

## RECOVERY ZONE BONDS

On February 17, 2009, President Obama signed into law a \$787 billion stimulus bill, the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA encourages public finance participants to combine various types of financial obligations and tax credits in order to finance projects.

One of the new provisions includes the issuance of Recovery Zone bonds. The bond allocations are not cash, but rather the ability to issue debt up to the jurisdiction's allocated amount.

The Recovery Zone bonds are comprised of:

1. **Economic Development Bonds (RZEDBs)**
2. **Facility Bonds (RZFBs)**

### *Frequently Asked Questions*

#### ***What is a Recovery Zone?***

A Recovery Zone is defined as:

- Any area designated by the jurisdiction as having significant poverty, unemployment, rate of home foreclosures or general distress
- Any area designated as economically distressed by reason of closure or realignment of military installation pursuant to the Defense Base Closure and Realignment Act of 1990
- Any area currently designated as an Empowerment Zone or Renewal Community

#### ***How were the allocations determined?***

The federal government determined the allocations for the Recovery Zone bonds based on employment rate change between December 2007 and December 2008 for cities and counties with populations in excess of 100,000. The allocations in San Bernardino County are:

<b>Jurisdiction</b>	<b>RZEDBs</b>	<b>RZFBs</b>
Fontana	\$ 5,421,000	\$ 8,131,000
Ontario	\$ 7,113,000	\$10,669,000
Rancho Cucamonga	\$ 7,048,000	\$10,572,000
San Bernardino	\$ 7,068,000	\$10,602,000
County	\$46,093,000	\$69,139,000

### ***RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS***

#### ***What are the eligible uses of***

Eligible uses of RZEDBs include:

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***RZEDBs proceeds?***

- New money capital expenditures for property in a Recovery Zone that are “shovel ready”
- Public infrastructure or facilities that promote economic activity in a Recovery Zone
- Expenditures for job training and educational programs

Additional eligible expenditures include: costs of issuance of not more than two percent (2%) of the proceeds, and a reasonably required reserve fund.

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***Who is eligible to utilize RZEDBs?***

Any entity for which the Board of Supervisors is the legislative body. Cities that do not receive their own allocation will not be eligible. CDLAC is developing a process to allow for “pooled” bond funds where eligible cities and counties are able to aggregate RZEDBs financings into one large bond issuance, though the details of this program have not been finalized.

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***Who is responsible for RZEDBs?***

Under this program, eligible local agencies under the Board of Supervisor’s purview would issue their own bonds and then are reimbursed for 45% of the interest they pay (see below). The bonds would be an obligation of the public agency and are payable from and securitized by revenue sources. An award of RZEDBs would authorized by the public agencies’ governing body and/or the Board of Supervisors. County Departments that meet the RZEDB criteria and are interested in issuing bonds are expected to coordinate with the County Administrative Office in the preparation and submittal of applications.

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***How does the RZEDBs interest work?***

On each interest payment date, the issuer of RZEDBs receives a 45% direct cash payment from the Treasury Department. The IRS and Treasury Department are currently soliciting public comment on several issues related to direct payment procedures for these types of bonds.

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***RECOVERY ZONE FACILITY BONDS***

***What are RZFBs?***

RZFBs are federal tax-exempt, private activity bonds that allow issuers with a letter of credit to finance private depreciable property that involves the construction of new facilities or modernization of existing facilities within the Recovery Zone. Refinancing of existing debt is not an eligible activity. RZFBs enable private borrowers to borrow less expensively than conventional means, though origination costs may be higher.

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***What is the County’s role in the RZFB program?***

Although the County will issue the bonds, they will be conduit revenue bonds, and the County will not be the lender or the borrower. The County will not provide credit for the borrowing. Instead the bonds will be issued on behalf of private fore-profit borrowers, similar to Industrial Development

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Bonds, without the manufacturing or small issuance requirements. Although the County will not be the borrower, the bonds will bear its name, and the County therefore will seek high quality projects with credit worthy borrowers. Borrowers will obtain their own credit by securing credit enhancement (via a letter of credit from a rated commercial bank) or by arranging for the private placement of the bonds to a buyer that is an "accredited investor" or "qualified institutional buyer" under federal securities law.

