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Build America Bonds, Recovery Zone Economic Development Bonds & Recovery Zone Bonds...

How Can Your Community Benefit?

The recovery and stimulus plan has been a source of frequent news coverage, conversation, and, ultimately, confusion. Although various programs have been implemented under the American Reinvestment and Recovery Act of 2009, until the recent Treasury Regulations were issued there has been very little guidance as to how these programs would actually be implemented. While some of the communities we represent have seen financial dividends via the creation of the Act, the majority of them have not been able to capitalize on any funding created by the stimulus bill. With the passage of these new Treasury regulations, however, there is some solid guidance on how **Build America Bonds (BAB)** and the **Recovery Zone Bonds (RZB)** can be implemented to rebuilding municipalities.

Two types of Build America Bonds have been established: Tax Credit & Direct Payment

The Build America **Tax Credit Bond** may be issued by a local governmental for any purposes that it already has the right to issue tax exempt bonds (this does not include private activity bonds). Buyers of the Tax Credit BABs will then receive a federal tax credit in the amount of 35 percent of the coupon interest paid to them by the BAB.

The Build America **Direct Payment Bond**, provides the municipality with a direct payment from the Treasury Department 35 percent of the interest it pays on the bonds. Similar to the BA Tax Credit Bond, the Direct Payment Bond can only be used for public projects.

Recovery Zone Economic Development Bonds (RZED Bonds) and **Recovery Zone Facility Bonds (RZF Bonds)** were also created under the recovery & stimulus plan. The national allocation or cap on the RZED Bonds is \$10 billion and for the RZF Bonds is \$15 billion.

These bonds have been allocated to qualifying counties and municipalities. Municipalities under 100,000 populations do not qualify for direct allocation. Therefore, if your community is under 100,000 people and otherwise qualifies, you should look to your county for allocation of these bonds.

Although RZED Bonds provide a higher subsidy than the BABs, (45 percent of the interest on the bonds), these bonds are limited to use for qualified economic recovery purposes within a recovery zone, and such recovery zone must be established by the sponsoring entity. The RZED Bonds can only be used for public projects.

RZF Bonds can be used for private projects, and also allow the issuer to receive a 45 percent credit on the bond interest. However, they cannot be used on existing structures unless substantial renovation is occurring.

Our EdCon team can assist you in navigating the project selection process for municipal and private sector projects, issuing the appropriate bonds and helping your community get some of the allocation.

This information is provided by Paul S. Nicolosi, JD. Mr. Nicolosi holds a degree in Political Science with an emphasis in business and economics from Loyola University of Chicago (1987) and a law degree from Northern Illinois University (1990). Upon graduation from law school, Mr. Nicolosi became partner at his family's sixty year old law firm, [Nicolosi & Associates, LLC](#), and a principal at the firm's affiliated consulting business, [The Buckley Companies](#). Together, these two organizations provide comprehensive public finance planning under the name "[EDCon Services](#)".

Mr. Nicolosi is a regular speaker at the IML's annual conference on municipal finance issues and is a former member of the IML's legislative committee. Mr. Nicolosi's articles on public finance topics have been published by IML's Review Magazine. He is also a speaker for the Illinois TIF Association and an active member of the National League of Cities' (NLC) committee on Public Finance.

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