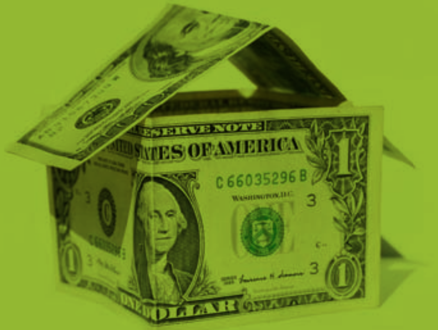
RECOVERY ZONE Facility Bonds Encourage Private Development



A new type of tax-exempt bond, created under the American Recovery and Reinvestment Act of 2009, provides an attractive, low-cost option for financing almost any private development project.

QUICK TAKE

- Recovery Zone Facility Bonds are a tax-exempt investment tool designed to boost private development in depressed areas
- A wide range of businesses can make use of the financing option
- Michigan and Illinois still have allocated funds available for RZFBs—but time is running out

Called Recovery Zone Facility Bonds (RZFBs), the investment tools are designed to spur growth and development in areas that have suffered significant economic loss. But developers had better hurry. Unless Congress extends the legislation, RZFBs can only be issued through 2010.

RZFBs are issued by state and local governments, or other entities such as economic development corporations. Private developers can use the bonds for purchase and rehab of vacated auto plants, to finance alternative energy projects, or construct any number of trade or business entities. Non-residential rental property such as dormitories or hotels qualify—but golf courses, liquor stores, massage and tanning parlors, racetracks, and gambling facilities do not.

To qualify for the bonds, a project must be located in a designated recovery zone. A recovery zone is usually defined as having experienced significant poverty, unemployment, home foreclosures, and general decline. Empowerment zones or renewal communities may also apply for designation as a recovery zone and qualify for the bonds. In addition, the property must have been purchased by the developer after the date on which the designation as a qualifying zone took effect.

RZFBs are traditional tax-exempt bonds, and are not eligible for any tax credit payment from the federal government. The tax rules applicable to exempt facility bonds apply—including arbitrage rules, reissuance rules, and private business use rules.

The legislation creating RZFBs allocates up to $15 billion to be issued through the end of the year. That amount has been divided among states based on their 2008 employment decline, and targeted to counties and cities with a population over 100,000. In many areas—including Michigan and Illinois—sizeable amounts of this allocation remain available.

If you would like to discuss the specifics of RZFBs and learn whether they may be appropriate in your situation, please call the author or Michael P. McGee 313.496.7599, for assistance.

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