



## **INDUSTRIAL REVENUE BONDS**

### **PERISTYLE, LLC dba CASTLE & KEY DISTILLERY**

**Woodford County, Kentucky**

**April 28, 2026**

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## INFORMATION – REQUESTED BOND FINANCING

Project Company	Peristyle, LLC dba Castle & Key Distillery
Project Description:	<p>Existing distillery and the following potential related improvements:</p> <ul style="list-style-type: none"> <li>• <i>Superintendent’s Cottage</i> – renovation and transformation of existing building into various uses, including a kitchen for private events, additional tasting space, overnight rental option, etc.</li> <li>• <i>Second Cistern Room</i> – transformation of dilapidated building into single barrel selection space/tasting room.</li> <li>• <i>Distillery-related dining facility</i> – renovation and transformation of part of existing building into a dining facility (pizza) for visitors and guests.</li> <li>• <i>Distillery-related overnight accommodations facility</i> – conversion of administration building into facility providing overnight accommodations for visitors and guests.</li> </ul>
Term/Maturity:	Up to 40 years
Principal Amount:	Up to \$90,000,000 (estimated cost, plus cushion for cost overruns)
PILOT:	Hold harmless annual PILOT to the school district.



## INDUSTRIAL REVENUE BONDS: OVERVIEW

- The Bonds are authorized by KRS §§ 103.200 to 103.285.
- May be issued by a city or a county (the “Issuer”).
- The Bonds are:
  - A type of local economic development incentive available to be used by cities and counties.
  - A method to finance capital assets of a Project that enables the Project to obtain a state and local property tax abatement on the assets the costs of which the Bonds finance.
  - Here, the “financing” will be internal. An affiliate of Peristyle, LLC (the “Project Company”) will purchase the bonds.



## INDUSTRIAL REVENUE BONDS: OVERVIEW

- Purpose of the Bonds is “to promote the economic development of the Commonwealth, to relieve conditions of unemployment, to encourage the increase of industry in this state, and to aid in the retention of existing industry through improved energy efficiency in manufacturing facilities, or through conversion of energy facilities to more readily available fuels.” [KRS § 103.210(1).]
- Bonds can finance the cost of acquiring any “*industrial building*.” [Id.]
- “*Industrial Building*” defined in KRS § 103.200(1):
  - Can include land, land improvements, buildings, machinery, equipment, software and any other real and personal properties.
  - Must be suitable for at least one of the 16 activities, uses or facilities identified in the statute.



## PROJECT QUALIFIES FOR BOND-FINANCING

- KRS § 103.200(1)(p) authorizes Bonds to be issued to finance the costs of residential multi-family projects:

"*Building*" or "*industrial building*" means any land and building or buildings (including office space related and subordinate to any of the facilities enumerated below), any facility or other improvement thereon, and all real and personal properties, including operating equipment and machinery deemed necessary in connection therewith, whether or not now in existence, which shall be suitable for the following or any combination thereof:

\* \* \* \*

- (a) Any activity, business, or industry for the manufacturing, processing or assembling of any commercial product, including agricultural, mining, or manufactured products and solar-generated electricity, together with storage, warehousing, and distribution facilities in respect thereof;
- Distilling is a manufacturing activity (manufacture of alcoholic beverages). See *Revenue Cabinet v. James B. Beam Distilling Co.*, 798 S.W.2d 134 (Ky. 1990); *Schenley Distillers, Inc. v. Commonwealth*, 467 S.W.2d 598 (Ky. App. 1971).



## INDUSTRIAL REVENUE BONDS: OVERVIEW

- The Bonds are a method of conduit financing – the conduit borrower (Project Company), rather than the conduit issuer (city or county), is responsible for making payments to the bondholder(s). *[KRS §§ 103.230(2)]*
- The debt of the Bonds is secured by the revenues from the Project that the debt finances and the cash flow from the Project is used to pay the Bondholder(s). *[Id.]*
- The Bonds are not general obligations of the Issuer. *[Id.]*
- The Bonds are not backed by a pledge of the Issuer’s credit or taxing power. *[Id.]*
- The Bonds do not constitute an indebtedness of the Issuer within the meaning of the KY Constitution and do not reduce or impact the Issuer’s constitutional borrowing capacity. *[Id.]*
- Maximum term is forty years. *[KRS §§ 103.2101(7) and 103.220(1).]*



## PROPERTY TAX ABATEMENT

- The Project is exempt from state and local real and personal property taxes while the Issuer holds title to the Project and leases it to the Company, subject to a state-only tax on the leasehold.
- Fee Title to Project – Held by the Issuer (governmental entity) and is exempt from state and local property taxation:

All properties, both real and personal, which a city or county may acquire to be rented or leased to an industrial concern according to KRS 103.200 to 103.280, shall be exempt from taxation to the same extent as other public property used for public purposes, as long as the property is owned by the city or county. *[KRS § 103.285]*



## PROPERTY TAX ABATEMENT

- Leasehold Interest in Project – Held by the Project Company
  - State Property Taxes: The state tax rate applicable to the leasehold interest is a function of the asset leased (e.g., real property, manufacturing equipment, other tangible personal property, etc.). KEDFA may approve a reduction in the applicable state tax rate to \$0.015 per \$100 of fair cash value. *[KRS §§ 132.020(1)(f)1. and 103.210(3)]*
  - Local Property Taxes: Leasehold interest is exempt from local property taxes:

All property subject to taxation for state purposes shall also be subject to taxation in the county, city, school, or other taxing district in which it has a taxable situs, except the class of property described in KRS 132.030 and the following classes of property, which shall be subject to taxation for state purposes only: ...

(7) All privately owned leasehold interest in industrial buildings, as defined under KRS 103.200, owned and financed by a tax-exempt governmental unit, or tax-exempt statutory authority under the provisions of KRS Chapter 103, except that the rate shall not apply to the proportion of value of the leasehold interest created through any private financing. *[KRS § 132.200(7)]*

## INDUSTRIAL REVENUE BONDS: PROCESS

- Bond ordinance or resolution - adopted by Issuer to authorize issuance of the Bonds (“ordinance or resolution ... adopted by the legislative body of the city or the fiscal court of the county ... specifying the proposed undertaking, the maximum amount of bonds to be outstanding at any one (1) time, and the maximum rate of interest the bonds are to bear” and “that the industrial building ... is to be acquired pursuant to the provisions of KRS 103.200 to 103.285.”) [KRS § 103.210(1) and (2)].
- Closing – Bonds issued and bond structure established:
  - Project Company transfers title to the Project to the Issuer (bill of sale; deed).
  - Issuer issues (“sells”) the Bonds.
  - Purchaser (Project Company affiliate) “purchases” the Bonds.
  - Bond proceeds “reimburse” the Project Company for the costs of the Project (acquisition and construction).
  - Issuer leases the Project to the Project Company during term of Bonds.
  - The lease is a capital lease and is classified as loan for income tax and GAAP. The assets financed are treated as owned by the Project Company for GAAP and income tax purposes, and the Project Company is entitled to the associated depreciation and amortization deductions.
  - Lease “payments” are sole source of “repayment” of the Bonds.
  - Annual lease “payments” from the Company “fund” annual Bond amortization payments to the purchaser of the Bonds.
  - Upon “repayment” of the Bonds (after 40 years), the lease terminates and the Issuer transfers title to the Project to the Company for a nominal payment (e.g., \$10.00).
  - Company may unwind the Bond structure at any time during the Bond term by paying the balance owed on the Bonds.

