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Update on Kentucky, Ohio and Indiana Bond Cap Allocations

Federal and state “volume cap” allocations for small manufacturing bond issues, underutilized since the Great Recession of 2007–2008, are available in Kentucky, Ohio, Indiana and in neighboring states. Manufacturers and lenders should take a new look at this lower-cost option for financing capital investment in 2016.

In the Commonwealth of Kentucky, the state’s Private Activity Bond Allocation Committee announced that it will be accepting applications for volume cap for new small manufacturing bond issues from February 1, 2016 through March 7, 2016. The Commonwealth expects to receive \$442,509,200 in volume cap from the United States Government for calendar year 2016. Thirty percent (30%) of this, or \$132,752,760, is available to the Local Issuer Pool for small manufacturing bonds and for solid waste recovery bonds. Sixty percent (60%) of the volume cap goes to the State Issuer Pool and 10 percent (10%) of the volume cap goes to Energy Efficient Project Pool, the latter for manufacturing facility energy efficiency bonds issued pursuant to KRS 103.282.

Volume cap for small manufacturing bond issues is also available in the states of Ohio and Indiana (and in most other states).

Volume cap for small manufacturing bonds has been drastically overlooked for the past few years. For instance, in Kentucky in 2015 only one manufacturing company submitted, obtained and used an allocation of volume cap for a small manufacturing bond issue (Frost Brown Todd acted as bond counsel). Tax-exempt bonds are an attractive option for a small manufacturing company because the cost of borrowing can be 25–30% lower than the cost for a taxable borrowing for the same borrowing entity. Qualifying “small manufacturing” companies are ones that will expend no more than \$20 million in capital expenditures at a particular site over a six-year period (three years back and three years forward) and that meet certain other requirements. The total amount of tax-exempt small manufacturing bonds that can be issued is \$10 million. However, this can be combined with a taxable borrowing for a

project, so long as the total of capital expenditures at a manufacturing facility does not exceed \$20 million over the six-year period.

It is noted that tax-exempt small manufacturing bonds cannot be “bank-qualified” under Internal Revenue Code Section 265(b)(3); thus the discount for tax-exempt small manufacturing bonds to a taxable interest rate is somewhat less than the discount to a taxable interest rate for small issue governmental or non-profit bonds (the latter, sometimes up to 35%). Notwithstanding this, tax-exempt small manufacturing bonds are another lending option that financial institutions can – and do – offer for attractive manufacturing projects.

Companies interested in receiving an allocation of volume cap or in engaging in a tax-exempt small manufacturing bond project in 2016 should contact one of Frost Brown Todd’s [Public and Project Finance](#) lawyers. In Kentucky, contact [John S. Egan](#); in Ohio, [David A. Rogers](#) or [Emmett M. Kelly](#); and in Indiana, [Denise Y. Barkdull](#).

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