

October 27, 2009

RE: (ARRA) Recovery Zone Bonds Reallocation Process

Dear City/County Clerk,

On July 15, 2009, the Kansas Department of Commerce (Commerce) sent notification to all counties and large municipalities regarding the Recovery Zone Bond program that was created with the American Recovery and Reinvestment Act. That notice provided detail on specific allocations and what types of projects could be financed with the two different types of bonds. Guidelines for intent to issue these bonds and/or waive allocation were established as were deadlines that gave consideration to the time sensitivity of these bonds.

Currently, \$20,411,000 in Recovery Zone Economic Development Bonds and \$30,617,000 in Recovery Zone Facilities Bonds is available for reallocation. These amounts may grow as we receive additional waivers of allocation or may decrease as communities apply for and are awarded allocation.

Commerce will have two rounds of applications and allocation awards. All applications will be scored based on their merit and economic benefit. We will make allocation awards to projects, until we have allocated all of our bond cap authority for each round. Application information, criteria for evaluating requests and periods for receiving applications are as follows:

**Application Information**

1. Applicants for reallocation of bond cap may be from any qualified issuing entity in the State
2. Projects must be located in a Recovery Zone
3. The local unit of government must support the application
4. Counties previously waiving bond cap may apply for reallocation
5. There are no limits to the size of a reallocation request
6. There are no limits for the number of requests for reallocation of cap from any one county or eligible issuer
7. The Kansas Department of Commerce will inform applicants for Recovery Zone Bond allocations of the decision in writing
8. Unsuccessful applicants in the first round may resubmit an application in the second round

**Recovery Zone Economic Development Bonds Criteria (\$20,411,000 currently available)**

- Project readiness (Once notification of award is received could bonds be closed in 60 days?)
- Number of people impacted
- Economic impact on community and area
- Construction jobs and wages
- Economic distress of zone (job loss, average income, poverty levels)
- Other compelling information made available by the applicant

**Recovery Zone Facility Bonds Criteria (\$30,617,000 currently available):**

- Project readiness (Once notification of award is received could bonds be closed in 60 days?)
- Number of jobs created or retained
- Wages of jobs created or retained
- Bond Allocation: Total Capital Investment ratio
- Target industry
- Rural vs. Metro community
- Economic distress of zone (job loss, average income, poverty levels)
- Other compelling information made available by the applicant

**Application Dates for First and Second Round**

**First Round-** Applications will be received through December 15, 2009. The Department of Commerce will notify applicants of a decision in writing by January 30, 2010.

**Second Round-** Applications will be received from July 1, 2010 through July 23, 2010. The Department of Commerce will notify applicants of a decision in writing by August 15, 2010.

*Provided is a brief explanation of the Recovery Zone Bond program. However if you are interested in applying for allocation, you are advised to consult with the appropriate legal and financial advisors for the details of these bonds and not to rely solely on this notice.*

**Recovery Zone Economic Development Bonds** – The interest paid on Recovery Zone Economic Development Bonds is taxable to the bond holders, but the U.S. Treasury will pay to the issuer an amount equal to 45 percent of each interest payment. These bonds will likely be general obligation bonds, utility revenue bonds, leasehold revenue bonds, certificates of participation or special obligation bonds.

Recovery Zone Economic Development Bonds generally can be used to finance capital and working capital expenditures that promote development of other economic activity in a Recovery Zone for Qualified Economic Purposes including: (1) capital expenditures paid or incurred with respect to property located in a recovery zone; (2) expenditures for public infrastructure and construction of public facilities; and (3) expenditures for job training and educational programs. These expenditures must relate to property or purposes located within, or attributable to, the jurisdiction of the bond issuer.

*Use of Proceeds; 100 Percent Rule:* One hundred percent of the excess of (1) the available project proceeds (sale proceeds of an issue less not more than 2 percent of sale proceeds used to pay costs of issuance, plus investment earnings on those proceeds), over (2) the amounts in a reasonably required reserve fund, must be used to finance Qualified Economic Purposes.

BUSINESS DEVELOPMENT

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**Recovery Zone Facility Bonds-** The interest paid on Recovery Zone Facility Bonds is tax-exempt to the bond holders, and no federal interest subsidy is payable to the issuer.

Recovery Zone Facility Bonds are private activity bonds, designed to finance property that is used by a private business. In most instances the private business will also pay all the debt service on the Recovery Zone Facility Bonds.

*Use of Proceeds;* 95% or more of the net proceeds of a Recovery Zone Facility Bond must be used for Recovery Zone Property.

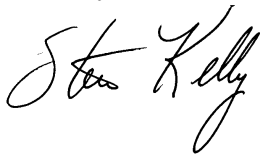
### **General Information Regarding Recovery Zone Bonds**

- A Recovery Zone is any area designated by the issuer in any reasonable manner using good faith discretion as (1) having significant poverty, unemployment, rate of home foreclosures, or general distress; (2) economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990; or (3) any area for which a designation as an empowerment zone or renewal community is in effect as of February 17, 2009.
- Both Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds must be issued by December 31, 2010.

For more information on ARRA Recovery Zone Bonds, visit <http://www.irs.gov/taxexemptbond/> or contact a local bond attorney.

If you are awarded an allocation through the reallocation process please note at the time of issuance an administrative fee of \$250.00 is due to the Kansas Department of Commerce Bond Fee Fund. Please contact Ed Serrano at (785) 368-7293 or [eserrano@kansascommerce.com](mailto:eserrano@kansascommerce.com) for questions regarding the reallocation process. Applications should be mailed to his attention at the address provided on the application.

Sincerely,



Steve Kelly, Deputy Secretary  
Business Development Division