Recovery Zone Bonds
June 26, 2009

Background
Recovery Zone Bonds have been authorized by Section 1401 of Title 1 of Division B of the American Recovery and Reinvestment Act of 2009 (ARRA). Under P.L. 111-5 a national bond volume limit of $10 billion for Recovery Zone Economic Development Bonds (“RZEDB”) and $15 billion for Recovery Zone Facility Bonds (“RZFB”), together “Recovery Zone Bonds”, has also been established. These bonds are designed to provide tax incentives for state and local governmental borrowings to promote job creation and economic recovery targeted to areas particularly affected by employment declines.

Allocations
Recovery Zone Bonds are allocated among the States and counties and municipalities within the States based on relative declines in employment in 2008.

Kentucky’s RZEDB allocation is $97,120,000.
Kentucky’s RZFB allocation is $145,681,000.

A detailed listing for individual city and/or county allocations has also been attached.

Recovery Zone Designation:

Section 1400U-1(b) provides that for these purposes the term “Recovery Zone” means: (1) any area designated by the issuer as having significant poverty, unemployment, rate of home foreclosures, or general distress; (2) any area designated by the issuer as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990; and any area for which a designation as an empowerment zone or renewal community is in effect as of the effective date of ARRA, which effective date is February 17, 2009. Bonds must be issued by December 31, 2010.

Eligible Capital Expenditures:

Recovery Zone Economic Development Bonds:

- Capital expenditures paid or incurred for purposes of promoting development or other economic activity with respect to property located in a “recovery zone” to include:
  - Public infrastructure or construction of public facilities
  - Job training and educational programs
  - Provides a 45% interest subsidy from the federal government to the governmental issuer of said bonds

Recovery Zone Facility Bonds:

- Qualify as “private activity bonds” and classified as “exempt facility bonds” although no volume cap utilization is required
- Require that 95% or more of the net proceeds of an issuance be used for Recovery Zone Property
- Require such bond is issued by December 31, 2010
- Require the issuer of such bonds designate them Recovery Zone Facility bonds
- Allow bonds to be issued as tax-exempt “non-AMT”, which significantly lowers borrowing costs

- Qualified Recovery Zone Property:
  - Constructed, reconstructed, renovated, or acquired by purchase by the taxpayer after the date the designation of the recovery zone took place
  - Original use within the recovery zone commences with the taxpayer
  - Substantially all of the use is within the recovery zone and is in the active conduct of a qualified business by the taxpayer

    A Qualified Business is defined as any trade or business except that if the property is rented to others it may NOT:
    - include residential property
    - include any business related to a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other gambling facility, or any store for which the principle business is the sale of alcoholic beverages for consumption off site.