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Guidance regarding Recovery Zone Bonds

Late last week the IRS issued preliminary guidance regarding Recovery Zone Bonds (Economic Development Bonds and Facility Bonds). [Approximately 70 Virginia counties qualify for Recovery Zone Bond allocations.](#)

The following overview and helpful links were provided to VACo by Congressman James P. Moran's Office. VACo will pass along additional information about the bond programs as it is made available.

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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 entities in your city or county 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 or 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..

How does the money get to the city/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 zone(s)?

- 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 determined 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