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TO: Lonnie Robbins
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FROM: Sharon Greisz, Director
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SUBJECT: Testimony on Resolution No. _
Establishment of a Recovery Zone

The American Recovery and Reinvestment Act of 2009 created Recovery Zone Economic Development Bonds (RZEBs) and Recovery Zone Facility Bonds (RZ Facility Bonds). In order to use RZEBs and RZ Facility Bonds, a Recovery Zone must be established via local legislation and this Resolution proposes to designate the Route 1 Corridor as a Recovery Zone. Pursuant to federal law, a Recovery Zone must meet one of the following criteria:

(i) an area designated by the issuer as having significant poverty, unemployment, rate of home foreclosure, or general distress;
(ii) an area economically distressed as a result of the closure or realignment of a military installation due to Base Realignment and Closure (BRAC);
(iii) an area designated (by the Feds) as an empowerment zone or renewal community as of 2/17/2009.

Howard County does not qualify for item (iii). Items (i) and (ii) are measured relative to Howard County. For example, Howard County's unemployment rate is not significant when compared to Michigan's but it is significantly high relative to Howard County's rate prior to the economic downturn.

The Route 1 Corridor (Corridor) is the proposed Recovery Zone as measured by unemployment rate, rate of home foreclosure, general distress and the economic impact of the BRAC at Fort George G. Meade.

The unemployment rate for the County as of August 31, 2009 is 5.4% (down from a peak of 5.7% in June). That is compared to 3.4 % as of August 31, 2008 and 2.6% as of August 2007. Unemployment rates are not broken down by zip code within the County. The highest unemployment rate in Howard County prior to 2009 was 4.6% in 1992. Historic rates are only available back to 1990.

Using data for the first two quarters of calendar year 2009 from the State Department of Housing and Community Development, 33% of foreclosure properties in the County are located in the Corridor. However, only 22% of residential units (per data from DPZ) in the County are located within the Corridor.

The Corridor needs a concentration of additional resources to spur revitalization/redevelopment. The County undertook to change the commercial activity and encourage new residential and commercial investment by rezoning. Private activity has begun but slowed dramatically due to the economic downturn. At the same time, the Route 1 Corridor, which is less than two miles from Fort Meade, is poised for long term economic development in response to the anticipated impact of BRAC, NSA growth and the arrival of the United States

Cyber Command on the installation. This growth is expected to bring 22,000 additional jobs to Ft. Meade, with another 42,500 jobs in the immediate region over the next 10 years. The first 10,000 jobs will arrive on Ft. Meade by 2012. The Corridor will be better prepared to accommodate new businesses and residences if underutilized or obsolete properties can be redeveloped or repositioned. The County's focus on the Route 1 Corridor is important not only for the long term economic development potential but to meet the impact of impending growth at Ft. Meade.

The following two types of Recovery Zone bonds are authorized:

<u>Recovery Zone Economic Development Bonds (RZEBs)</u>

- $12,270,000 allocated to Howard County
- Taxable Bonds must be issued before January 1, 2011
- 45% Federal subsidy on the interest owed on the bonds
- Debt counts towards the County's debt limits
- Davis Bacon Act applies.

RZEBs can be used to fund expenditures for the purpose of promoting development or other economic activity in a recovery zone. Expenditures for the following qualify:

(i) Paid or incurred with respect to property located in a Recovery Zone
(ii) Public infrastructure and construction of public facilities
(iii) Job training and educational programs

The project must meet all of the tax requirements for traditional tax-exempt bonds. The large Federal subsidy is estimated to save $2.9 million in debt service over the twenty year life of the bonds versus issuing traditional tax exempt debt.

<u>Recovery Zone Facility Bonds (RZ Facility Bonds)</u>

- $18,406,000 allocated to Howard County
- Tax-exempt Bonds must be issued before January 1, 2011
- Bonds are issued by private entity – comparable to IRBs

Simply another form of tax-exempt industrial revenue bonds (IRBs) that is available to a much broader range of projects. IRBs are limited to manufacturing, multi-family housing and non-profits. RZ Facility Bonds are available to retail, office, hotel, etc. Qualified businesses include any trade or business other than residential rental property, golf courses, country clubs, massage parlors, hot tub facilities, suntan facilities, gambling facilities and liquor stores.

The County intends to solicit proposals from the development/business community for use of the RZ Facility Bonds and is working to identify County projects for the use of RZEBs. The RZ Facility Bonds will require additional legislation before issuance. In the current municipal bond market, the Federal subsidy for RZEBs would result in substantial savings in annual debt service costs ($100,000 to $200,000 a year for 20 years). The decision to issue RZEBs in place of traditional tax exempt debt will be based on the projected savings at the time of sale. Prior to the use of either type of bond, the local jurisdiction must establish the Recovery Zone as we are seeking to do in this Resolution.

There is no direct fiscal impact related to the establishment of a Recovery Zone.

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