

LRB RESEARCH AND ANALYSIS

JULY 20, 2009

ITEM 9, FILE 090313

COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE JAMES CARROLL

File #090313 is a resolution designating Recovery Zone areas in the City.

Background

1. On February 17, 2009, President Obama signed into law the "American Recovery and Reinvestment Tax Act of 2009" (the "Recovery Act").
2. The Recovery Act created a new category of bonds called Recovery Zone Bonds which are comprised of two types, Recovery Economic Development Bonds and Recovery Zone Facility Bonds. The Recovery Act provides that Recovery Zone Bonds may only be issued until December 31, 2010.
3. According to the Recovery Act, a recovery zone is any area that has been designated by the county/large municipality as having significant poverty, unemployment, home foreclosure or general distress, or any area affected by military realignment, or any area that has been designated as an empowerment zone or a renewal community.
4. The Recovery Act earmarks \$10 billion of Recovery Zone Economic Development Bonds (RZEDB). These are governmental bonds to be used for governmental purposes that will allow the county/large municipality to borrow on a lower cost than traditional tax-exempt financing. RZEDB may be issued for purposes of promoting development or other economic activity, including public infrastructure and construction of public facilities or job training and educational facilities, in an area that has been designated by the county/large municipality as a recovery zone. RZEDBs are taxable bonds (the interest earned by the holders of the bonds is subject to taxation and the rate of interest paid by the county/large municipality would presumably be higher than that on tax-exempt bonds). However, the federal government would reimburse the county/large municipality for 45% of the interest paid, thus making the true cost of the interest paid lower than that paid on tax-exempt bonds. According to the U.S. Treasury, the City of Milwaukee is eligible to issue up to \$17,286,000 in Recovery Zone Economic Development Bonds.
5. The Recovery Act earmarks \$15 billion of Recovery Zone Facility Bonds (RZFB). RZFBs permit counties/large municipalities to provide tax-exempt financing for projects which historically would not qualify (e.g. large manufacturing plants, distribution centers, hotels, research parks, etc.). RZFBs are private activity bonds and are classified as "exempt facility bonds" for tax purposes. RZFBs may be issued for any depreciable property that (a) was acquired after the date of designation of a "recovery zone," (b) the

original use of which occurs in the recovery zone, and (c) substantially all of the use of the property is in the active conduct of a "qualified business." "Qualified business" is defined to include any trade or business except for residential rental facilities or other specifically listed "bad projects" (e.g. golf courses, massage parlors, gambling facilities, etc.). According to the U.S. Treasury, the City of Milwaukee is eligible to issue up to \$25,930,000 in Recovery Zone Facility Bonds.

Discussion

In order to qualify for the Recovery Zone Bond Program, this resolution designates the following areas in the City of Milwaukee as Recovery Zones:

- Areas designated as Renewal Community as of February 17, 2009
- Areas designated, from time to time, as Special Impact Areas by the Federal Economic Development Administration, sometimes known as Community Development Block Grant target areas
- Areas that have been designated, and may be designated from time to time, as Tax Incremental Districts
- Areas that have been designated, and may be designated from time to time, for Neighborhood Commercial District, Development Fund, and Business Improvement District funding

Fiscal Impact

This resolution has no fiscal impact. Additional legislation related to the issuance of specific Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds is required.

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