



## RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS

### Summary of Major Provisions

**Russell L. Goings, III**  
*Managing Director*  
*Los Angeles, California*  
**Tel: (213) 892-6356**  
**[rgoings@cabreracapital.com](mailto:rgoings@cabreracapital.com)**

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# Summary

- On February 17, 2009 President Obama signed into law a \$787 billion stimulus bill, the American Recovery and Reinvestment Act of 2009 (“ARRA” or “the Act”)
- The ARRA provides new financing methods for state and local governments by expanding the types of projects that can be financed on a tax-exempt basis
- The Act also creates several new categories of tax-exempt and tax-credit bonds
  - Build America Bonds
  - Qualified School Construction Tax Credit Bonds
  - Recovery Zone Bonds
- The ARRA gives Issuers the temporary ability to issue governmental obligations as either taxable tax-credit bonds or subsidy bonds
- The ARRA also increases the tax benefits afforded to banks and other holders of tax-exempt bonds
- One of the objectives of the ARRA as it relates to the “public financing” of projects is to broaden the potential investor base by attracting new investors and crossover buyers
  
- The following presentation will focus on the newly created Recovery Zone Economic Development Bonds

## Recovery Zone Economic Development Bonds (“RZEDBs”)

- Recovery Zone Economic Development Bonds are a subspecies of taxable governmental Build America Bonds. Issuers are entitled “at their election” to receive a direct Federal subsidy equal to 45 of the interest payable on an interest payment date
- Expenditures must be for property within a recovery zone or otherwise promote economic activity therein
- Issuers in control of recovery zone designations
- Federal Davis-Bacon prevailing wage rules apply to projects financed with proceeds of RZEDBs
- Recovery Zone Economic Development Bonds should broaden the appeal of municipal securities for taxable and cross-over investors and enhance the potential for completing projects in areas that historically have been underserved by traditional lenders and sources of finance
- National volume cap of \$10 billion

# Key Facts of RZEDBs

- Recovery Zone Economic Development Bonds must meet the following requirements:
  - The bond is a Build America Bond
  - The bond is issued before January 1, 2011
  - 100 percent of the available project proceeds of the issue (net of debt service reserve fund and not exceeding 2% for costs of issuance) are used for qualified economic development purposes
  - The Issuer designates such bonds as counting against the Issuer's volume cap for such bonds
- Permitted Issuers
  - Cities with a population over 100,000
  - Counties
  - For Benefit of Issuers (Conduit Issuers)
- Eligible Projects
  - New money governmental purpose projects or programs
    - Capital expenditures
    - Job training
    - Educational programs
  - Not available for 501(c)(3) nonprofit or private activity purposes

# Applicable Definitions

*A “Recovery Zone” is defined as:*

- Any are designated as having significant poverty, unemployment, rate of home foreclosures or general distress
- Any area designated as economically distressed by reason of the closure or realignment of military installation pursuant to the Defense Base Closure and Realignment Act of 1990
- Any area for which a designation as an empowerment zone or renewal community is in effect

*A “Qualified Economic Development Purpose” is defined as:*

- Any expenditures for purposes of promoting development or other economic activity in a recovery zone, including:
  - Capital expenditures paid or incurred with respect to property located in the recovery zone
  - Expenditures for public infrastructure and construction of public facilities
  - Expenditures for job training and educational programs
- Includes capital expenditures and working capital expenditures to promote development or other economic activity in a recovery zone
- May be used for reimbursement of eligible expenditures that were paid or incurred after the effective date of the ARRA

## Applicable Rules

- For arbitrage purposes the yield on a RZEDB shall be reduced by the refundable credit
- The Federal subsidy is not subject to future appropriation risk
- A RZEDB shall not be treated as federally guaranteed by reason of the refundable credit
- To qualify as a RZEDB a bond cannot have more than a *de minimis* amount of premium over the stated principal amount of the bond

## Allocation Process

- Secretary of the Treasury will allocate RZEDB authority to States in proportion to the relative declines in employment during 2008
- Each State will receive no less than 0.9 percent of the national volume cap in 2009 and 2010
- The States will reallocate the authority among counties and large municipalities in proportion to their relative declines in employment during 2008. However, in calculating this local employment decline, the portion attributed to large municipalities is not also attributed to the counties
- Any county or large municipality may waive all or part of its allocation, in such case the State will reallocate the authority in any reasonable manner

# Funding Example

- The following is a comparison between a regular tax-exempt bond issue and a taxable RZEDB issue in which the Issuer elects to receive a subsidy from the Treasury of 45% of the interest payment. Each issue is dated 9/1/09, assumes costs of issuance of 2% of par amount, reserve fund and is sized to generate a project fund of \$100,000,000

## Assumed Yield and Coupon Rates (2019 Maturity) as of June 17, 2009

	10 Year AAA MMD	10 Year U.S. Treasury Rate	Spread (bps)*	Yield	Coupon
Tax-Exempt Issue	3.350%	-	120	4.55%	4.55%
Taxable Issue	-	3.682%	222	5.90%	5.90%

*\*Spreads are based on an Aa3/AA rated transaction which priced the week of June 17, 2009*



