

Prepared by: Donna Smithey, Aeris Homes
312-404-6204
Donna@aerishomes.com

Recovery Zone Bonds/Recovery Zone Facility Bonds.

These bond instruments were created by ARRA to stimulate economic development activity in municipalities, counties and states. Each of these public bodies must pass a formal declaration designating them as a "recovery" zone. This designation is achievable based on unemployment rates, poverty rates, foreclosures or general distress. These are generally traditional bond transactions, except that the qualified uses has been expanded, and some applicable uses expanded. The advantage is a direct grant to the issuer equal to 45% of the interest costs.

If a county cannot use their bond cap or fails to use their allocation, a state can recapture the cap and use it for projects in other locations.

1 The RZ Economic Development Bonds can be used by governmental entities for public capital projects in recovery zones and for job training and education. These bonds are taxable.

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3 The RZ Facility Bonds can be used by private businesses for depreciable capital projects (e.g., buildings and equipment) for original use in active businesses in recovery zones. The one exception to this is that these bonds cannot be used for multi-family housing. The bonds are tax-exempt.

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The legislation includes a sunset for use of the bonds by December 31, 2010. Extension legislation is being considered. The deadline for applications in the City of Chicago is March 31. Counties have varying dates. The State of Illinois has just had a bill introduced that would implement a process that to capture unused bond caps.

Affordable Housing Applications

Because residential housing is specifically excluded from the legislation, it was thought that this mechanism could not be used with affordable housing projects. However, there are two potential mechanisms for using RZFB.

ESCO Model (Energy Services Company)

An ESCO designs, builds, constructs, owns, and manages all energy related elements in a building. The remainder of the building has separate ownership with a Master Owner. The ESCO captures all utility payments from the Master Owner through a Power Purchase Agreement. In some cases, their savings may be shared between the ESCO and the Master Owner. After 6-10 years the

ESCO property is deeded back to the Master Owner at little or no cost.

In addition to utility payments, the ESCO captures all benefits related to: energy related tax credits, MACRS, deductions, RECs, state incentives, etc. The building's thermal envelop is also designed and often constructed by the ESCO, but may be owned by the Master Owner depending on relevant tax advantages.

1. Existing Buildings

Older buildings lacking energy efficiency could directly benefit using an ESCO model. These improvements can be financed through the RZFB mechanism.

2. New Construction

Separating out the ownership of the energy improvements dilutes the value of the LIHTC tax credits. However, IFA is considering using the RZFB for these improvements and adding stimulus dollars for energy efficiency from DOE and other stimulus funds to overcome the gap created by receiving less LIHTC credits.