Industrial Revenue Bond Program

Industrial Revenue Bond (IDRB) Program

Tax-Exempt Bonds

THE ECONOMIC DEVELOPMENT CORPORATION OF JACKSON COUNTY

SERVED BY THE ENTERPRISE GROUP OF JACKSON, INC.

One Jackson Square
Suite 1100
P.O. Box 80
Jackson, MI 49204-0080

Phone: 517-788-4455
Fax: 517-782-0061
Email: atorres@enterprisegroup.org
dkelly@enterprisegroup.org

WHAT ARE TAX-EXEMPT INDUSTRIAL REVENUE BONDS (IDRB's)? IDRB's are bonds issued by the Economic Development Corporation of Jackson County (EDC) to finance the acquisition, construction, installation or rehabilitation of certain qualifying economic development projects. The bonds are limited obligations of the EDC payable solely from revenues or other funds provided by the manufacturing company. The interest paid on the bonds is tax-exempt because of certain provisions in the Internal Revenue Service Code that allow governmental entities, such as the EDC, to issue tax exempt obligations that finance certain types of projects. These projects include manufacturing facilities (subject to capital expenditure limitations described below), facilities for nonprofit corporations that have been determined to be organized under Section 501(c)(3) of the Internal Revenue Code, solid waste disposal facilities and certain other exempt facilities permitted under the Internal Revenue Code.

WHAT TYPES OF MANUFACTURING FACILITIES CAN BE FINANCED WITH IDRB's? An eligible project includes any facility (including equipment), which is used in the manufacturing, production, procession or assembly of "tangible personal property." The owner may not incur capital expenditures exceeding $20,000,000 during a six-year period. A company should check with their CPA or the EDC's bond counsel to determine their eligibility and financial status.

PROCEEDS OF AN IDRB MAY BE USED IN CONNECTION WITH AN ELIGIBLE MANUFACTURING FACILITY PROJECT TO FINANCE:

- **The construction of a new manufacturing facility.** "Manufacturing" facilities, including land, buildings, site work and equipment, plus certain soft costs and fees related to the financing, can be financed with the proceeds of IDRB's. "Manufacturing" includes any facility that is used (1) in the manufacturing or production of tangible personal property or (2) in a process, which results in a change in the condition of such property. Typically, any process that results in a change in, or adds value to, raw materials or other products can be considered a manufacturing process.
- **The acquisition of an existing facility** (if certain qualifying rehabili-

tation expenditures with respect to such facility equal at least 15% of the total cost of acquisition within two years after the bonds are issued).

- **The purchase of new equipment or the construction of improvements to a manufacturing facility.** Qualifying costs include all expenditures related to the manufacturing facility, which are chargeable to capital accounts, for federal income tax purposes. No more than 25% of the proceeds of these bonds can be used to acquire land and other facilities that are ancillary to the core manufacturing process.
- **The construction of office, warehouse or lobby space, or other facilities that are ancillary to the manufacturing facility** (so long as their costs do not exceed 25 % of the amount financed).
- **Used equipment can be financed with the acquisition of an existing manufacturing facility**, with the 15% rehabilitation requirement applied to the total cost of the plant and equipment financed.
- **Existing IDRB's can be refinanced or "refunded" to lower interest cost or extend maturities within specified limitations of existing IDRB's.** The refunding also can be combined with an IDRB financing of new construction or equipment under a single bond issue.
- **Up to 2% of the principal amount of the bonds can be used to pay issuance costs** such as: attorney, underwriter, trustee, EDC and bank fees. In addition, fees payable to a bank for a letter of credit to secure the bonds are also financeable above and beyond the 2% limit.

NONPROFIT CORPORATIONS

The EDC can generally issue tax-exempt bonds to finance any capital expenditure projects made by a 501(c)(3) corporation in furtherance of its tax-exempt purpose, so long as the facility will be owned and occupied by the 501(c)(3) corporation. Examples include educational facilities for K-12 private schools and private colleges, health care facilities and cultural institution facilities.

CREDIT ENHANCEMENT

The Bonds do not constitute a general obligation of the EDC and are repayable solely from loan repayments to be made by the Borrower and by any credit enhancement provided by Borrower. Most IDRB's are structured with a letter of credit issued by a commercial bank to secure the bonds and enhance the marketability. The amount of qualifying project costs to be financed with the bond proceeds is generally driven by the commercial lending requirements of the letter of credit bank.