THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

November 18, 2009
DISTRIBUTION OF THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) RECOVERY ZONE BOND RE-ALLOCATION PROPOSED PROCEDURES FOR A 30-DAY PUBLIC COMMENT PERIOD
(Agenda Item No. 6)

ACTION ITEM:
Approve the distribution of the proposed Recovery Zone Facility Bond Re-allocation Procedures and Recovery Zone Economic Development Bond Re-allocation Procedures for a 30-day public comment period.

BACKGROUND:
On February 17, 2009, HR 1, The American Recovery and Reinvestment Act of 2009, was enacted. Recovery Zone Bonds provide tax incentives and lower borrowing costs for local governments and private entities to promote job creation and economic recovery in areas particularly affected by employment declines. The Recovery Zone Bonds are allocated by the Department of Treasury to the states based on the proportion of each state's 2008 employment decline bears to the national 2008 employment decline. The allocation has been further sub-allocated **by the Department of Treasury** directly to identified counties and large municipalities (populations of more than 100,000) as published on the IRS website. The state's allocation:

1) Recovery Zone Facility Bonds (RZFB): The total California allocation is $1,209,338,000. The ARRA legislation authorizes $15.0 billion in Recovery Zone Facility Bonds (RZFB) nation wide. These are a new category of bonds that are treated as tax exempt private activity bonds for issuance in 2009 and 2010.

2) Recovery Zone Economic Development Bonds (RZEDB): The total California allocation is $806,225,000. The ARRA legislation authorizes $10 billion in tax credit bonds for Recovery Zone Economic Development Bonds (RZEDB) nationwide; these are taxable tax credit bonds for issuance in 2009 and 2010.

On August 26, 2009 the Committee approved the initial Recovery Zone Bond Procedures and reporting requirements. At that time, staff agreed to return to the Committee with re-allocation procedures at a later time. Below is a summary of the re-allocation procedures as proposed by staff (see Attachments A and B for complete proposed procedures).

RE-ALLOCATION OF RECOVERY ZONE BONDS:

1. Counties and large municipalities that do not submit a Plan of Issuance by January 31, 2010 will automatically have their allocation deemed waived and captured by CDLAC for re-allocation. If the Plan of Issuance does not call for the usage of the full amount of the designated award, the excess amount of bonds will be deemed waived.

2. Counties and large municipalities that have not issued their entire designated award are required to provide documentation that they will have the ability to issue bonds prior to the sunset date (December 31, 2010). The required documentation must be submitted no later than August 15, 2010 or the allocation will be automatically deemed waived.

3. CDLAC will administer the re-allocation of the Recovery Zone Bond allocation. As such, CDLAC has developed proposed procedures (see attachments A and B) and the following priority system:

   A. Counties or large municipalities (population of more than 100,000) that voluntarily waived their award of allocation by the Department of Treasury in the American Recovery and Reinvestment Act of 2009 will have first priority in the reallocation application process. As the Committee's first priority (Tier 1 projects), the counties and large municipalities that waived their designated allocation may request up to their waived amount without competition.

   B. Counties or large municipalities that were excluded from receiving an award of allocation by the Department of Treasury in the American Recovery and Reinvestment Act of 2009 will have second priority (Tier 2 projects) in the reallocation application process. *The following counties will have second priority*: Alpine, Colusa, Del Norte, Fresno, Imperial Inyo, Kern, Lassen, Madera, Marin, Mariposa, Merced, Modoc, Monterey, Napa, San Benito, San Diego, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Sierra, Sutter, Tehama, Tulare, Tuolumne, and Yuba. *The following cities will have second priority*: Bakersfield, Chula Vista, Daly City, Escondido, Fresno, Oceanside, Salinas, San Diego, San Francisco, San Jose, Santa Clara, Sunnyvale, and Visalia. Tier 2 projects must meet the established minimum point threshold.

   C. Counties and large municipalities that received a designated award of allocation from the U.S Department of Treasury and are requesting additional Recovery Zone Facility Bonds will have last priority (Tier 3 projects). Those agencies that fall into the Tier 1 category but request an award of re-allocation beyond their waived amount will also fall into this category for their supplemental request. A complete application will be required for the supplemental request.

   D. Projects that fall into the Tier 1 category will be funded prior to all other projects. Those projects that fall into the Tier 2 category will be funded based on score and prior to the funding of Tier 3 projects. All projects that do not fall into Tier 1 and 2 will be considered Tier 3 and will be funded based on score. If necessary and to fully utilize the Recovery Zone

Facility Bonds, CDLAC will establish a waiting list for all projects that have met the minimum requirements. These projects will be funded as unused allocation is captured by CDLAC.

RECOMMENDATION:

Approve the distribution of the proposed Recovery Zone Facility Bond Re-allocation Procedures and Recovery Zone Economic Development Bond Re-allocation Procedures for a 30-day public comment period.