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RECOVERY ACT BOND FINANCE OPPORTUNITIES IN THE CITY OF SEATTLE

New Private Activity Bond Financing Tools:
Recovery Zone Facility Bonds

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"I want my bubble back."

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Tax-Exempt Financing

- Traditional capital funding – Borrower/lender; borrower pays interest, interest is included in federal gross income of the lender
- Tax-exempt bonds – lender receives interest – but interest is not included in federal gross income
- Tax-exempt financing is a benefit provided under the Internal Revenue Code (since Washington has no income tax, the tax-exempt impact affects only federal gross income)

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Categories of Tax-Exempt Bonds

- "Tax-exempt governmental bonds" – Tax exempt debt, the proceeds of which are used by general governments for governmental purposes
- "Tax-exempt private activity bonds" – Tax exempt bonds that finance capital projects used by private business

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Overview of Private Activity Bond Financing

- Tax-exempt financing as a goal
  - Lower interest costs – How much lower?
    - 35% in a completely efficient market
    - 2% as a general rule
  - Access to broader investor base
  - Structural flexibility – long term financing
- Tax-exempt private activity bonds (historically referred to as IDBs) are an economic development tool – a federal incentive to private development
- This is not a new tool

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The Internal Revenue Code has developed numerous categories of Tax-exempt Private Activity Bonds

- Qualified 501(c)(3) bonds
- Qualified student loan bonds
- Qualified redevelopment bonds
- Qualified small issue bond
- Qualified mortgage bonds
- Exempt facility bonds

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Types of Exempt Facility Bonds

- Airports
- Docks and wharves
- Mass commuting facilities
- Facilities for the furnishing of water
- Sewage facilities
- Solid waste disposal facilities
- Qualified residential rental projects
- Facilities for local furnishing of electric energy or gas
- Local district heating or cooling facilities
- Qualified hazardous waste facilities
- High speed intercity rail facilities
- Environmental enhancements of hydroelectric generating facilities
- Qualified public education facilities
- Qualified green building and sustainable design projects or
- Qualified highway or surface freight transfer facilities

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The American Recovery and Reinvestment Act of 2009 ("ARRA")

- New types of bonds:
  - Build America Bonds ("BABs")
  - Recovery Zone Economic Development Bonds ("RZ-EDB")
  - **Recovery Zone Facility Bonds ("RZ-FB")**

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"The usual? Or will you be having our 'stimulus package'?"

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Recovery Zone Facility Bonds ("RZ-FB")

- **New category of tax-exempt private activity bonds**
- **What can be financed with these bonds?**

- **<u>Any depreciable property</u> for use in areas designated as recovery zones**

- **Eligible Expenditures**:
  - Private activity bonds issued to finance "recovery zone property" located in "recovery zones"
    - Property that was constructed, reconstructed, renovated or acquired by purchase after it was deemed in a recovery zone,
    - Property first used in a recovery zone by a taxpayer, and
    - Substantially all of the property is in the recovery zone and is being used as a qualified business
  - A qualified business is any trade or business except residential rental property or certain businesses such as private golf courses, massage parlors, hot tub facilities, suntan facilities, gambling facilities or liquor stores
  - The property may be privately owned and operated

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Recovery Zone Bonds – A Limited Resource

- **Volume Cap**
  - $15 billion total ($135,000,000 to Washington) for 2009 and 2010
- The bonds must be issued before the end of calendar year 2010.
- The City of Seattle received an “allocation” based on proportionate decline in employment from December 2007 to December 2008
- If the City does not utilize its allocation, it will revert to the State.
- If the City identifies projects for financing in an amount greater than its allocation, the City may apply to the State (Department of Commerce) for additional allocation.

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Washington State Volume Cap

Area	RZ-EDB	RZ-FB
City of Bellevue	$2,491,000	$3,736,000
City of Seattle	$13,278,000	**$19,918,000**
City of Spokane	$104,000	$156,000
City of Tacoma	$3,320,000	$4,979,000
City of Vancouver	$1,639,000	$2,459,000
Asotin County	$9,000	$14,000
Clallam County	$806,000	$1,209,000
Clark County	$2,627,000	$3,940,000
Cowlitz County	$3,668,000	$5,502,000

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Washington State Volume Cap (cont.)

Area	RZ-EDB	RZ-FB
King County	$23,169,000	$34,754,000
Kitsap County	$7,527,000	$11,290,000
Lewis County	$494,000	$740,000
Pacific County	$580,000	$870,000
Pierce County	$9,741,000	$14,612,000
Skagit County	$5,276,000	$7,914,000
Skamania county	$100,000	$149,000
Snohomish County	$13,210,000	$19,816,000
Spokane County	$136,000	$204,000
Whatcom County	$1,825,000	$2,738,000

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Designating a Recovery Zone

- Recovery zone is defined as
  - any area designated by the issuer as having significant poverty, unemployment, rate of home foreclosures, or general distress; or
  - an area that has already been federally designated as an Empowerment Zone or Renewal Community.
- Recipient of volume cap may designate areas within its jurisdiction as a recovery zone
- The locality must use the proceeds in a recovery zone, but the issuer itself can designate the zone and it appears that issuers have broad discretion in defining the zone (can be made in any reasonable manner so long as made in good faith)

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Criteria for Designation as Recovery Zone

- New Markets Tax Credit eligible census tracts
- Manufacturing and Industrial Centers
- Southeast Seattle HUD designated Neighborhood Revitalization Strategy Area
- Zip codes with at least 20% increase in foreclosures compared to 2008

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The Process

- Determine whether the project qualifies
- Identify an issuer – Seattle's Development Corporation
  - Or Washington Economic Development Finance Authority
- Complete issuer's application
- Obtain preliminary approval
- Evaluate financing options
  - The credit worthiness of the project is evaluated independently from the value of the tax exemption
- Financing process
- Bond pricing and issuance

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Disadvantages/Downsides

No accelerated depreciation. Tax-exempt bond financed property is subject to “alternative depreciation system”

- Complex packaging
- Largest hurdle/the economy/bank credit

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Questions?

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