



Industrial Revenue Bonds (IRB)

The Industrial Revenue Bond (IRB) Program allows Dane County to support industrial development through the sale of tax-exempt bonds. The proceeds from the bond sale can be used by businesses to finance capital investment projects at, primarily, manufacturing facilities. Even though IRBs are municipal bonds, they are not general obligations of the municipality. The company or business that will use the facilities pays the interest and principal on the bonds. The local government is in partnership with the business, lending its name, but not its credit, to the bond issue.

Eligibility: Federal law defines eligible projects. IRBs are a means of financing the construction, expansion and/or equipping of, primarily, manufacturing facilities. Manufacturing generally includes nearly every type of processing that results in a change in the condition of tangible property. The proceeds of the bond issue may be used to finance the cost of land, construction of new or expanded facilities, purchase of equipment, and the payment of certain costs incurred in the issuance of the bonds. Prospective IRB users should consult with bond counsel on project eligibility and the use of bond proceeds.

Advantages: Unlike most conventional loans, IRBs can offer businesses a convenient, long-term, and often a fixed-rate financing package. Similar to other municipal bonds, the interest earned on IRBs is exempt from federal income taxes. As a result, the bond buyer is willing to accept a lower rate of interest in exchange for tax-free income. Typically, interest rates on IRBs may be from 1.5 to 2.5 percentage points below corporate bonds. The terms of the bond issue are negotiable and can be structured to meet the needs of the borrower. The costs of issuing the bonds can be spread out over the term of the bond issue.

How it works: The business must secure the buyer or the underwriter of the bond issue. The bonds are sold by the municipality, which in turn, lends the proceeds of the sale to the business. The funds come from private lenders or from public markets. Tight credit standards apply. The facilities and equipment are pledged as collateral for the loan. A letter of credit or bond insurance is often required.

Dane County will work with existing businesses to facilitate WI Department of Commerce review. Interested businesses must demonstrate a firm commitment from a financial institution or bond underwriter to purchase the bonds demonstrating that the project is credit worthy. Documentation supporting this criteria is required before an application can be accepted for review. Projects must demonstrate their potential jobs creation, jobs retained, and potential for long-term regional economic benefit.

Are there any limitations? Federal tax law imposes some limitations on IRBs. The maximum size of a bond issue is \$10 million, subject to certain conditions. For bond issues exceeding \$1 million, capital expenditures at the business's location(s) in the municipality during the three years before and the three years after the date the bonds are issued cannot exceed \$20 million. Also, the total amount of IRBs outstanding at all related operations of the business, in all states, may not exceed \$40 million. "Exempt" projects, such as water, sewage and solid waste disposal facilities, do not have to comply with the \$20 million limit. Businesses should consult with bond counsel on whether any of these limitations apply.

The tax code also limits the amount of most types of tax-exempt private activity bonds (bonds which benefit nongovernment persons or businesses) that can be issued in each state each year. This limit is called the unified volume cap. Businesses pursuing IRB financing must apply for an allocation of volume cap or bonding authority from the Department of Commerce. Businesses that receive an allocation of volume cap are also required to notify the Department on the project's impact on employment.

Timeline: Ongoing

Staff Contact: For more information, please contact Olivia Parry, Dane County Economic Development Specialist at 608-266-4270, or Parry@countyofdane.com.