

Industrial Revenue Bonds

Wyoming Legislative
Service Office
presentation to Joint
Agriculture Committee

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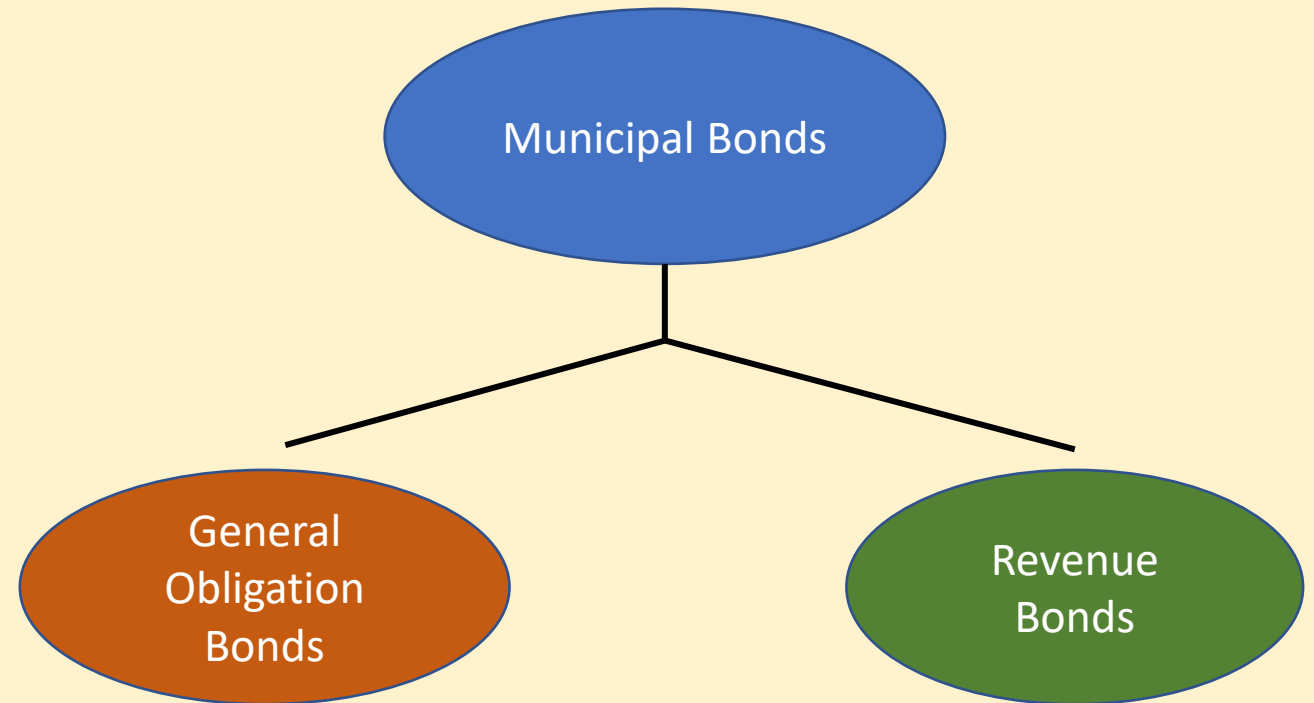
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Industrial Revenue Bonds (IRBs) are a type of municipal bond.


Municipal bonds are debt securities issued by local and state governments to fund projects.

Two types of municipal bonds





Revenue
bonds are
used
to fund:

- **Public benefit projects:** e.g. schools, highways & hospitals.
 - **Private sector projects,** e.g. manufacturing facility.
 - “Private activity bond”
 - Often used by local governments as an economic development tool.
 - IRBs are a type of private activity bond.
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Private Activity Bonds can be:

