

ARRA Update: School Construction Funding  
March 23, 2009



On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA) which provides over \$780 billion in funding and tax cuts to stimulate the national economy and create jobs over the next two year by investing in critical sectors such as energy, health care, infrastructure and education. This legislation also provides access to bond funding for school construction, renovation and repair.

Specifically, the ARRA provides \$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. A brief description about each school bond program follows:

- **Qualified School Construction Bonds** – This is 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 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 this 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.

The allocation announcement for states is expected to be released by the Treasury Department within the next 30 days.



- **Qualified Zone Academy Bonds (QZABs)** – The ARRA 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.

**The U.S. Treasury and Education Departments are scheduled to release specific guidance for program implementation to states within the next 30-days.** There are two other bond programs in ARRA that might also be of interest to school districts:

- **Qualified Energy Conservation Bonds** – These 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 and counties on a basis of population.
- **Build America Bonds** - These 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.

As information on these programs becomes available it will also be posted.