

Qualified School Construction Bonds

(September 2009)

Under ARRA, the federal Treasury has issued state 2009 allocations for a new kind of tax credit bond: the Qualified School Construction Bond (QSCB). QSCBs are a **zero-interest** financing mechanism supported through federal tax credits to the bond purchaser. Vermont's authorization for 2009 is \$24,845,000. We are likely to see a similar authorization for 2010, to be determined by formula by the Treasury.

QSCB allocations are not grants; they are simply an authorization to seek out and utilize an interest-free bond from an entity desiring a tax credit in lieu of your interest.

Eligibility

QSCB eligibility involves no poverty tests or demographic stipulations. All VT public school districts with voter-approved school construction, renovation, repair, or modernization projects may apply for a bond allocation. 100% of bond proceeds must be used on public school buildings, or for acquisition of land on which such a facility is to be constructed. The proceeds must be spent for the qualified purpose within three (3) years of the date of issuance. Consistent with the spirit of ARRA, allocations for QSCB financing will not be approved for refinancing or for projects already completed or under construction. Bonding for the eligible project must be voter-approved before an application is submitted.

Terms

The maximum maturity and the tax credit rate are set by the Treasury and are determined as of the date of issuance. Bond issuers (school districts) are permitted to establish a sinking fund to be used to repay the bond. Use of sinking funds is regulated and subject to maximum permitted yields ("psfy"). Terms are published at <https://www.treasurydirect.gov>. (Example attached).

Reporting

Issuers of QSCBs must submit information to the IRS in a manner similarly as for other tax-exempt bonds. See IRS Notice 2009-35(.04).

Selling your tax credit bond

Of course, a school district can only issue a bond if someone will buy it. The bond purchaser does not charge the district interest; instead they get a tax credit. Treasury regulations must be followed by the bondholder. Tax credits may be "stripped", i.e. separated from the bond ownership and sold by the bondholder (bond counsel advised). There is a limited market for QSCBs, especially small Vermont-sized bonds. A pooled issue is possible (contact Bob Giroux at VT Municipal Bond Bank). There is nothing prohibiting a school district from utilizing a local bank or from marketing bonds privately.

Vermont Eligibility Criteria and Allocation Parameters

Note: The following parameters will be reviewed at the end of November for possible revisions depending upon the volume of qualifying projects. We want as many school districts to benefit from this program as possible, yet we intend to fully utilize all Vt allocations.

Projects eligible for state school construction aid and/or receiving a QZAB allocation will only be considered for QSCB allocations after all other qualified requests received by November 13, 2009 have been filled. The first round of allocations was awarded based upon complete and

qualifying applications received in July 2009. A second round of allocations will be awarded based upon complete and qualifying applications received by **November 13, 2009**. The minimum allocation amount per district will be \$500,000 and the maximum will be \$3,000,000. Amounts remaining after November 20, 2009 may be used to increase the maximum allocations per district. If qualifying applications exceed available allocations, awards will be made based upon date of successful vote.

Process

The school district submits an application package to my office. I determine that the application meets the federal and state criteria and notify the district of the amount of Vermont's federal QSCB allocation that has been assigned to them. That basically ends the department's role.

Reminders

The issuance of bonds (any type of bonds) by school districts is subject to provisions of Vermont law. The district may wish to utilize bond counsel for QSCBs just as they might any other type of bonding.

Title 24 V.S.A. §1786a should be reviewed. Improvements financed for more than five years must be voter approved by Australian ballot.

Application for Qualified School Construction Bond (QSCB) allocation is available on the department's website.

Questions and applications should be directed to
Cathy Hilgendorf
Vermont Department of Education
School Construction Coordinator
cathy.hilgendorf@state.vt.us
(802) 828-5402

QZAB: Qualified Zone Academy Bonds, which have been around for eight or nine years, are a different kind of tax credit bond. The 2009 Vermont QZAB allocation has been exhausted, but there is expected to be a 2010 allocation. Two basic qualification criteria, which apply to QZABs and **not** to QSCBs, are (1) at least 35% of students served by the project are eligible for free or reduced-price lunch, and (2) a partnership with one or more businesses or private entities who pledge a contribution to the school worth at least ten percent of the amount of the bond.

Please note: This memo does not constitute legal advice or absolve any party from legal obligations. School districts are encouraged to seek counsel as needed.

Vermont Department of Education Qualified School Construction Bond Allocation Request

Vermont School District: _____

School Building: _____ Date: _____

The Board of School Directors of the above named school district applies for a tax credit bond allocation as authorized by ARRA and described in IRS/Treasury Notice 2009-35. The state of Vermont is not responsible for issuing, purchasing, or guaranteeing the bonds in any way.

Attachments required:

1. A detailed description of the work to be financed through the QSCB.
2. Project budget, detailing both total project costs and revenue sources.
3. Date construction is expected to begin and estimated date of bond issuance.
4. Evidence that district voters have authorized bonding for eligible school construction or renovation.

Amount of QSCB allocation being requested: _____
Minimum \$500,000. Maximum \$3 million.

I certify that to the best of my knowledge, the information provided with this application is true and correct and is in compliance with statutes and with administrative provisions of the Vermont Department of Education. The board of school directors for the above named district has authorized me to sign this application on its behalf.

Signature of the Superintendent of Schools

Date

#####

VERMONT DEPARTMENT OF EDUCATION USE:

Complete application received (date): _____

Application approval status: _____ Amount of Allocation: _____

Comments: _____

Authorized Signature: _____