

Industrial Development Revenue Bond Financing Guidelines and Procedures



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INDUSTRIAL DEVELOPMENT REVENUE BONDS

In the face of increasing interest rates and rising construction costs, the assimilation of capital to finance new and expanded industrial facilities is becoming increasingly important to corporate facility planners. Until only recently, most site location or expansion decisions depended primarily upon generating the right answers to questions, such as land costs, tax abatement, labor rates, etc. Alternatives for financing capital expansion projects are now receiving greater consideration, and the availability of Industrial Development Revenue Bonds can, in some instances, be the difference between a project successfully completed and one stalled indefinitely.

The advantages of IDR's are:

1. The possibility of obtaining "100% financing" including the costs of site acquisition, construction of buildings, purchase and installation of machinery and equipment, interest during construction, and the expenses of bond issuance.
2. Lower interest rates resulting in payments substantially less than similar payments on conventional financing.
3. Investment tax credit and deductions for interest and depreciation accrue to the company using the facility as it would with any other vehicle.
4. Unlike construction loans used in conventional financing, industrial revenue bond financing does not require subsequent conversion to permanent financing.

How They Work

Industrial Development Revenue Bonds or Industrial Development Bonds (IDRBs) are securities issued by Pasco County for the purpose of purchasing land and/or buildings, the construction of buildings, and equipping them for use by private industry. Under Florida law, the bond proceeds are then loaned by the agency to qualifying project which is responsible for making the payments necessary to retire the bonds.

Florida statutes describe qualifiable IDB projects as "industrial or manufacturing plants." In interpreting the term "industrial plant", the statutes include an industrial distribution center; repair, overhaul or service facility; test facility; pollution control facility and other facilities..."handling any products or commodities embraced in any industrial or manufacturing plant...and appurtenances and facilities incidental thereto."

In 1980, a bill broadening the use of Industrial Development Revenue Bonds passed the legislature and includes the following additional categories:

1. Agricultural processing and storage facilities.
2. Warehousing or distribution facilities.
3. Headquarters facilities.
4. Tourism facility.
5. Convention or trade show facilities.
6. Public lodging or restaurant facility (in connection with another qualified

- facility).
7. International trade centers.
 8. Urban parking facilities.
 9. Profit-oriented medical facilities.
 10. Airport and port related facilities.
 11. Commercial projects in slum or blighted areas.

The statute also fixes general economic benefit tests which must be satisfied. The Pasco County Board of Commissioners requires that proposed projects be capable of producing tangible economic benefits in the form of new employment, the preservation of existing employment, increased tax base, new capital investment or combinations thereof.

IDBs can either be taxable or tax-exempt depending on the type of project.

In general, the Internal Revenue Code allows tax-exempt IDRB financing for projects consisting of land or depreciable property used in a manufacturing business if the size of the financing does not exceed certain prescribed amounts. Tax-exempt rates run 4-5% lower than conventional rates.

Industrial Development bonds used to finance qualified non-manufacturing projects such as those listed above are financed at a taxable bond rate and are called Taxable IDBs. The interest rate is generally 1-2% lower than conventional rates.

INDUSTRIAL REVENUE BOND FINANCING

QUALIFICATIONS

The qualifications for Industrial Revenue Bond Financing are established by Federal and State regulations and by the policies adopted by the issuing agency of local government.

1. Several sections of the United States Internal Revenue Service Code of 1986, as amended, deal with the size of Industrial Development Revenue Bond issues. The Code, in general, states that tax exempt "industrial development bond" financing for manufacturing facilities is permitted for a financing of up to \$1 million for qualified projects.

The Code also offers the issuer the option to increase the limit of the IDRB financing from \$1 million to \$10 million, but imposes capital expenditure restrictions. In general, these restrictions require that capital expenditures made by (i) the Company (user) (ii) all affiliated entities to the company and (iii) any principal users of the proposed project located within the same governmental jurisdiction (city, county) in which the proposed project is located during the three years immediately prior to the date of the proposed issue and the three years after the issue must be aggregated in arriving at the \$10 million limitation. If during this six-year period the aggregate of capital expenditures of the users affiliated entities and any other principal users of the proposed project within the same governmental jurisdiction, including the amount raised with industrial development revenue bonds, exceeds \$10 million, the federal tax exempt status of the interest of the IDRB;s is lost from the date the limit is exceeded. This event generally triggers a mandatory redemption of the bonds, often with a substantial penalty.

While the maximum issue is set by Federal regulations, the minimum issue size is a function of market conditions. Generally, the break-even point, below which conventional forms of financing may prove to be less expensive overall, is considered to be \$1,000,000. This is primarily a result of the fact that the issuance costs associated with this type of financing do not decrease proportionately as the size of the financing decreases.

2. The Code provides that up to \$10 million of tax exempt IDRB's may be issued for a capital project costing up to \$20 million if the project is the recipient of a grant (UDAG) under Section 119 of the Housing and Community Development Act of 1974; that is, the limits for UDAG projects are (i) \$10 million IDRB's plus (ii) \$10 million other capital expenditures during the six year period.

3. Industrial Development Revenue Bond financing has been limited in several ways by recent federal tax legislation. Some of these include:

a. **Limit on Land Acquisition**

Industrial Development Bond proceeds can be applied to the purchase of land for a project only if the cost is less than 25% (50% for industrial parks) of total bond proceeds.

b. Restrictions of Purchase of Existing Buildings and Equipment

Existing buildings can be purchased only if at least 15% of the total cost of (i) acquiring the facility and (ii) equipment is used for renovation expenditures.

c. Per-User Limit

Principal users of Industrial Development Revenue Bond-financed projects cannot have more than \$40 million of tax exempt facility related bonds, which includes IDRBs, outstanding at any time.

d. Non-Qualified Projects

Airplanes, stadium skyboxes, gambling facilities, health clubs and liquor stores can no longer be financed with IDRB's.

e. Arbitrage Restrictions

Generally arbitrage profits must be paid to the U.S. Treasury Department.

f. State Volume Caps

Imposes an annual volume limitation on each state on the issuance of IDRB's.

g. Manufacturing Facilities

Except as provided in paragraphs (4) and (5) below, bond proceeds can only be used to construct a manufacturing facility.

