

Recovery Zone Bonds (RZBs)

June 2009

In February 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), which creates a new category of bonds called Recovery Zone Bonds (RZBs). RZBs are intended to stimulate economic recovery in areas identified as recovery zones. The two types of RZBs – Recovery Economic Development Bonds and Recovery Zone Facility Bonds – may only be issued prior to January 1, 2011.

Under the Recovery Act, the federal government will allocate each type of RZB to states based on each state's 2008 decrease in employment when compared to the national decrease in employment. Each state shall then distribute its allocation to counties and large municipalities (defined as having a population in excess of 100,000) based on their 2008 decrease in employment compared to the state's decrease in employment. The amount of the RZB bond cannot exceed the amount of allocation.

A "recovery zone" is defined as any area that has been designated by the county/large municipality as having significant poverty, unemployment, home foreclosure or general distress, or any area affected by military realignment, or any area that has been designated as an empowerment zone or a renewal community.

Recovery Zone Facility Bonds (Tax-Exempt Private Purpose Bonds) - The Recovery Act earmarks \$15 billion of Recovery Zone Facility Bonds (RZFBs) nationwide. RZFBs permit counties/large municipalities to provide tax-exempt financing for projects that historically would not qualify (*e.g. Office Buildings, Warehouses and Storage Facilities, Commercial Development, Retail Businesses, Shopping Centers, Auto Dealerships, Restaurants, Medical Office Buildings, Agricultural Facilities, and Manufacturing Facilities*). RZFBs are private activity bonds and are classified as "exempt facility bonds" for tax purposes. RZFBs may be issued for any depreciable property that (a) was acquired after the date of designation as a recovery zone, (b) the original use of which occurs in the recovery zone, and (c) substantially all of the use of the property is in the active conduct of qualified businesses. A "qualified business" includes virtually any trade or business. Bond proceeds CANNOT be used to finance specific activities

such as: skyboxes, health clubs, golf courses, country clubs, massage parlors, hot tub facilities, tanning facilities, racetracks or other gambling facilities, or liquor stores. State allocation of Volume Cap is not required for RZFBs, and there is no prohibition against acquiring existing property.

Recovery Zone Economic Development Bonds (Taxable Governmental Purpose Bonds) - The Recovery Act earmarks \$10 billion of Recovery Zone Economic Development Bonds (RZEDBs) nationwide. These are governmental bonds to be used for governmental purposes that will allow the county/large municipality to borrow on a lower cost than traditional tax-exempt financing. RZEDBs may be issued for purposes of promoting development or other economic activity, including public infrastructure and construction of public facilities or job training and educational facilities, in an area that has been designated by the county/large municipality as a "recovery zone". RZEDBs are taxable bonds (the interest earned by the holders of the bonds is subject to taxation and the rate of interest paid by the county/large municipality would presumably be higher than that on tax-exempt bonds). However, the federal government would reimburse the county/large municipality for 45% of the interest paid; thus making the true cost of the interest paid lower than that paid on tax-exempt bonds. For example, if a 20-year AAA tax-exempt bond had an interest rate of 4.5% and a taxable equivalent was at 6.5%, after the rebate was applied, the effective interest rate would be 3.5%

Build America Bonds (Taxable Governmental Use Bonds) - These are governmental bonds to be used for governmental purposes that will allow the county/large municipality to borrow at a taxable rate rather than traditional tax-exempt financing. Build America Bonds may be issued for public infrastructure and construction of public facilities. They are taxable bonds (the interest earned by the holders of the bonds is subject to taxation and the rate of interest paid by the county/large municipality would presumably be higher than that on tax-exempt bonds). However, the federal government would provide a rebate to the bond issuer for 35% of the interest paid or the bond holders can receive a federal tax credit equal to 35% of the taxable interest; thus, making the true cost of the interest paid closer to that paid on tax-exempt bonds.



For more information, contact:

Andrew Hamilton, Executive Director
Eastern Illinois Economic Development Authority
Tel: 866-325-7525 Fax: 866-325-7569
email andrewjhamilton@eieda.com

Champaign Office
1817 South Neil Street,
Champaign, Illinois 61820

Capital Office
P.O. Box 13112
Springfield, IL 62791

EIEDA

EASTERN ILLINOIS ECONOMIC DEVELOPMENT AUTHORITY



Introduction

The Eastern Illinois Economic Development Authority (EIEDA) was created by action of the Illinois General Assembly and the Governor on July 13, 2005, by Public Act 94-0203. The Bill was introduced by Representatives Roger L. Eddy, William B. Black, David Reis, Chapin Rose and Robert F. Flider. EIEDA is a general development agency for the counties of Champaign, Coles, Douglas, Edgar, Ford, Iroquois, Moultrie, Piatt, Shelby and Vermilion. The Authority's financial and supportive powers enable it, with the written approval of the Governor of the State of Illinois, to issue taxable and tax-exempt bonds for the purpose of developing, constructing, acquiring or improving properties or facilities for business entities locating or expanding within the territorial jurisdiction of the Authority. EIEDA has a fourteen-member board that includes three Governor appointees, one appointee from each County Board Chairman and one designee of the Director of the Department of Commerce and Economic Opportunity (DCEO). The Authority has the ability to issue up to \$250 million in bonds for economic development purposes.

Board of Directors

Todd Lee - *Vermilion County*

John Dreher - *Danville, Gov. Appt.*

Paul Faraci - *DCEO Designee*

George Levi - *Sullivan, Gov. Appt.*

Jim Looft - *Shelby County*

David McCabe - *Moultrie County*

Mike Neal - *Coles County*

Jim Reynolds - *Iroquois County*

Elynor Stagen - *Ford County*

Mitch Swim - *Champaign County*

Arthur Wilkinson - *Piatt County*

Powers

EIEDA can issue bonds on behalf of businesses for which debt service is payable exclusively from the earnings of the borrower. In issuing revenue bonds to borrowers, EIEDA acts as a "conduit" or "middle-man." The bonds then are sold to insurance companies, banks, mutual funds or brokerage houses. The proceeds of the sale are made available to the borrower for use in their project. The borrower then repays the money directly to those who purchased the bonds. A significant advantage of EIEDA includes providing savings of 2 to 3 percent over conventional financing for manufacturing, senior housing, not-for-profit corporations, etc.

For more information, please contact:

Andrew Hamilton

Executive Director, EIEDA

1830 Second Avenue, Suite 200

Rock Island, Illinois 61201-8038

Toll Free: 866-325-7525

