

Recovery Zone Bonds

Webinar presentation by:

MO Department of Economic Development

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Presenters

- Sallie Hemenway, Director, Business and Community Services Division, Missouri Department of Economic Development
 - The **Missouri Department of Economic Development** is the designated agency for reallocation of Recovery Zone Bond cap.
- David Queen, President and Managing Partner of Gilmore & Bell, PC.
 - **Gilmore & Bell, PC** is one of the nations leading public finance law firms. Mr. Queen specializes in complex public/private joint development projects and healthcare finance.

Audience Registrants

- City and county officials
- Economic development professionals
- Industrial Development Authority representatives
- DED administration and staff
- Municipal finance professionals
- Other interested parties

Today's Presentation

- Information on the DED Official Notice
- RZ Bonds - History and Applicable Laws
- Types of Recovery Zone Bonds
- Allocation of RZ Bond Cap
- Features and Uses
- Re-allocation of RZ Bond Cap
- Timelines and Forms
- Q&A

History and Applicable Laws

- The “American Recovery and Reinvestment Act of 2009” created a number of new financing options for communities
 - Providing valuable incentives for both public and private projects
 - With limited windows of opportunity
- Sections 108.1000 to 108.1020 RSMo (HB191, 95th General Assembly) provides a re-allocation procedure to assure maximum use of the RZ bond cap statewide

Types of Recovery Zone Bonds (RZB)

- Two types of bonds (both referred to as RZB)
 - Recovery Zone Economic Development Bonds
 - Recovery Zone Facility Bonds
- Issued for completely different purposes
- Benefits of each are completely different
- Must be issued prior to January 1, 2011
- Each type of RZ Bonds is capped by a separate allocation amount

Types of Recovery Zone Bonds (RZB)

- Recovery Zone Bonds may be used to finance certain purposes and properties within designated “recovery zones”
- A “recovery zone” is:
 - An area designated as having significant poverty, unemployment, rate of home foreclosures, or general distress
 - An area economically distressed due to military installation closure or base realignment
 - An empowerment zone or renewal community

Recovery Zones

- “Recovery zones” are designated by resolution/ordinance of the city/county receiving an allocation
 - Option A – Early adoption of a resolution/ordinance designating the entire community (or significant portion) as a Recovery Zone
 - Option B – Designate Recovery Zone as projects become known
- Form resolution/ordinance available at www.gilmorebell.com/memoranda
- Consult with your bond counsel

Recovery Zones

- Designating the zone should generally not be a barrier to use
- For Recovery Zone Facility Bonds - only expenditures incurred after a Recovery Zone is designated can be reimbursed
- For Recovery Economic Development Bonds – ordinary reimbursement resolution rules apply
- No refundings or refinancings–new money only

Allocation of RZ Bond Cap

- Bond allocation amounts were determined by US Treasury based on relative declines in employment in 2008
- Missouri Recovery Zone Economic Development Bond allocations total \$229,143,000
- Missouri Recovery Zone Facility Bond allocations total \$343,715,000
- 112 MO counties and 4 cities received allocations (not all counties)
- Allocation amounts can be found on DED website at www.ded.mo.gov

Allocation of RZ Bond Cap

- The 112 counties and 4 cities receiving allocations are referred to in the DED Notice as “allocation designees”
- “Allocation designees” may:
 - Authorize a public entity created by the Allocation Designee (such as an Industrial Development Authority or a county public building corporation) to issue RZB’s.
 - Allocate all or a portion to an unrelated political subdivision within its jurisdiction (such as a city in a county)

Features and Uses

Recovery Zone Economic Development Bonds

- Used to finance certain “qualified economic development purposes”
- “Qualified economic development purposes” means expenditures for promoting development or other economic activity within zone including:
 - Capital expenditures for property in the zone
 - Expenditures for public infrastructure
 - Expenditures for public facilities
 - Job training and educational programs

Features and Uses

Recovery Zone Economic Development Bonds

- Issued for public/governmental purposes
- Interest on RZ Economic Development Bonds is taxable
- Issuer receives a cash subsidy from the US Treasury equal to 45% of the total interest payable to bondowners (this should result in net interest cost lower than tax-exempt bonds)
- Likely issued in MO as:
 - General obligation bonds
 - Utility revenue bonds
 - Leasehold revenue bonds
 - Certificates of participation
 - Special obligation bonds