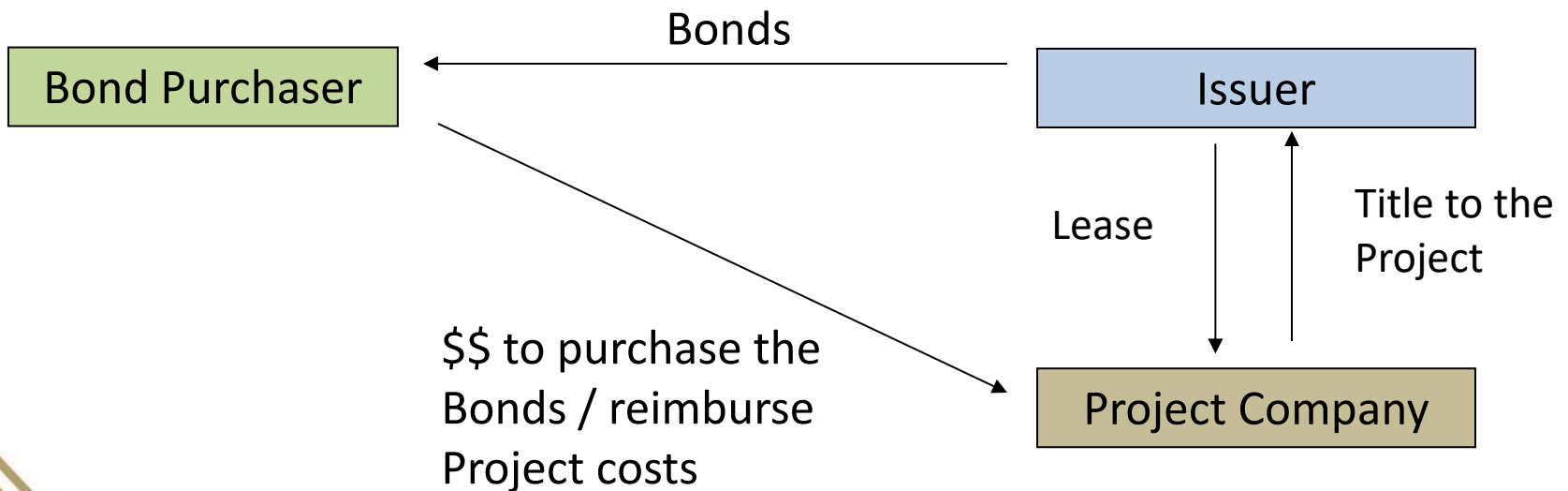


## BOND FUNDING

- In the typical property tax abatement Bond structure, no cash funds change hands.
- The Bond documents provide that so long as the Bonds are held by an affiliate of the Project Company, all payments on the bonds (purchase price, annual rent/interest payments and ultimate repayment) can be made by intercompany journal entries (debits/credits) on the books of the Project Company and the Bondholder in lieu of cash.

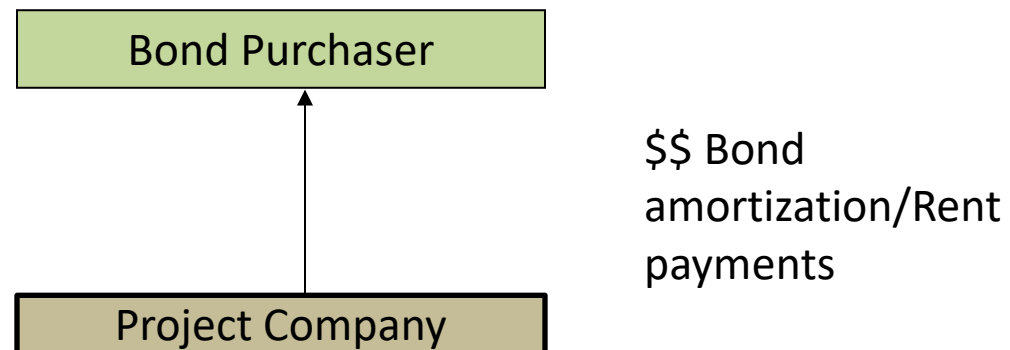
## CLOSING – GRAPHICAL DEPICTION

- Issuer issues Bonds to finance acquisition and construction of the Project; the Bonds purchased by a purchaser (C&K Investments, LLC)
- Proceeds from the sale of the Bonds paid to the Company to reimburse the costs of acquiring/constructing/equipping the Project



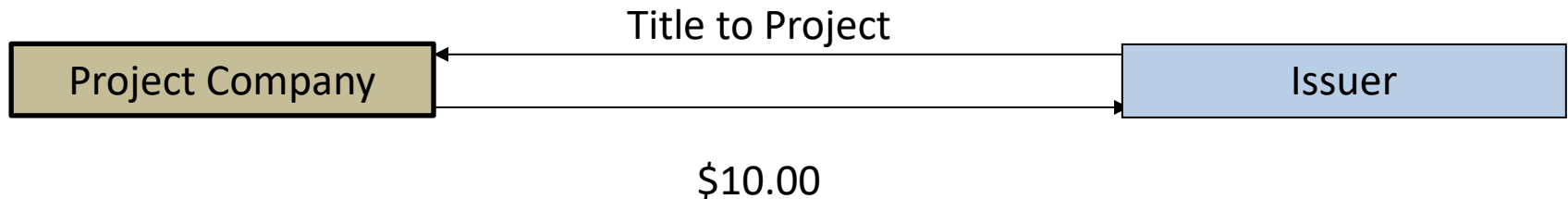
## ANNUAL LEASE/BOND PAYMENTS – GRAPHICAL DEPICTION

- Issuer owns the Project and leases it to the Company for the 40-year Bond term for Bond-equivalent rent payments.
- Company leases the Project from the Issuer for the 40-year Bond term and pays rent equal to the debt service on the Bonds (typically annual payments).
- Issuer assigns the right to receive rent payments from the Company to the purchaser of Bonds and payments are made directly by the Company to the Purchaser.



## Maturation of Bonds – Graphical Depiction

- After 40 years, the Bonds mature and are retired and the Issuer transfers title to the Project to the Project Company for a nominal payment.





