



# **Financing Opportunities Using Recovery Zone Facility Bonds**

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## Recovery Zone Facility Bonds - A New Financing Vehicle for Private Businesses

- Created by the American Recovery and Reinvestment Act of 2009
- Authorizes state and local governments to loan proceeds of tax-exempt bonds to private businesses
- Amount of bonds that can be issued is limited – up to \$12,280,000 may be issued on behalf of the City of Winston-Salem

# Why Tax-Exempt Bonds?

Tax-exempt bonds generally offer a cheaper cost of funds for borrowers. Unlike with conventional debt, on which the holder of the debt is taxed on the interest income it receives, a holder of a tax-exempt bond pays no federal or state income tax on interest received on the bond. Because a holder need not pay federal or state income tax on the interest it is paid, it is often willing to accept a lower interest rate on the debt.

# Recovery Zone Facility Bonds – Eligible Projects

Generally, eligible projects include depreciable property:

1. Constructed, reconstructed, renovated or acquired by purchase by the taxpayer after designation of the recovery zone (i.e., no refinancings);
2. The original use of which in the City commences with the taxpayer; and
3. Substantially all of the use of which is in the active conduct of a business by the taxpayer.

Examples of eligible projects include industrial facilities, retail facilities, hotels, food service facilities, etc.

# Recovery Zone Facility Bonds – Projects Not Eligible for Financing

- Working capital
- Refinancings of existing debt
- Residential rental property (rental apartments and houses)
- Golf courses
- Country clubs
- Massage parlors
- Hot tub facilities
- Tanning facilities
- Gambling facilities
- Liquor stores
- Skyboxes/Luxury boxes
- Health club facilities

# What Would a Recovery Zone Facility Bond Financing Look Like?

- Bonds will be issued by the Forsyth County Industrial Development and Pollution Control Financing Authority and the proceeds loaned to the borrower
- Bonds will not be backed by the credit of the City, Forsyth County or the Authority
- Typically, borrowers will borrow through the issuance of variable rate bonds backed by a letter of credit provided by a bank
- Bonds would likely be sold pursuant to a public offering by an underwriter or perhaps through a private placement with a bank