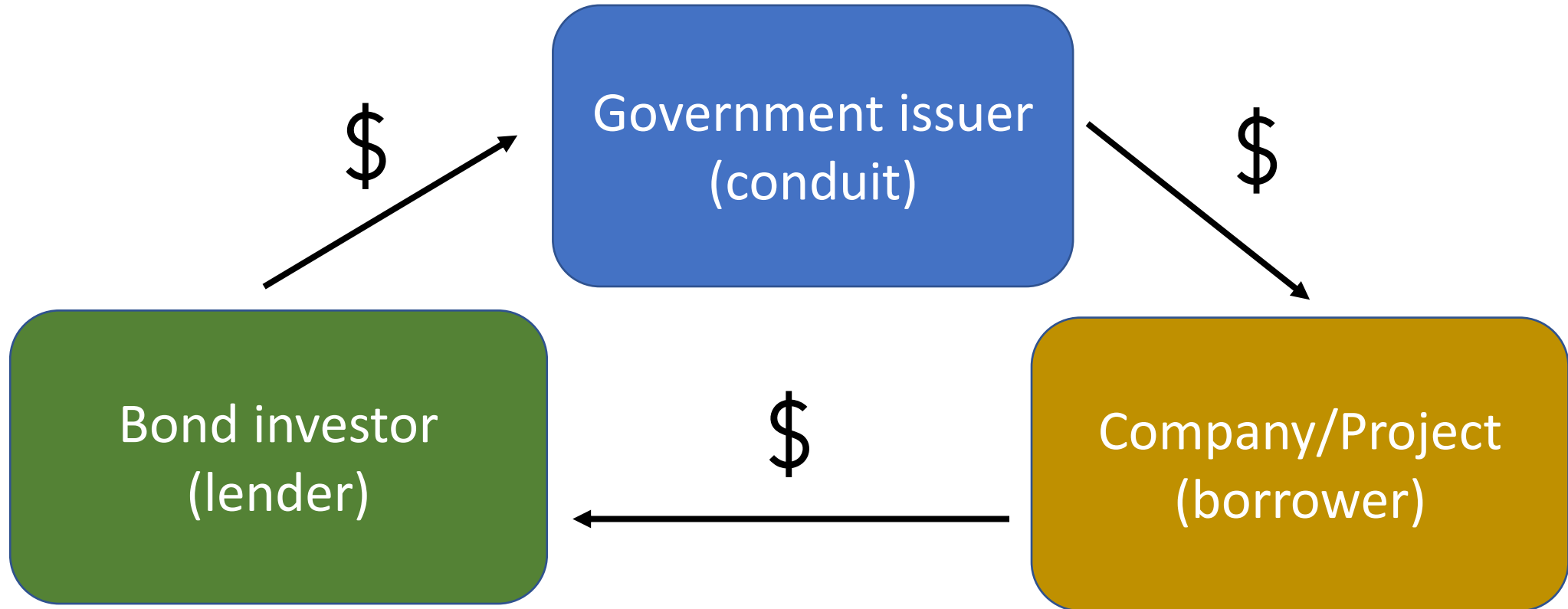
Taxable

- Bond interest subject to federal income tax.
- Often used to finance projects that don't qualify for tax-exempt financing.

Tax-exempt

- Offer lower rate financing since interest exempt from income tax.
- But...tightly regulated by the federal government under the Internal Revenue Code

IRB transaction



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IRBs are also called “conduit bonds.”

State and Local tax benefits

- Because government issuer holds title to project facility during bond term, facility is exempt from property taxes.

State statutes or IRB agreements may require full or partial payments in lieu of taxes (PILOTs) to compensate for lost property tax revenue.

- Project facilities may be exempt from other taxes as well, such as sales tax (on equipment purchased for facility), or corporate income tax.

Benefits of IRB issues

Government issuer:

- economic development

Company borrower:

- project financing
- state and local tax benefits

Bond investor:

- investment income
- Income is exempt from federal income tax (if tax-exempt bond)



Tax-exempt Private Activity Bonds

Internal Revenue Code regulates in two ways

Type of activity

“qualified private activities”

Bond volume

Each state allocated an annual **volume cap**.

Wyoming: approximately **\$300 million** each year.

Qualified Private Activities include:



Qualified small issue bonds



Mortgage revenue bonds



Qualified student loan bonds



Other activities, such as airports, electric power plants, and sewage facilities.

**Qualified Small
Issue Bonds
may be used to
finance
manufacturing
facilities
subject to
Internal Revenue
Code
requirements**

- Meet Internal Revenue Code definition of a manufacturing facility
- Maximum aggregate bond issue = \$10 million
- At least 95% of bond net proceeds used to acquire, construct, or improve land/depreciable property



Internal Revenue Code Definition of Manufacturing Facility

“Any facility used in the manufacturing or production of tangible personal property (including the processing resulting in a change in the condition of such property)”

IRC training module lists meatpacking, “an entire operation of processing, cleaning and canning food,” as an example of a manufacturing facility.



