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Recovery Zone Bonds under American Recovery and Reinvestment Act (ARRA)

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Recovery Zone Bonds

- ARRA Authorizes Two Different Types of Recovery Zone Bonds :

  Recovery Zone Economic Development Bonds (RZEDB) – Governmental Bonds
  - Available for New Money – Infrastructure or Other Governmental Program
  - New Castle County has been allocated $50,910,000 issuance authority – must be issued in 2009 or 2010
  - Project financed must be located in a Recovery Zone

  Recovery Zone Facility Bonds (RZFB) – Private Activity Bonds
  - Available for private activity conduit loans
  - New Castle County has been allocated $76,365,000 issuance authority – must be issued in 2009 or 2010
  - Project financed must be located in a Recovery Zone

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Recovery Zone Bonds

- RZEDBs and RZFBs are fundamentally different from each other. The only common feature is that they must finance new money projects in Recovery Zones

RZEDBs	RZFBs
Taxable	Tax-Exempt
45% Subsidy	No Subsidy
Governmental	Private Activity
General or Special Obligation of County	Conduit Obligation of Private Borrower

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Recovery Zone Designations

- County makes designation of "Recovery Zones"
  - Area with significant unemployment, poverty, home foreclosures, or general distress
  - New Castle County plans to make designations by resolution to be adopted on July 28
- Designations must be made in "good faith"

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Recovery Zone Economic Development Bonds

- Interest on RZEDBs is taxable
- County entitled to receive a subsidy payment from the federal government equal to 45% of the interest paid on Bonds
- No refundings – proceeds of RZEDBs can only finance governmental purposes
- Projects financed are subject to Davis-Bacon prevailing wage provisions

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Recovery Zone Facility Bond

- Interest on RZFBs is tax-exempt – no subsidy from federal government
- Available to fund loans to private borrowers – County's credit is not pledged to secure RZFBs
- No Refunding – must finance business project in Recovery Zone
- Private business borrower obtains benefit of lower tax-exempt rate

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Recovery Zone Economic Development Bonds

Taxable Friendly

- Likely bond purchasers will include pension funds, foreign investor, foundations and any other entities that do not benefit from tax-exemption
- These taxable purchases desire features that are not common to tax-exempt securities:
  - large bullet maturities
  - long terms
  - no optional redemption or make-whole redemption premiums
- If RZEDB can be structured in a “taxable friendly” manner, the interest rate will be lower and the financing will be more beneficial to County

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Recovery Zone Economic Development Bonds

- Interest rate subsidy
  - The County will be reimbursed by the federal government for 45% of the interest paid on RZEDBs
  - Bond sold at fair market, no more than *de minimis* premium
  - Original issue discount does not qualify for subsidy
  - Submit IRS Form 8038-CP for interest subsidy payment
    - Payments on fixed rate bonds made on interest payment dates
    - Payments on variable rate bonds made quarterly in arrears

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Recovery Zone Economic Development Bonds

- Permitted uses
  - Capital expenditures paid or incurred with respect to property located in a Recovery Zone
  - Expenditures for public infrastructure and construction of public facilities; and
  - Expenditures for job training and educational programs
  - 2% limit on costs of issuance
  - Reserve fund up to 10% of proceeds

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Recovery Zone Facility Bonds

- New category of exempt facility bonds subject to the following existing restrictions:
  - Tax-exempt bonds - rate set by market
  - Maturity limited to 120% of economic life of project
  - Need public hearing and elected official approval
  - 95% has to be used for capital expenditures

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Recovery Zone Facility Bonds

- Available for any type of private projects (except apartments, gambling facilities and certain other disfavored uses)
- More flexible than existing tax-exempt bond authorizations. Can be used to finance:
  - Commercial projects, including office buildings
  - Manufacturing projects larger than $20 million
- Conduit private borrower must be creditworthy – no recourse to County

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Bank Eligibility

- Existing private activity bonds are not attractive to Banks because the Banks may not deduct their interest expense
- Under ARRA, Banks will be permitted to have up to 2% of total assets in bonds (including RZFBs) issued in 2009 and 2010 that are not subject to 100% interest expense disallowance
- Still subject to 20% interest expense disallowance