

SCHOOLS “PAY NO INTEREST” LOTTERY

BY ADAM BAUER, PRINCIPAL

Many California school districts have been disappointed as a result of the recent oversubscription of Qualified School Construction Bonds (“QSCBs”). QSCBs are a new financing option created by the America Recovery and Reinvestment Act (“ARRA”) of 2009 and are a form of tax-credit bonds to promote the construction and improvement of public schools. When an investor purchases a QSCB they receive a federal tax credit instead of a full interest payment. This reduces debt service paid by the school district. Depending on the credit quality of the school district and the type of financing the interest cost could be as low as zero percent. Generally, proceeds of QSCBs are to be spent on constructing, rehabilitating, or repairing a public school facility, or for acquiring land on which such facility is to be constructed or repaired.

It was announced on July 3, 2009 that the California Department of Education (“CDE”) would accept applications for QSCB allocations. The 11 largest school districts within the State, which have already received allocation from the federal government, were not a part of this allocation process. The CDE received 231 allocation applications totaling \$3.66 billion. The available allocation, however, was only \$700 million. Due to the oversubscription, the CDE held a lottery on August 28th to determine which school districts would receive allocations for 2009. As a result of the lottery, 43 school districts received allocations in amounts ranging from \$1 million to \$25 million. The average allocation per school district is \$16.3 million.

For the fortunate school districts that received allocations, the race begins to issue QSCBs prior to the close of the calendar year 2009. The school districts that did not receive a 2009 allocation were ranked to determine which would receive allocation if a school district that had received an allocation could not utilize it. However, such determination must be made relatively soon or the unused allocation will be rolled into the 2010 allocation.

Further, school districts preparing for General Obligation Bonds (“GO” Bonds) Elections in 2010 are hopeful that the 2010 QSCB allocation process will occur earlier in the year. Earlier allocation will enable them to incorporate the QSCB allocation into their election materials, have enough time to get voter approval in either June or November 2010, and still issue QSCB GO Bonds in calendar year 2010. Given the high demand for school facilities statewide, we expect a strong demand for the 2010 QSCB allocation. ♦

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