

Recover Zone Bond Allocation – Commonly Asked Questions

What are these bonds and how do they work?

- * These bonds allow State and local governments to borrow funds for eligible projects at lower borrowing costs based on Federal tax incentives. These bonds are not direct grants or appropriations like some stimulus programs. There are two types of these bonds (RZ Economic Development Bonds and RZ Facility Bonds), as described below.
- * RZ Economic Development Bonds are conventional taxable bonds which allow States and localities to obtain financing at lower borrowing costs because the Treasury Department pays the State or locality a direct payment subsidy equal to 45 percent of the coupon interest on the bonds.
- * RZ Facility Bonds are traditional tax-exempt bonds which have lower interest rates because the interest is tax-exempt to the investors for Federal tax purposes.

What can these bonds be used for?

- * The RZ Economic Development Bonds can be used by governmental entities for public capital projects in recovery zones and for job training and education.
- * The RZ Facility bonds can be used by private businesses for depreciable capital projects (e.g., buildings and equipment) for original use in active businesses in recovery zones. The one exception to this is that these bonds cannot be used for multi-family housing.
- * The Treasury Department's guidance gives States, counties, and large cities that receive volume cap allocations broad discretion to use those allocations themselves or to allocate it to others for eligible projects in any reasonable manner in their discretion.

How can my constituents apply?

- * Constituents apply directly to the county or large city that receives these allocations. As indicated above, counties and large cities have broad discretion to designate their allocations for use for eligible projects
- * For the RZ Economic Development Bonds, which are meant for public projects, local governments have discretion to use are able to allocate funds as they see fit.
- * For the RZ Facility Bonds, there may be a competitive process, but that decision would reside with the local government receiving the bond. These can be distributed in a manner similar to the more traditional private activity bonds.

Why did my county or large city get this amount of money?

- * The statute requires making the allocations based on employment declines in 2008. The employment data comes from the Bureau of Labor Statistics. Treasury provided the local numbers to make this program as easy as possible for State and local governments. Treasury had no discretion in the allocations..

Why is my county not on the list?

- * Because there was no employment decline in 2008.

How does the money get to the counties?

- * The county or city issues debt at a low interest rate in the form of bond. For RZ Economic Development Bonds, the bonds would have a conventional taxable interest rate and the Treasury Department would pay the locality a direct payment subsidy for 45% of the interest. For RZ Facility Bonds, the bonds would have a lower interest rate because the interest would be tax-exempt to the investors.

What are "recovery zones" and how does a county or large city "designate" a recovery zones?

- * These bonds can only be used in designated recovery zones. A recovery zone is an area designated by a State, county or large city as having significant poverty, unemployment, rate of home foreclosures, or general distress.
- * The Treasury guidance indicates that State and local governments that receive volume cap allocations may designate recovery zones in any reasonable manner as they determine in good faith in their discretion.

What entities are eligible to be the "issuers" of recovery zone bonds?

- * The Treasury guidance provides very broad flexibility on who is eligible to issue recovery zone bonds. Eligible issuers include States, counties, cities, and conduit authorities authorized to issue bonds "on behalf of" States and political subdivisions. Recovery zone bonds may be issued for a single project or in combined bond issues with loans for various projects.

Can unused bond allocations be "waived" for use by others?

- * The statute allows a county or large city may "waive" any portion of a bond volume cap allocation received for RZ Bonds. The Treasury guidance provides that, upon such a waiver, the State in which such county or large city is located is authorized to reallocate the waived volume cap in any reasonable manner as is determines in good faith.

Where can I find more information on the recent Treasury guidance on the program and the total bond authority for a specific county or large city?

- * To find the Treasury guidance on Recovery Zone Bonds in IRS Notice 2009-50 , please visit:
<http://www.irs.gov/pub/irs-drop/n-09-50.pdf>
<http://www.irs.gov/taxexemptbond/article/0,,id=206034,00.html>
- * To find information regarding bond authority totals, please visit:
http://www.treas.gov/press/releases/docs/rzballocation-local_AR-ZS.pdf

Note: The denotation 'residual' refers to the unincorporated portion of a county that does not fall within a city of more than 100,000 people, and therefore receives its own share of bond allocation beyond that given to the large city.