



# American Recovery & Reinvestment Act

## School Infrastructure Bond Programs

*Federal bond programs available for school construction and repairs*

The tax-related provisions of the economic stimulus, the *American Recovery & Reinvestment Act (ARRA) of 2009*, provide \$24.8 billion in bond authority to states and local governments for school infrastructure through two primary programs: a new Qualified School Construction Bonds (QSCBs) program and the expansion of the Qualified Zone Academy Bonds (QZABs) program.

Both types of bonds are designed to be zero-interest, tax credit bond programs that help provide a significant cost savings to school districts for capital improvement. For example, the overall interest on a typical school bond, or general obligation bond, is generally the equivalent of one-half of the total bond amount. However, the federal tax provisions for the two bond programs noted above are written to allow interest-free financing. In order to utilize these programs, a school district/local government can consult its state education agency or governor's principal contact for ARRA programs.

If local voters approved a bond issue for school construction and modernization before the economic stimulus was enacted in February 2009, and the district/local government has not yet issued the bond, the district can still take advantage of these two bond programs as long as the ballot language did not identify a specific type of bond (e.g. general obligation, private activity bond, etc.). The U.S. Treasury and Education Departments released specific guidance for program implementation to states in April 2009 that is available online at the U.S. Department of Education website and outlined in Department of Education Secretary Arne Duncan's [letter](#) to chief state school officers on May 29, 2009.

***Qualified School Construction Bonds*** – The economic stimulus created a new category of tax credit bonds for the construction, rehabilitation, or repair of public school facilities or for the acquisition of land on which a public school facility will be constructed. The law authorized the amount of Qualified School Construction Bonds that may be issued by state and local governments at \$22 billion (\$11 billion allocated initially in 2009 and the remainder allocated in 2010). As of April 19, 2010, about \$2.8 billion in QSCBs has been sold nationwide, according to data compiled by Bloomberg L.P.

The economic stimulus states that from the \$22 billion allocation of bond authority to states and local governments for 2009 and 2010, there will be a 40 percent direct allocation to the nation's 100 largest school districts, plus 25 districts determined by U.S. Secretary of Education as in need.

The remaining 60 percent of the bond allocation goes to states, based on a proportion of the prior year's Title I grant funding for disadvantaged students under the *No Child Left Behind Act* (NCLB).

As an issuer of a qualified school construction bond, the local government/school district would pay the principal only to the bondholder. This is designed as a zero-interest bond program that allows the bondholder to receive a return on investment as a credit against its federal tax liability. The rate of the federal tax credit is set by the Treasury Department (tax credit = principal x credit rate). The maturity limit of tax credit bonds is generally 13–15 years, per the Treasury Department.

Under the program, 100 percent of bond proceeds, including investment earnings, must be spent on qualified purposes within three years of issuing bonds. Up to two percent of bond proceeds can be used to pay costs of issuance. None of the bond proceeds can be used for a reserve fund.

### **\*\*UPDATE (as of March 2010)\*\***

The President signed into law the *Hiring Incentives to Restore Employment (HIRE) Act*, H.R. 2847, which includes a provision to expand financing options for Qualified School Construction Bonds (QSCBs). Through its efforts to encourage job creation, part of the HIRE Act's goal is to expand investments in schools, clean energy projects, and transportation infrastructure. Specifically, the HIRE Act provides a new option for school districts and other units of government that issue Qualified School Construction Bonds, which were originally designed to be zero-interest bonds for school districts that provided a federal tax credit to bondholders in lieu of the interest.

School districts now have the option of issuing QSCBs as [Build America Bonds](#), and receive a direct federal payment from the U.S. Treasury Department that would be equal to the amount of the interest costs or the federal tax credit that would otherwise be provided for these bonds. This is similar to the Build America Bond direct payment option that has been very successful in helping state and local governments access the credit market. Generally, the direct federal payment, or subsidy, is intended to reimburse the school district or other unit of government issuing the bond for its interest costs.

**Qualified Zone Academy Bonds (QZABs)** – The economic stimulus also expands this existing bond program for school facilities by increasing bond allocations from \$400 million annually to \$1.4 billion for FY 2009 and \$1.4 billion for FY 2010. QZABs are also a form of tax credit bonds which offer the bond holder a federal tax credit instead of interest.

QZABs can be used to finance school renovations, equipment purchases, developing course material, and training teachers and personnel at a “qualified zone academy.” None of the proceeds can be used for new construction or land acquisition, however. In general, a “qualified zone academy” is any public school (or academic program within a public school) that is located in a federally designated empowerment zone or enterprise community (per U.S. Housing and Urban Development designation), and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates.

Schools are also eligible to take advantage of the QZAB program if at least 35 percent of students enrolled are eligible for free or reduced priced school lunches. In order to utilize the QZAB program, a school district must have a written commitment for a 10 percent match from a private business.

**2010 School Bond Allocations Announced** – In March, the U.S. Departments of Education and Treasury [announced the 2010 allocations](#) for \$11 billion of bond authority to states and the 100 largest school districts for Qualified School Construction Bonds (QSCBs). The documents are available [online](#).

Both departments also released 2010 allocations for \$1.4 billion of bond authority for Qualified Zone Academy Bonds. The document is [available](#) online.

NSBA Executive Director Anne Bryant released a [press statement](#) acknowledging the school bond programs for “helping school districts throughout the nation address infrastructure needs that may otherwise be postponed because of local and state fiscal conditions.”

“New funding resources for school repairs and construction are vital to making sure that school districts can provide healthy and modern learning environments for our students,” Dr. Bryant stated.

**Additional ARRA Bond Programs** – Other programs that may be of interest to schools include:

- “Qualified Energy Conservation Bonds” can be used for capital expenditures that reduce energy consumption in public buildings by 20 percent and for implementing “Green Community Programs.” These bonds are available for schools and other entities. The ARRA provides \$3.2 billion in bond authority for the program, which will be allocated to states by population. Suballocations will go to large municipalities/counties by population.
- “Build America Bonds”(BABs) are new taxable, tax credit bonds for general governmental purposes, including schools. There is no limit on the amount of Build America Bonds that can be issued. (Please refer to the March 2010 update on page two for more details.)

*For more information, contact Deborah Rigsby, director of federal legislation at 703-838-6208, or by e-mail at [drigsby@nsba.org](mailto:drigsby@nsba.org).*

\*References cited throughout this paper are available at the following websites:

- <http://www2.ed.gov/policy/gen/guid/secletter/090529.html>
- <http://www.irs.gov/pub/irs-drop/n-09-26.pdf>
- <http://www2.ed.gov/news/pressreleases/2010/03/03172010a.html>
- <http://www.ustreas.gov/press/releases/reports/bonds.pdf>
- <http://www.irs.gov/pub/irs-tege/n-2010-22.pdf>