

EYE ON FINANCE

ARRA JULY 2009 SUPPLEMENT



AMERICA RECOVERY & REINVESTMENT ACT

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With the recent passage of America Recovery and Reinvestment Act (“ARRA”) of 2009 many school districts have begun exploring the new possibilities now available to them. The goal of this article is to provide a summary of the two ARRA programs most likely to be used by school districts. School districts considering issuing debt for the construction, rehabilitation and repair of school facilities along with acquisition

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of land or equipment should consider taking advantage of the programs made available by

ARRA. School districts that are preparing for a 2010 General Obligation Bond election may want to consider a June election rather than a November election to take advantage of the ARRA programs.

Build America Bonds

ARRA authorizes state and local governments to issue taxable bonds that are eligible for federal subsidies to finance any government purpose for which traditional tax exempt government bonds could be issued which are called Build America Bonds (“BABs”). There are three types of BABs, including: (i) Direct Pay, (ii) Tax Credit, and (iii) Recovery Zone. Direct Pay BABs involve the school district receiving a subsidy from the U.S. government equal to 35% of the bond coupon over the life of the bonds. The Tax Credit option involves 35% of the interest due on the Bonds being

paid to the investor in the form of a tax credit over the life of the bonds. Recovery Zone BABs must be issued to benefit a designated recovery zone and allow investors to be eligible for a 45% interest subsidy from the US government. The BAB program is currently scheduled to expire on December 31, 2010.

The Direct Pay and Tax Credit BABs are the two BAB options most likely to be considered beneficial by school districts. Both Direct Pay and Tax Credit BABs may provide pricing benefits at the time of bond sale.

Qualified School Construction Bonds

QSCBs are a new financing option created by ARRA. QSCBs are a form of tax-credit bonds to promote the construction and improvement of public schools. The tax credit provided to investors eliminates or substantially reduces the interest payment on the bonds. Generally, proceeds of QSCBs must be spent on constructing, rehabilitating, or repairing a public school facility, or for acquiring land on which such a facility is to be constructed. Proceeds of QSCBs may also be spent on costs of acquisition of equipment to be used in portions of public school facilities constructed, rehabilitated, or repaired.

As recently as Friday, July 3, 2009, the California Department of Education (“CDE”) officially announced that the CDE will administer the award of QSCB allocation within California through the School Facilities Planning Division of the CDE for all but the 11 largest school districts within the State which have already received allocation from the

CALIFORNIA’S LARGE SCHOOL DISTRICTS WITH FEDERAL ALLOCATIONS

#	SCHOOL DISTRICT	ALLOCATION \$ MILLION
1	LOS ANGELES UNIFIED	\$318.816
2	FRESNO UNIFIED	41.398
3	SAN DIEGO CITY UNIFIED	38.877
4	LONG BEACH UNIFIED	37.905
5	SAN BERNARDINO CITY UNIFIED	27.790
6	OAKLAND UNIFIED	26.326
7	SACRAMENTO CITY UNIFIED	21.251
8	SANTA ANA UNIFIED	19.269
9	COMPTON UNIFIED	18.559
10	STOCKTON CITY UNIFIED	16.055
11	BAKERSFIELD CITY ELEMENTARY	15.720

federal government.

School districts who are interested in taking advantage of the QSCD program must act quickly. Applications are due August 25, 2009. An application must be accompanied by a governing board resolution. There is no minimum bond authorization allotment request requirement but there is a maximum of \$25,000,000 for each local education agency during each authorization cycle. If the QSCB program is oversubscribed, CDE is expected to have a public lottery on August 28th. If the QSCB program is under subscribed it is expected that beginning on August 26th allocation will be allotted on a first come first serve basis.

If you have any questions or would like to discuss your school district’s situation in more detail call Adam Bauer at (949) 660-7303. ♦