



Recovery Zone Facility Bonds Fact Sheet

On February 17, 2009, President Obama signed into law a \$787 billion stimulus bill, The American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA encourages public finance participants to combine various types of financial obligations and tax credits in order to finance projects.

Recovery Zone Facility Bonds (RZFBs) are a new type of tax-exempt private activity bond that dramatically broaden financing opportunities for corporate, for-profit borrowers with capital infrastructure projects that traditionally have not qualified for tax-exempt financing consideration under the Federal Tax Code.

Bond proceeds expenditures must be for property within a recovery zone or otherwise promote economic activity therein.

What are Recovery Zone Facility Bonds? Recovery Zone Facility Bonds (RZFBs) are tax-exempt Private activity bonds issued before January 1, 2011, if:

- The qualified business constructed, reconstructed, renovated, or purchased property after the passage of the ARRA
- The original use of such property in the recovery zone commences with the taxpayer (subject to certain exceptions for renovations)
- Substantially all the use is in the recovery zone for the active conduct of a qualified business by the taxpayer
 - A qualified business is any trade or business except for:
 - *Residential rental property*
 - *Any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises*

What is a Recovery Zone? A Recovery Zone is defined as:

- Any area designated as having significant poverty, unemployment, rate of home foreclosures or general distress
- Any area designated as economically distressed by reason of closure or realignment of military installation pursuant to the Defense Base Closure and Realignment Act of 1990
- Any area currently designated as an Empowerment Zone or Renewal Community

How can RZFBs be issued? Recovery Zone Facility Bonds are subject to an allocation of \$15 billion nationally. Such allocation is to be determined by the Secretary of the Treasury

- Local issuance of RZFBs is limited to the amount of RZFB allocation a county or large city receives
- On June 12, 2009, the Internal Revenue Service released interim guidance as it relates to RZFBs
- The Federal RZFB Allocation to the State of California amounts to \$1,209,338,000
- Sub-allocation recipients include 48 cities and 29 counties across the State
 - Please see attached list for the Statewide sub-allocations
- Traditional conduit financing issuers are permitted to act as the Issuer for RZFBs
- Sub-allocation that is not utilized at the City/County level may be re-allocated by the State
- It is anticipated that the California Debt Limit Allocation Committee (CDLAC) will distribute allocation for RZFBs.



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What are the eligible uses of RZFBs proceeds?	<p>Eligible uses of RZFBs include:</p> <ul style="list-style-type: none">• The Recovery Zone Facility Bond proceeds can be used to acquire existing property located outside of a Recovery Zone and place such assets “in service” within a designated Recovery Zone• 95% of proceeds must be used for recovery zone property and must be depreciable property• TEFRA Hearing requirements are applicable• Bond maturity date limited to 120% of weighted average life of assets financed <p>Additional eligible expenditures include: costs of issuance of not more than two percent (2%) of the proceeds, and a reasonably required reserve fund</p>
How is a Recovery Zone designated?	<p>The local government must designate a “Recovery Zone” area in order to issue RZFBs and identify the basis for the designation. The verification will require a resolution approved by the local governing entity.</p>
Why would qualified businesses be interested in RZFBs?	<p>The RZFB Program substantially increases the breadth and depth of Borrowers that may access tax-exempt debt to finance capital projects</p> <ul style="list-style-type: none">• RZFBs are available to any Borrower with capital expenditures within a Recovery Zone• Traditional Private Activity Bond offerings for corporate borrowers have historically been limited to small-issue Industrial Development (“IDB”), Solid Waste Disposal, Airport/Port Facilities and certain Power Generation providers <p>Business considerations for RZFB issuance</p> <ul style="list-style-type: none">• Over the last 20 years, the average variable rate tax-exempt index (SIFMA) has reliably priced at approximately 70% of the equivalent variable rate taxable index (1M LIBOR)• The Fed’s ongoing policy of quantitative easing has helped reduce taxable rates in the current market such that the prevalent SIFMA / 1M LIBOR ratio for most of 2009 has been closer to 1:1.• Bondholders that purchase RZFBs will NOT be subject to the Alternative Minimum Tax (AMT)• Owing to the increasing number of taxpayers ensnared in the “AMT trap”, Bonds issued in the Non- AMT market enjoy a persistent discount to a parallel bond structure in the AMT market• In the current variable rate market, coupons for Non-AMT bonds are consistently 0.25% (or 25 basis points) lower than for AMT• For investment-grade borrowers able to access the fixed rate market, N-AMT coupons are approximately 1.00% (100 basis points) below the corresponding AMT coupon across the yield curve• Ongoing Federal dialogue relating to future increases in the marginal income tax rate suggest that the demand for N-AMT paper will remain robust for the indeterminate future.
