The Industrial Development Revenue Bond - A Little Known Small Business Finance Tool

Fierce competition between large commercial banks and new community banks has made available a variety of financial products tailored to the needs of small businesses. Included in these product offerings are term and commercial loans, lines of credit and all manner of business credit cards. However, there is another financing tool that is less well known. This is the industrial development revenue bond. The term “bond” is often confusing to most people. The bond, as used in this instance, is just another way to borrow money.

Industrial development revenue bonds are often used by municipal, county and state economic development officials as an inducement to attract businesses and industry to their respective locales. When done properly, it is a potential win-win for both the local government and the business. The local government gets increased tax revenues and the business gets the needed financing to invest in major capital projects such as buildings, warehouses and/or equipment.

In Georgia, industrial development revenue bonds are more commonly used in rural counties, but a few counties in the metro Atlanta area and in other major urban counties around the state have made good use of them. For example, the Atlanta Development Authority has frequently used industrial development bonds to finance a number of projects in Atlanta. Generally, industrial development revenue bonds can be issued for almost any purpose permitted by the Georgia Constitution and the laws governing the establishment and operation of development authorities. The bonds are of two types: taxable and tax-exempt.

Before a small business owner or company embarks on an effort to secure bond financing, it is highly recommended that they seek out and consult with qualified bond counsel. Names of qualified bond attorneys can be found by contacting the Georgia State Bar Association at their website www.gabar.org or www.legalaid.org.

What then are the steps necessary to obtain an industrial development revenue bond?

1. The small business owner should inquire to their local economic or industrial development authority as to what the formal application process is (i.e. documents, financial requirements, job retention requirements, etc.).

2. After screening, review and then acceptance by the development authority of the small business’s financing proposal, the authority and the business will sign a letter of intent and inducement. Upon completion of this, the development authority will then issue an inducement resolution.

3. The small business owner finds a purchaser for the bonds, usually a bank, other financial institution or underwriter.

4. Once the financial commitments are in place, bond counsel can begin putting together the necessary documentation.

5. Upon acceptance of the bond documents, the development authority will issue a resolution approving the bonds.

6. At this stage, the bond issue must be approved and validated judicially. This is usually done by the district attorney and clerk of the superior court. The pending validation must be advertised in the local newspaper for two weeks in a row. Once this is accomplished, the bonds are validated.

7. A formal closing occurs in which all parties sign the required documents which are then recorded. The bond issue is closed and the proceeds are issued to the small business.

The above steps are for taxable bonds only. Tax exempt bonds require a number of additional steps.

In summary, the industrial development revenue bond, while not widely known to small businesses, is a viable option as a source of financing for major capital projects. Small businesses interested in bond financing should contact their local development authority or a Georgia SBDC Network consultant.

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