



## RECOVERY ZONE FACILITY BONDS FREQUENTLY ASKED QUESTIONS

**Recovery Zone Facility Bonds** are a new type of tax-exempt private activity bond created by the American Recovery and Reinvestment Act, passed by Congress in February 2009. They may be used to finance certain kinds of business development activities in areas of significant economic distress.

### **Q. How was the Recovery Zone Facility Bond Program established?**

**A.** The American Recovery and Reinvestment Act of 2009 (ARRA) created two new categories of bonds that support local economic development: Recovery Zone Economic Development Bonds (RZEDB) and Recovery Zone Facility Bonds (RZFB). FAME administers and coordinates the Recovery Zone Facility Bonds.

### **Q. How can I get the money?**

**A. There is no direct money available at FAME.** This program allocates the authority to FAME to issue tax-exempt bonds to bond investors in order to assist in the financing of Recovery Zone facilities; *it is not a direct funding program.* The funds must be provided by a bank willing to buy the bonds and hold the loan that secures the bond (a "private placement"), or from sale of the bonds on the public markets arranged by an underwriter and supported by a letter of credit from a highly rated bank (a "public sale"). FAME uses its issuance role to obtain the favorable tax treatment for the bonds to lower the cost of financing. The credit risk is taken by the bank purchaser in a private placement transaction, or by the letter of credit bank in a public sale transaction.

### **Q. What are these bonds and how do they work?**

**A.** These bonds allow private entities to borrow funds for eligible projects at lower borrowing costs based on federal tax incentives. These bonds are loans and not direct grants or appropriations like some stimulus programs. The bonds are sold to a private party or on the public markets, and the proceeds from such sale are loaned to the business. The loan is pledged to secure the bonds, and the business agrees to repay the bond by making direct loan payments to the private party bondholder or a trustee on behalf of public bondholders.

RZFB's are traditional tax-exempt bonds which have lower interest rates because the interest is tax-exempt to the investors for Federal tax purposes.

### **Q. How much Recovery Zone Facility bond issuing authority is available?**

**A.** \$15 billion in bond issuing authority is available nationwide; Maine state's portion totals \$135 million.

### **Q. What is a minimum request that is cost effective?**

**A.** Given the expense of issuance that can range between \$30,000 and \$50,000; a bond amount of less than \$2 million is not likely to be cost effective.

**Q. What can Recovery Zone Facility Bonds be used for?**

**A.** Recovery Zone Facility Bonds may be used by most private businesses to finance the purchase or construction of depreciable business property.

**Q. What is not eligible?**

**A.** Prohibited facilities include private or commercial golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, racetrack or other facility used for gambling or stores principally for the sale of consumption of alcohol off-premises as well as residential rental properties. Proceeds from the bonds may not be used to refund existing debt or for working capital. Reimbursement of expenditures financed with short term debt issued after the adoption of the American Recovery and Reinvestment Act are not considered refundings.

**Q. What is the deadline for Recovery Zone Facility Bond issuance?**

**A.** The bonds must be issued by 12/31/10; however, the project need not be completed by that date.

**Q. How long will it take to issue a bond?**

**A.** A borrower should assume that the process will take three months to complete the public hearing process and bond issuance.

**Q. How does a business obtain a portion of Maine's allocation for my project?**

**A.** The business must provide FAME a complete application, including a financing commitment, which may be subject to receipt of an allocation.

**Q. What is the involvement of the Counties in the process?**

**A.** At a minimum, the business must obtain and submit a letter from the county in which the project is located indicating that the county supports the project. For applications prior to June 1, 2010, the county must specifically agree to the allocation to the project and sign a form to that effect. The business must obtain the necessary letter and/or allocation approval form from the county to have a complete application for submission to FAME.

**Q. I still have questions, who do I contact to get more information?**

**A.** Please contact: Charlie Emmons by e-mail [cemmons@famemaine.com](mailto:cemmons@famemaine.com) or at (207) 620-3510, Chris Roney by e-mail [croney@famemaine.com](mailto:croney@famemaine.com) or at (207) 620-3520, or Beth Bordowitz by e-mail [ebordowitz@famemaine.com](mailto:ebordowitz@famemaine.com) or at (207) 620-3502.