

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

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

Taxable

45% Subsidy

Governmental

General or Special
Obligation of County

RZFBs

Tax-Exempt

No Subsidy

Private Activity

Conduit Obligation of
Private Borrower

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”

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

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

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

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

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

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

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

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