## Bond Examples

<u>Company</u>	<u>Issuer</u>	<u>Project</u>
Tractor Supply Company	City of Franklin	Distribution center
Lakeshore Equipment Company	City of Midway	Distribution center
Columbia Sportswear Co.	Henderson Regional IDA	Distribution center
Institutional Dist., Inc. (Gordon Food Svc.)	City of Shepherdsville	Distribution center
The Kroger Co.	Boone County	Distribution center
Fed Ex Ground Package System, Inc.	Boone County (multiple)	Distribution facility
KY Fresh Harvest, LLC	Lincoln County	Greenhouses
Paducah Convention Hotel, LLC	City of Paducah	Hotel project
Astana, LLC	Lexington-Fayette UCG	Hotel project
Aisin Automotive Casting, LLC	London-Laurel County IDA	Manufacturing (auto parts)
Nifco North America, Inc.	City of Shelbyville	Manufacturing (auto parts)
BlueOval SK, LLC	Hardin County	Manufacturing (batteries)
Envision AESC Bowling Green, LLC	Warren County	Manufacturing (batteries)
Danimer Scientific Kentucky, Inc.	City of Winchester	Manufacturing (biopolymers)
Heaven Hill Distilleries, Inc.	Nelson County (multiple)	Manufacturing (bourbon whses.)
Jim Beam Brands	Bullitt County	Manufacturing (bourbon whses.)
MGPI of Indiana, LLC	City of Williamstown	Manufacturing (bourbon whses.)
Sister Schubert's Homemade Rolls, Inc.	Hart County	Manufacturing (bread rolls)
LioChem e-Materials, LLC	City of Franklin	Manufacturing (carbon nanotubes)
Wacker Chemical Corp.	Calvert City	Manufacturing (chemicals)
Papa John's USA, Inc.	Lou./Jeff. County Metro Govt.	Manufacturing (pizza commissary)
Pizza Whole of Lexington, Inc.	City of Paris	Manufacturing (pizza commissary)
Brown-Forman Co./Old Forester	Lou./Jeff. County Metro Govt.	Manufacturing (distillery)
Brown-Forman Co./Woodford Reserve	Woodford County (multiple)	Manufacturing (distillery/bourbon whses.)
Maker's Mark Distillery	Marion County (multiple)	Manufacturing (distillery/bourbon whses.)



## Bond Examples

<b>Company</b>	<b>Issuer</b>	<b>Project</b>
Bardstown Bourbon Company	Nelson County	Manufacturing (distillery/bourbon whses.)
Jim Beam Brands	Nelson County	Manufacturing (distillery/bourbon whses.)
Duke Energy North America, LLC	Marshall County	Manufacturing (electricity)
Bluegrass Generating Station, LLC	Oldham County	Manufacturing (electricity)
Riverside Generating Company, LLC	Lawrence County	Manufacturing (electricity)
Foothills Generating Company, LLC	Lawrence County	Manufacturing (electricity)
Custom Food Products LLC	Bath County	Manufacturing (food products)
Fritz Winter North America LP	City of Franklin	Manufacturing (iron foundry)
Bowling Green Metalforming (MAGNA)	South Central Ky. RDA (multiple)	Manufacturing (metal stamping)
Argent Metal Technologies	Gallatin County	Manufacturing (metals)
RFC, LLC	Shelby County	Manufacturing (metals)
Catalent Pharma Solutions, LLC	City of Winchester	Manufacturing (pharmaceuticals)
Riken Elastomers	City of Hopkinsville (multiple)	Manufacturing (plastics)
Gannett Kentucky L.P.	Lou./Jeff. County Metro Govt.	Manufacturing (printing)
T. Marzetti Company	Hart County	Manufacturing (salad dressing)
Accumetric, LLC	City of Elizabethtown	Manufacturing (sealants/adhesives)
North American Stainless, L.P.	Carroll County (multiple)	Manufacturing (steel)
Bilstein Cold Rolled Steel, L.P.	Warren County	Manufacturing (steel)
Nucor Corporation	Meade County	Manufacturing (steel)
Nucor Tubular Products, Inc.	Gallatin County	Manufacturing (steel)
Florida Tile, Inc.	Anderson County (multiple)	Manufacturing (tile)
Churchill Downs Inc.	Lou./Jeff. County Metro Govt.	Recreational (racetrack upgrades)
Churchill Downs Inc. (Turfway Park)	City of Florence	Recreational (live and historical racing)
Buc-ee's Smiths Grove, LLC	City of Smiths Grove	Travel Center



## Questions

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