Recovery Zone Bonds (RZBs)

June 2009

In February 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), which creates a new category of bonds called Recovery Zone Bonds (RZBs). RZBs are intended to stimulate economic recovery in areas identified as recovery zones. The two types of RZBs – Recovery Economic Development Bonds and Recovery Zone Facility Bonds – may only be issued prior to January 1, 2011.

Under the Recovery Act, the federal government will allocate each type of RZB to states based on each state's 2008 decrease in employment when compared to the national decrease in employment. Each state shall then distribute its allocation to counties and large municipalities (defined as having a population in excess of 100,000) based on their 2008 decrease in employment compared to the state's decrease in employment. The amount of the RZB bond cannot exceed the amount of allocation.

A "recovery zone" is defined as any area that has been designated by the county/large municipality as having significant poverty, unemployment, home foreclosure or general distress, or any area affected by military realignment, or any area that has been designated as an empowerment zone or a renewal community.

Recovery Zone Facility Bonds (Tax-Exempt Private Purpose Bonds) - The Recovery Act earmarks $15 billion of Recovery Zone Facility Bonds (RZFBs) nationwide. RZFBs permit counties/large municipalities to provide tax-exempt financing for projects that historically would not qualify ***(e.g. Office Buildings, Warehouses and Storage Facilities, Commercial Development, Retail Businesses, Shopping Centers, Auto Dealerships, Restaurants, Medical Office Buildings, Agricultural Facilities, and Manufacturing Facilities).*** RZFBs are private activity bonds and are classified as "exempt facility bonds" for tax purposes. RZFBs may be issued for any depreciable property that (a) was acquired after the date of designation as a recovery zone, (b) the original use of which occurs in the recovery zone, and (c) substantially all of the use of the property is in the active conduct of qualified businesses. A "qualified business" includes virtually any trade or business. Bond proceeds CANNOT be used to finance specific activities such as: skyboxes, health clubs, golf courses, country clubs, massage parlors, hot tub facilities, tanning facilities, racetracks or other gambling facilities, or liquor stores. State allocation of Volume Cap is not required for RZFBs, and there is no prohibition against acquiring existing property.

Recovery Zone Economic Development Bonds (Taxable Governmental Purpose Bonds) - The Recovery Act earmarks $10 billion of Recovery Zone Economic Development Bonds (RZEDBs) nationwide. These are governmental bonds to be used for governmental purposes that will allow the county/large municipality to borrow on a lower cost than traditional tax-exempt financing. RZEDBs may be issued for purposes of promoting development or other economic activity, including public infrastructure and construction of public facilities or job training and educational facilities, in an area that has been designated by the county/large municipality as a "recovery zone". RZEDBs are taxable bonds (the interest earned by the holders of the bonds is subject to taxation and the rate of interest paid by the county/large municipality would presumably be higher than that on tax-exempt bonds). However, the federal government would reimburse the county/large municipality for 45% of the interest paid; thus making the true cost of the interest paid lower than that paid on tax-exempt bonds. For example, if a 20-year AAA tax-exempt bond had an interest rate of 4.5% and a taxable equivalent was at 6.5%, after the rebate was applied, the effective interest rate would be 3.5%

Build America Bonds (Taxable Governmental Use Bonds) - These are governmental bonds to be used for governmental purposes that will allow the county/large municipality to borrow at a taxable rate rather than traditional tax-exempt financing. Build America Bonds may be issued for public infrastructure and construction of public facilities. They are taxable bonds (the interest earned by the holders of the bonds is subject to taxation and the rate of interest paid by the county/large municipality would presumably be higher than that on tax-exempt bonds). However, the federal government would provide a rebate to the bond issuer for 35% of the interest paid or the bond holders can receive a federal tax credit equal to 35% of the taxable interest; thus, making the true cost of the

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