Terminology

Other names for IRBs:

- Type of **municipal bond**
- Type of **private activity bond**
- **Conduit bond**
- **Qualified small issue bond**
- **Industrial Development Bond (IDB)**

WYOMING

IS

CATTLE COUNTRY



WASHAKIE COUNTY COWBELIEVES

EAT BEEF

State Entities with Revenue Bonding Authority

- School Facilities Commission
- State Land and Investment Board (SLIB)
- Wyoming Community Development Authority (WCDA)
- Wyoming Energy Authority
- Wyoming Higher Education Assistance Authority
- Wyoming Yellowstone Park Commission

Local Governments with Revenue Bonding Authority

- Cities and towns to finance parking facilities, sewerage systems, and other **municipal improvements**.
- Cities, towns, counties & joint powers boards to finance **industrial development projects** (Wyoming Industrial Development Projects Act.)
- Special Districts (airport, hospital, irrigation, etc.)

Higher Education Revenue Bonding Authority

- Community College districts
- University of Wyoming

Wyoming Tax-exempt Volume Cap Allocation

W.S. 9-1-219 provides the Governor with authority to establish rules to allocate the cap among state governmental units.

Current rules (effective April 2006):

- **\$90M to WCDA**
- **\$30M to Wyoming Student Loan Corporation (WSLC).**
- **Remainder (approx. \$180 M) to General Allocation Pool.**



Wyoming Tax-exempt Volume Cap Utilization

With one exception, WCDA is the only state or local entity that has utilized the State's tax-exempt bond allocation since 2011.*

Each year, WCDA uses up to 50% of the state's \$300M allocation to issue **mortgage revenue bonds** and **mortgage credit certificates**.

** (In 2020, Converse County applied for and was allocated \$10M for an IDB)*



Wyoming Unused Allocation

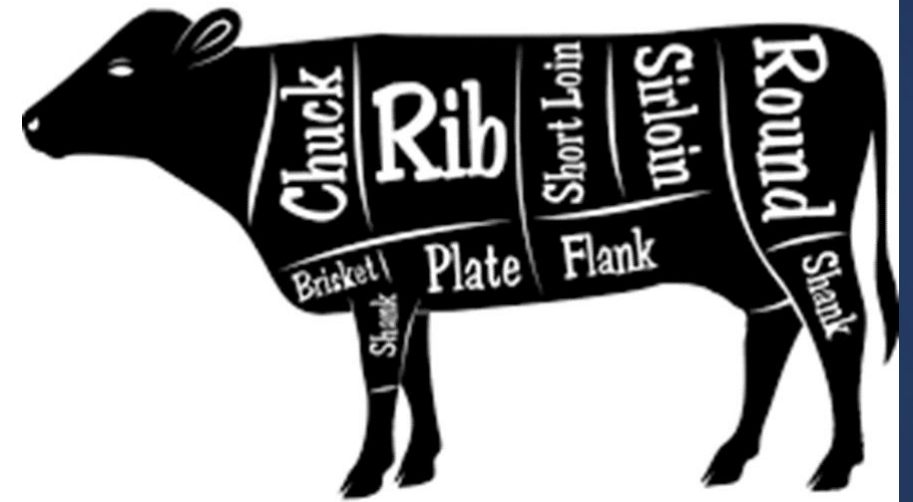
Under the Internal Revenue Code, states have 3 years to use their tax-exempt state volume cap allocation for bond issues. After 3 years, unused allocations expire.

50% or more of Wyoming's \$300M volume cap expires each year.



Takeaways

- Either taxable or tax-exempt bonds can be used to finance industrial development projects, such as manufacturing facilities.
- Meatpacking plants appear to meet the Internal Revenue Code definition of a “manufacturing facility” and qualify for tax-exempt qualified small issue bond financing under the state’s volume cap.



Takeaways

- Wyoming is utilizing only 50% of its \$300M tax-exempt volume cap each year. The other 50% is expiring as unused.
- There is capacity under the State's annual volume cap to issue tax-exempt qualified small issue bonds for manufacturing projects such as meatpacking facilities.



Questions?