4. The Code permits the issuance of tax exempt IDRB's without limitation as to principal amount or capital expenditures for certain types of water supply projects, sewage treatment facilities, and (501) (c) (3) health care facilities. Other sections of the Code refer to other specific types of exempt facilities and should be consulted for guidance.

5. While the federal law has limited the use of tax-exempt IDRB's to financing only manufacturing facilities, the Authority is exploring financing techniques to finance other types of qualifiable projects utilizing taxable bonds. The Florida Statutes, as amended, broadly define qualifiable projects as including the following:

- Manufacturing or industrial plants
- Research and development parks
- Agricultural processing and storage facilities
- Warehousing and distribution facilities
- Corporate headquarters facilities

Tourism facilities
Convention or trade show facilities
Urban parking facilities
Trade center facilities
Health care facilities (only facilities with a Certificate of Need from the Florida Health and Rehabilitative Services will be considered)
A motion picture production facility
A preservation or rehabilitation of certified historic structure
Airport and port facilities
Commercial projects in designated enterprise zones
Pollution control, hazardous or solid waste facilities

The Pasco Economic Development Council requires the proposed projects be capable of producing tangible economic benefits in the form of new employment, the preservation of existing employment, new capital investment or combinations thereof.

Should the company, the bond investor/purchaser, the Committee or bond counsel feel that the proposed project or the financing structure does not fit squarely within the meaning of a qualified project under the Florida State Statute, the bonds may be required to be validated in the Florida courts before issuance.

INDUSTRIAL REVENUE BOND FINANCING

Project Eligibility Questionnaire

The Pasco Economic Development Council hereinafter referred as "Pasco EDC", has been designated by the Pasco County Board of County Commissioners as the clearinghouse for review of applications for Industrial Revenue Bond financing for Pasco County. Certain procedures as set out in Florida and Federal law must be adhered to in order to secure and maintain a tax-exempt status.

In order to facilitate this procedure, please send a letter of intent with the completed Eligibility Questionnaire, which is attached, to the Pasco EDC with a non-refundable application fee in the amount of \$5,000.00 payable to the Pasco Economic Development Council, together with a certified financial audit for the past three years. In addition, a certification statement must be attached insuring that the project site is properly zoned for its intended use. The completed Eligibility Questionnaire and financial information will be reviewed by the Pasco EDC at the next available Pasco EDC meeting, which is tentatively scheduled the fourth Wednesday of every month. All papers should be submitted six weeks prior to the Pasco EDC meeting.

After consideration by the Pasco EDC and determination of eligibility for a revenue bond issue, applicant should contact the Pasco County Attorney for presentation of the initial Inducement Resolution authorizing the proposed revenue bond issue for the project and making provisions for the selection of Bond Counsel. After adoption of the Inducement Resolution, the Pasco County Attorney will submit a formal request for allocation of bonds under the State of Florida's Regional Allocation Formula. An applicant must also furnish to the Pasco EDC an opinion from recognized Bond Counsel as to the tax exempt status of the interest on the bonds to be issued, in conformance with the Internal Revenue Code and the Tax Reform Act of 1986.

Approval by the Pasco EDC of the project is subject to subsequent ratification by the Pasco County Board of County Commissioners approving the Pasco EDC's action. Within 30 days of receipt of the Inducement Resolution, the applicant must indicate acceptance of the terms of the resolution in writing to the Pasco EDC office and copy the County Attorney's office.

NO COSTS BY THE COMPANY WILL BE REIMBURSED AS ELIGIBLE EXPENDITURES FROM THE BOND PROCEEDS UNLESS: (1) SAID COSTS QUALIFY AS ELIGIBLE EXPENDITURES UNDER THE INTERNAL REVENUE CODE; (2) SAID COSTS WERE INCURRED SUBSEQUENT TO THE RECOMMENDATION BY THE PASCO EDC AND APPROVAL OF THE INDUCEMENT RESOLUTION BY THE PASCO COUNTY BOARD OF COUNTY COMMISSIONERS.

Bond Counsel should be consulted as to whether or not expenditures would be eligible under the Internal Revenue Code. It is the company's responsibility to provide for the sale and placement of the Industrial Revenue Bond Issue. Neither the Pasco EDC nor Pasco County will be obligated for repayment of the bond indebtedness. If the company is a subsidiary of a parent corporation, the parent must guarantee the subsidiary obligation or offer other appropriate commitments to answer repayment of the bond indebtedness.

Final approval for the complete bond documents will occur at a second Pasco EDC meeting, which is subject to subsequent approval by the Pasco County Board of County Commissioners. Validation proceedings, if required by the Pasco County Board of County Commissioners, should be accomplished within 60 days from the final Pasco EDC and Pasco County Board of County Commissioners actions. A fee in the amount of \$5,000, or half of one percent of the principal value of the bond, whichever is greater, shall be payable to the Pasco County Board of County Commissioners upon closing.

THE PASCO EDC MUST HAVE AT LEAST SIX WEEKS NOTICE FROM THE APPLICANT PRIOR TO CALLING A MEETING FOR THE FIRST OR FINAL APPROVALS. ALL APPLICANTS ARE ADVISED TO CONSIDER THIS TIME FRAME WHEN PLANNING.