### **PROGRAM PROCEDURES**

***If the number of projects exceeds the County's bond allocation, how will projects be chosen?***

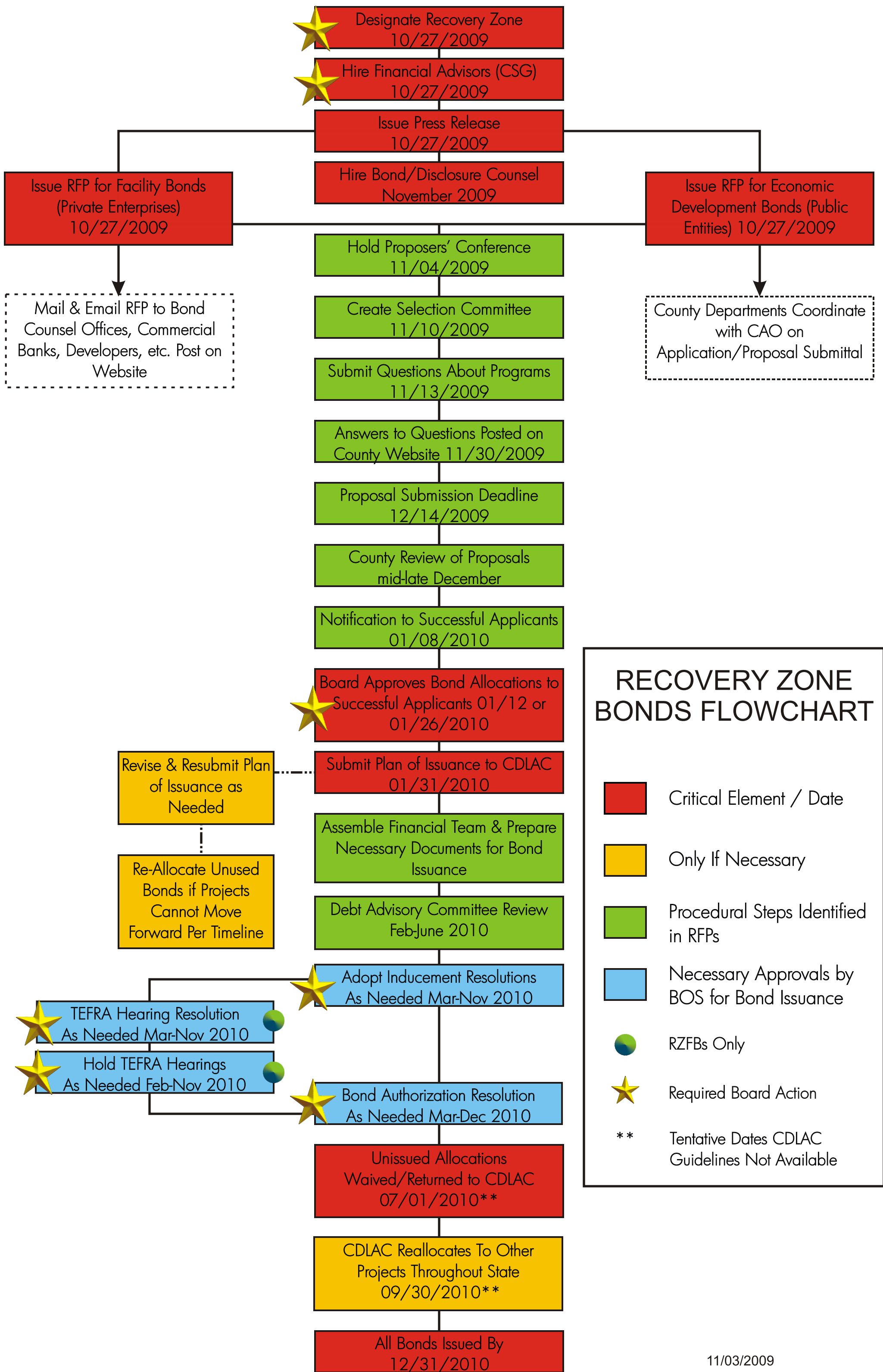
The RFP stipulates the policy goals of the RZFB program. A competitive process will be utilized to allocate the bonds. The County seeks projects that:

- Involve the construction of new facilities or the economic modernization of existing facilities.
- Seek to create net new jobs both from construction and operating activity, particularly high skill, and high wage jobs.
- Create additional economic activity and jobs through direct and indirect spending produced by the project.
- Demonstrate minimal environmental impacts or mitigate expected impacts (i.e., pollution prevention or reduction, co-generation, or renewable energy production).
- EDA, in cooperation with the CAO, County Counsel, and contracted financial consultant (CSG Advisors, Inc.) will create a Selection Committee to evaluate proposed projects.
- Successful projects will be recommended by the Selection Committee to the Board of Supervisors for selection.

***What happens when the County's allocation isn't completely utilized?***

The California Debt Limit Allocation Committee (CDLAC), while having no immediate role in the administering of the Recovery Zone bonds, is developing guidelines for the program. CDLAC has tentatively indicated that if a local agency recipient does not intend to utilize its award of Recovery Zone bonds, each recipient has the option of reverting its allocation immediately to CDLAC for re-allocation to other projects throughout the state. At this time, re-allocations are expected to be awarded in the fall of 2010.

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### RECOVERY ZONE BONDS FLOWCHART

- Critical Element / Date
- Only If Necessary
- Procedural Steps Identified in RFPs
- Necessary Approvals by BOS for Bond Issuance
- RZFBs Only
- Required Board Action
- \*\* Tentative Dates CDLAC Guidelines Not Available