

Client Advisory | *December 2009*

Recovery Zone Economic Development Bonds

The American Recovery and Reinvestment Act of 2009 (“ARRA”) created several new borrowing options for local governments. One option of significant interest to cities and towns in Massachusetts are Recovery Zone Economic Development Bonds, or RZEDBs. RZEDBs are issued by local governments and carry taxable rates of interest. The taxable interest rates are offset by subsidy payments from the federal government to an issuer of RZEDBs equal to 45% of the interest payable on such bonds. The result is an interest cost significantly below that of a traditional tax exempt borrowing.



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Proceeds of RZEDBs must be used to pay costs of constructing or improving public infrastructure and public facilities to promote development or other economic activity in a Recovery Zone. Each of the Commonwealth’s previously established Economic Target Areas (“ETAs”) has been designated as a Recovery Zone for purposes of the ARRA. Of the Commonwealth’s 351 cities and towns, 209 are located in Recovery Zones and able to issue RZEDBs.

Each state received an allocation of authority to issue RZEDBs. A city or town seeking to issue RZEDBs must obtain an allocation of authority to issue such bonds in an amount equal to the amount of RZEDBs to be issued. Massachusetts was allocated authority to issue approximately \$222.7 million, which under federal law was allocated to each county government and to certain Massachusetts cities. While cities with populations over 100,000 received modest allocations of authority to issue RZEDBs directly under the ARRA, most of the authority to issue RZEDBs was allocated to county governments. County governments were then expected to develop rules for allocating RZEDB authority to local governments within their jurisdictions. In Massachusetts, county governments in seven of its 14 counties have been abolished so most of the state’s RZEDB authority allocation passed to the Commonwealth. The Executive Office of Administration and Finance, in conjunction with the Executive Office of Housing and

Economic Development recently released information on how to obtain an allocation from the Commonwealth of RZEDB authority. This material can be found by clicking on the following link: [Recovery Zone Bonds](#). Counties in Massachusetts in which county government has not been abolished (Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk Counties) are in the process of developing guidelines for allocating authority to issue RZEDBs. As of the date of this advisory, we have been advised that no Massachusetts city or town has yet issued RZEDBs. Local governments are urged to look into this program as soon as practicable, as the RZEDB program expires at the end of calendar year 2010.

The ARRA also contains provisions that would permit the issuance of Recovery Zone Facility Bonds to finance private sector projects that promote economic recovery within a Recovery Zone. These are bonds that would be issued through the Massachusetts Development Finance Agency on a tax exempt basis for the benefit of private sector projects that would not typically qualify for tax exempt financing. Cities and towns in Massachusetts may wish to advise their development departments of the availability of this important new financing option.

Please contact Walter J. St. Onge, III or Richard A. Manley, Jr., if you would like further information regarding these new borrowing options.

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