds, who will hold an ownership interest in the property for as long as the IRBs are outstanding.
- The Issuer leases the property to the business "Tenant" on a triple-net basis for a term that matches the term of the IRBs, with lease payments which are sufficient to pay the principal and interest payments on the IRBs.
- The IRB Lease Agreement is a financing lease under FASB 13 rules: title to the property automatically transfers to the Tenant when the IRBs are retired and during the term of the lease the value of the property is carried on the Tenant's balance sheet.
- The Issuer's interest in the property and the IRB Lease is typically assigned to a bank with corporate trust powers who acts as a Trustee on behalf of bondholders under terms contained in the Trust Indenture.
  - The Trustee holds and disburses bond proceeds for project costs.
  - The Trustee receives rent payments from the Tenant and disburses principal and interest payments to bondholders
  - The Trustee acts on behalf of bondholders to exercise remedies in the event of defaults.
- The issuer is a passive conduit whose role is essentially to lend its status as a municipal corporation to the transaction - no obligation to pay bondholders; no credit enhancement.

## Economic Benefits

### Property Taxes

The issuer can provide property tax abatement for up to ten years for property financed with IRBs. Certain agricultural properties and all commercial retail properties are ineligible for property tax abatement.

### Sales Tax

Generally, property and services acquired with the proceeds of IRBs are eligible for sales tax exemption. A sales tax exemption certificate must be obtained from the Kansas Department of Revenue prior to expenditure of bond proceeds.

### Tax Exempt Interest

The income earned on all IRBs issued in Kansas are exempt from all State taxes except inheritance taxes. The income earned on IRBs issued for manufacturing facilities, facilities owned by 501(c) corporations, low-income multifamily housing projects, and single-family mortgages are also exempt from federal income taxation.

The benefit of tax exempt interest to borrowers is lower interest rates that bondholders are willing to accept because of the financial benefit of tax exempt interest to the bondholder.

## Procedures

- Takes at least two months to complete.
- Starts with approval of an inducement resolution or Letter of Intent.

## Industrial Revenue Bonds Explained

Provided to the Tenant by the Issuer, establishing a commitment to issue the IRBs subject to negotiated conditions.

- If property tax abatement is anticipated, a Cost-Benefit Analysis must be provided to the governing body in advance, notices sent to the other taxing jurisdictions affected by the abatement and a public hearing held at least seven days prior to approval.
- When the tenant is ready (project costs known, placement of the bonds arranged, Trustee bank selected), the Bond Counsel will prepare the legal documents for approval by the Issuer, including Lease, Trust Indenture, Guaranty Agreement, Bond Purchase Agreement, and so on.
- Federally tax exempt IRBs require publication of a TEFRA Notice at least 14 days prior to the holding of a public hearing prior to authorization of the IRB issuance.
- The issuer authorizes the issuance of the IRBs by means of the adoption of the adoption of a Bond Ordinance (cities) or Bond Resolution (counties) which essentially approves all of the bond documents.
- Following adoption and publication of the Bond Ordinance (or Resolution) a bond closing is held, at which time the physical bonds are delivered to the purchaser (underwriter or private placement) in exchange for receipt of the IRB proceeds By the Trustee bank.
- The Trustee disburses the IRB proceeds directly to participants in the IRB issue to pay costs of issuance and to contractors, suppliers, consultants, etc. to pay project costs as they are incurred (or to the Tenant to reimburse previously incurred costs).