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• Special to the Daily leader

The tax-related provisions of the economic stimulus 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 program and the expansion of the Qualified Zone Academy Bonds (QZABs) program. Both types of bonds are zero-interest, tax credit bond programs. In order to utilize these programs, a school district/local government can consult its state education agency and governor’s principal contact for ARRA programs.

If voters approved a bond issue for school construction and modernization before the economic stimulus was enacted, the local government/school district can still take advantage of these two bond programs as long as the ballot language did not specify a specific type of bond (e.g. tax-exempt bond, private activity bond, etc.).

Therefore, districts in communities that approved bonds for school facilities last November may choose to wait until the U.S. Treasury and Education Departments release specific guidance for program implementation to states (within the next month), rather than go to the bond market with other types of bonds that may not provide the same cost savings. For example, the overall interest on a school bond generally amounts to one-half of the total bond amount. However, the two bond programs noted above are interest-free. A brief description about each school bond program follows.

Qualified School Construction Bonds - The economic stimulus creates 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 authorizes 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).

The allocation announcement for states is expected to be released by the Treasury Department within the next 30 days. 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 forty 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 sixty percent of the bond allocation goes to states, based on a proportion of 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 county/ school district would pay the principal only to the bondholder. This is 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).

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.

The current maturity limit of tax credit bonds is 13 years, per the Treasury Department.

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 FY2010. 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 written commitment for a 10 percent match from a private business.

Additional ARRA bond programs

Other programs that may be of interest to schools are:

o “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.

o “Build America Bonds” are new taxable, tax credit bonds for general governmental purposes, including schools. There is no limit on the amount of bonds that can be issued.

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