Features and Uses

Recovery Zone Economic Development Bonds

- Recovery Zone Economic Development Bonds are similar to another tool of ARRA: “Build America Bonds (BAB’s)”
- “BAB’s” have no allocation cap
- “BAB’s” issuers receives a cash subsidy from the Treasury equal to 35% of the total interest payable to investors
- “BAB’s” may be issued by state and local governments as an alternative to issuing traditional tax-exempt governmental bonds

Features and Uses

Recovery Zone Economic Development Bonds

- Recovery Zone Economic Development Bonds and Build America Bonds may be issued to finance a single project
- Davis-Bacon applies to Recovery Zone Economic Development Bonds (but not Recovery Zone Facility Bonds)

Features and Uses

Recovery Zone Facility Bonds

- Used to finance new capital improvements owned and used by almost any:
 - Industrial
 - Commercial
 - Retail
 - Office
 - Or other business activity located in a “recovery zone”
- Exceptions are rental housing, airplanes, health clubs, liquor stores, race tracks, luxury boxes, gambling massage parlors etc.

Features and Uses

Recovery Zone Facility Bonds

- Issued for private projects
- Interest is tax-exempt (this is the sole subsidy)
- No cash subsidy from Treasury
- Offer lower interest rates
- Likely issued in MO as:
 - Chapter 100 Bonds
 - Industrial revenue bonds
 - Industrial development bonds
 - Other types of private activity bonds
- Debt service is funded by the private business that owns and uses the property

Reallocation of RZ Bond Cap

- The short lifespan (12/31/2010) may result in some entities not using all or a part of their allocation
- HB191 created a reallocation process
- The reallocation process will assure maximum use of the tool in the state and maximum economic impact for Missouri as a whole
- Reallocation is an important part of Recovery Zone Bonds

Reallocation of RZ Bond Cap

- Each “allocation designee” may waive all or part of its allocation
- Waiver forms are provided by DED and found at www.ded.mo.gov
- Each allocation will be deemed waived on September 1, 2009 unless a Notice of Intent to Issue form is submitted to DED (forms found at www.ded.mo.gov)
- The Notice of Intent to Issue still applies when the allocation designee reallocates its allocation to another eligible entity

Reallocation of RZ Bond Cap

- Each allocation designee must notify DED upon issuance of bond cap, including issuance of that allocation used by another eligible entity
- Any allocation (either Recovery Zone Economic Development Bonds or Recovery Zone Facility Bonds) not used by July 1, 2010 is automatically recaptured by the DED for reallocation

Reallocation of RZ Bond Cap

- DED will track amounts of Recovery Zone Bonds
 - Used at the local level
 - Waived to the DED
 - Recaptured by the DED and reallocated
- DED will provide an application process for use of waived or recaptured bond allocations
- DED will accept applications from every eligible public entity

Reallocation of RZ Bond Cap

- Forms and procedures for relocating RZ Bond cap within a County should be established – DED advises contacting your bond counsel

Other Bond Related Changes

- The IRS has expanded the definition of “manufacturing facilities” to allow more manufacturing projects to qualify for tax exempt bonds under the private activity bond rules
- Private activity bond allocation is available
- The IRS has changed the rules that apply to banks allowing banks to benefit from the purchase of private activity bonds

Timelines and Forms

- Important Dates:
 - September 1, 2009 – due date for submitting Notice of Intent to Issue to DED
 - July 1, 2010 –date of recapture of any unused bond allocation
 - January 1, 2011 – deadline date for issuing Recovery Zone Bonds before they expire
 - At any time – submission of waiver form for all or part of allocation to DED

Timelines and Forms

- Important Forms found on web: (www.ded.mo.gov)
 - Notice of Waiver of Recovery Zone Bond Allocation
 - Recovery Zone Bond Notice of Intent to Issue
 - Form Recovery Zone Designation at www.gilmorebell.com/memoranda.shtml
 - FAQ - www.gilmorebell.com/memoranda.shtml
- Important Forms to be posted on web:
 - Application for RZB Bond Cap - DED
 - Notice of Reallocation to Local Issuer
 - Notice of Issuance and Bond Closing

Q&A

Instructions: