Fact Sheet about ARRA Bonds

One way that the City of New York finances public improvement projects and major asset purchases is through its capital program by selling bonds to the marketplace. The revenue received by the City from the sale of these bonds funds the purchase and maintenance of buildings, bridges, roads, and other types of infrastructure.

Capital assets serve the public good over the span of many years, and bond financing allows the City to borrow money up-front and then pay for these long-term improvements over time. The City raises funds when bonds are sold, then pays off the principal and interest on those bonds in later years. The cost to the City of obtaining bond financing varies depending on the interest rates that are paid to the bondholders. Bondholders are essentially creditors to whom the City pays back its loan with interest.

Municipal bonds typically have some level of tax preference. Often, the interest paid on municipal bonds is exempt from federal, state and even local income taxes for the bondholder. As a general matter, this feature of municipal bonds allows the issuer, in this case the City, to pay a lower interest rate than the market would require of taxable bonds, since the bondholder is able to retain a larger amount of that interest after taxes.

As part of the American Recovery and Reinvestment Act (ARRA), certain new types of bonds were created for use by municipal issuers. While the specific characteristics of each of these types of bonds differ, the primary goal of their creation was to facilitate municipal borrowing by lowering the cost to issuers. The federal government lowers these costs in a variety of ways – by providing cash subsidies to the issuer, or the City, to cover a portion of the interest owed; by allowing additional tax exemptions to the bondholder of interest payments; and similar measures. The City of New York has taken advantage of these new bonds so that it may continue to support its program of critical capital improvements.

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Build America Bonds (BABs)

Build America Bonds are intended to assist municipal borrowers by providing for municipal issuance of taxable bonds that are accompanied by federal subsidies (“Direct Payment BABs”) or tax credits (“Tax Credit BABs”).

Who can issue these bonds?	State and local governments
What can the proceeds be used for?	New government capital expenditures; refinancing of existing bonds (Tax Credit only); working capital (Tax Credit only)
What is the federal incentive?	Federal government pays issuer 35% of the interest cost (Direct Payment only), or provides the holder with a federal tax credit of 35% of interest payable (Tax Credit only)

What are the benefits to the issuer?	Issuing government can access taxable bond market without incurring full taxable market rates
Is there a cap?	No
Is there a deadline?	BABs must be issued before 1/1/2011

For more information on BABs, see the IRS Notice below.
http://www.irs.gov/pub/irs-drop/n-09-26.pdf

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Qualified School Construction Bonds (QSCBs)

Qualified School Construction Bonds, like BABs, provide federal subsidies or tax credits for holders of municipal bonds. The proceeds of QSCBs are used for qualified school construction, rehabilitation, or repair work.

Who can issue these bonds?	State or political subdivision; other qualified educational entities
What can the proceeds be used for?	Construction, rehabilitation, or repair of public school facilities; acquisition of land upon which QSCB proceeds will be spent
What is the federal incentive?	Federal government pays issuer lower of A) 100% of interest payable or B) the applicable tax credit rate (Direct Payment only), or provides the holder with a federal tax credit corresponding to the credit rate set at the time of bond issuance (Tax Credit only).
What are the benefits to the issuer?	Little to no interest cost
Is there a cap?	Yes. New York City's allocation is $1,363,882,000.
Is there a deadline?	No

For more information on QSCBs, see the IRS Notice below.
http://www.irs.gov/pub/irs-drop/n-09-35.pdf

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Recovery Zone Facility Bonds (RZFBs)

Recovery Zone Facility Bonds provide triple tax exemption for bonds issued for private capital investment within a qualified Recovery Zone.[1]

Who can issue these bonds?	Local governments or on-behalf-of-issuers may issue RZFBs on a conduit basis for the benefit of private borrowers. Issuers of RZFBs do so on a non-recourse basis; repayment is the sole responsibility of the private borrowers.
What can the proceeds be used for?	To finance certain qualified private activities
What is the federal incentive?	Interest on the bonds are, for the most part, excludable from gross income
What are the benefits?	Allows private enterprises to access tax-exempt market
Is there a cap?	Yes. New York City's allocation is $121,700,000.
Is there a deadline?	RZFBs must be issued before 1/1/2011

For more information on RZFBs, see the IRS Notice below.
http://www.irs.gov/pub/irs-drop/n-09-50.pdf

[1] Note: ARRA provides the following criteria for designating Recovery Zones: significant poverty, significant unemployment, significant rate of home foreclosures, or general economic distress. In the City of New York, Recovery Zones are congruent with the following: New York State Empire Zones, Federal Empowerment Zones, highly distressed areas (as defined in Section 854 of the General Municipal Law) and distressed or highly distressed areas for purposes of New Markets Tax Credits.