# Savings from issuing RZEDBs today

Tax Exempt Bond Issue				Recovery Zone Economic Development Bonds				
Period Ending	Principal	Interest	Total	Period Ending	Principal	Interest	Payment From Treasury	Net D/S
09/01/10		5,170,620	5,170,620	09/01/10		6,704,760	3,017,142	3,687,618
09/01/11		5,170,620	5,170,620	09/01/11		6,704,760	3,017,142	3,687,618
09/01/12		5,170,620	5,170,620	09/01/12		6,704,760	3,017,142	3,687,618
09/01/13		5,170,620	5,170,620	09/01/13		6,704,760	3,017,142	3,687,618
09/01/14		5,170,620	5,170,620	09/01/14		6,704,760	3,017,142	3,687,618
09/01/15		5,170,620	5,170,620	09/01/15		6,704,760	3,017,142	3,687,618
09/01/16		5,170,620	5,170,620	09/01/16		6,704,760	3,017,142	3,687,618
09/01/17		5,170,620	5,170,620	09/01/17		6,704,760	3,017,142	3,687,618
09/01/18		5,170,620	5,170,620	09/01/18		6,704,760	3,017,142	3,687,618
09/01/19	113,640,000	5,170,620	118,810,620	09/01/19	113,640,000	6,704,760	3,017,142	117,327,618
	113,640,000	51,706,200	165,346,200		113,640,000	67,047,600	30,171,420	150,516,180

Debt Service Comparison				
Period Ending	Tax-Exempt Bond Issue Net D/S	Taxable RZED Bond Issue Net D/S	Savings from RZED Bond	PV Savings @ 4.55%
09/01/10	5,170,620	3,687,618	1,483,002	1,418,462
09/01/11	5,170,620	3,687,618	1,483,002	1,356,731
09/01/12	5,170,620	3,687,618	1,483,002	1,297,686
09/01/13	5,170,620	3,687,618	1,483,002	1,241,211
09/01/14	5,170,620	3,687,618	1,483,002	1,187,194
09/01/15	5,170,620	3,687,618	1,483,002	1,135,527
09/01/16	5,170,620	3,687,618	1,483,002	1,086,109
09/01/17	5,170,620	3,687,618	1,483,002	1,038,842
09/01/18	5,170,620	3,687,618	1,483,002	993,632
09/01/19	118,810,620	117,327,618	1,483,002	950,389
<b>Total</b>	<b>165,346,200</b>	<b>150,516,180</b>	<b>14,830,020</b>	<b>11,705,782</b>

# Breakeven

- Approximate breakeven taxable RZEDB interest rate that would provide net debt service the same as a corresponding tax-exempt bond over the life of the issue

Breakeven Recovery Zone Economic Development Bond Interest Rate Levels				
Maturity	Current Estimated AA Tax-Exempt Rate	Estimated Breakeven Taxable RZED Bond Rate	Difference (Spread)	
5 Year	3.75%	6.82%	3.07%	
10 Year	4.55%	8.27%	3.72%	
15 Year	5.25%	9.55%	4.30%	
20 Year	5.75%	10.45%	4.70%	
25 Year	5.85%	10.64%	4.79%	
30 Year	6.00%	10.91%	4.91%	

# Build America Bonds and RZEDBs Comparison Fact Sheet

	Build America Bonds	RZEDBs
Type of Bond	Taxable fixed rate or variable rate; governmental purpose (limited private activity)	Taxable fixed rate or variable rate; governmental bonds that must be issued for one or more qualified economic development purpose(s) (limited private activity)
Federal Tax Credits	If the issuer elects to take a direct payment credit, payment every interest payment date to the issuer (direct pay); otherwise 35% income tax credit to bondholder (tax credit)	If the issuer elects to take a direct payment credit, cash payments to issuer equal to 45% of interest on bonds every interest payment date (direct pay); otherwise, 35% income tax credit to bondholder (tax credit)
Use of Proceeds	BAB (tax credit) may be issued for any governmental purpose that could otherwise be financed with the proceeds of tax-exempt bonds under Code Section 103, including working capital expenditures and current and advance refundings; direct pay BABs may only be issued for new money capital expenditures	Can be issued for a “qualified economic development purpose” i.e. expenditures for purposes of promoting development or other economic activity in a recovery zone, including: <ol style="list-style-type: none"> <li>1. capital expenditures paid or incurred in connection with property located in the zone</li> <li>2. Pending guidance and if allowed by the regulations, costs associated with public infrastructure of facilities wherever located, that promote development or other economic activity in a recovery zone</li> <li>3. Pending guidance and if allowed by the regulations, expenditures for job training and educational programs wherever located</li> </ol>
Cost of Issuance and Reserve Funds That May Be Funded With Bond Proceeds	Cost of issuance limited to 2% Reasonably required reserve fund permitted	Cost of issuance limited to 2% Reasonably required reserve fund permitted
Eligible Issuers	Any governmental issuer (non private	Any county or large city (population of

## Build America Bonds and RZEDBs Comparison Fact Sheet (cont.)

	<b>Build America Bonds</b>	<b>RZEDBs</b>
Cost of Issuance and Reserve Funds That May Be Funded With Bond Proceeds	Cost of issuance limited to 2% Reasonably required reserve fund permitted	Cost of issuance limited to 2% Reasonably required reserve fund permitted
Eligible Issuers	Any governmental issuer (non private activity) that can issue tax-exempt securities	Any county or large city (population of 100,000 or more) that receives an RZEDB allocation and that has designated a recovery zone
Limits of Issuance	No limit on issuance of BABs nationally; must be issued before 01/01/2011	\$10 billion “cap” on issuance nationally; must be issued before 01/01/2011
Ability to Strip Credits From Principal and Interest Attributes of Bonds	Right to receive credits may be stripped	Right to receive credits may be stripped
Treatment of Credit For Purposes of Arbitrage Rules	Credit must be netted out (not taken into account) for purposes of computing yield on the bonds under the arbitrage rules	Credit must be netted out (not taken into account) for purposes of computing yield on the bonds under the arbitrage rules
Limitations on Premium	Bonds cannot be issued with more than a de minimus amount of premium over par	Bonds cannot be issued with more than a de minimus amount of premium over par