

that tuckpointing project that you've been putting off) be sure to put these projects in the context of your long-term educational and corresponding facility objectives. If you can, have the short-term projects support your longer-term vision and you'll be better off financially down the road. If you've missed the window for submitting your projects for the State Fiscal Stabilization Fund, think about submitting for the Qualified School Construction Bonds. While not nearly as lucrative, they still offer a financial saving.

Third, don't forget that one theme of the legislation is geared

toward making the United States more energy efficient. For instance, the funds available in the SFSF for construction related projects require that modernization, renovation, and repairs are consistent with a recognized green building rating system. This is an important message for school districts. Many green or sustainable strategies such as daylighting or improved indoor air quality have both operational and educational benefits. Consider consulting with someone who has both educational facility planning (i.e. REFP) and sustainable design (i.e. LEED AP) expertise on these sorts of projects to

create a holistic and sustainable vision for your district – you'll reap the benefits for years to come. ■

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Please note this article was completed in March 2009.

School Facilities and Tax Credit Bonds

Devoid of legalese, here is a simple description of what all this means.

By Frederick S. Edelstein

The tax credit portion of the **American Recovery and Reinvestment Act of 2009** (aka – the economic stimulus package or ARRA) has three different entities that can be used for various school construction including new, modernization, renovation and acquisition of sites for school projects. The bond rule notice and allocations have been issued by the U.S. Department of Treasury and the Internal Revenue Service, and the appropriate URLs are listed below for each type of bond. The bond components are:

Qualified School Construction Bonds (\$11 billion per year for fiscal years 2009 and 2010) have been created for the next two fiscal years. States and local school systems that

have school bonding authority or obtain it, but have not sold their bonds are eligible to participate. Each state will get an allocation to be set by the U.S. Department of Treasury. The language of the legislation also states that the 100 largest districts with school-age population in poverty plus 25 districts designated by the U.S. Secretary of Education will get 40% of these dollars and 60% will be sent to states to provide funding to other districts. The bonds can be used to fund new school construction, modernization, renovation and acquisition of sites for future school construction projects. The construction projects need not be completed during the fiscal years for which this program is authorized. Simply speaking, the federal government is

paying the interest on the bond issued by a state or local school system. Therefore 100% of the bond can be used for construction rather than using part of the funds to pay interest on the bond. Anyone can purchase the bond issued by a state or locality.

Specific information on these bonds can be found at: <http://www.irs.gov/pub/irs-drop/n-09-35.pdf> and it includes the allocations for FY 09 for both states and the 100 districts receiving 40% of the allocation.

For more information contact Aviva M. Roth on (202) 622-3980.

Qualified Zone Academy Bonds (\$1.4 billion per year for fiscal years 2009 and 2010) have been extended for an additional two

years, and the amount available has been raised. QZABs reduce the burden of interest payments by giving financial institutions holding the bonds (or other debt mechanism) a tax credit in lieu of interest. The school district must still pay back the amount of money it initially borrowed, but does not have to pay any interest - typically about half the cost of renovating a school. The credit rate for QZABs sold on a given day is set by the Treasury Department. These bonds target school districts with low-income populations (both urban and rural). QZABs cannot be used for new construction but can be used for the following activities: renovating and repairing buildings; investing in equipment and up-to-date technology; developing challenging curricula; and training quality teachers. QZABs also encourage schools and businesses to cooperate in innovative ways that expand students' learning opportunities and help schools prepare students with the kinds of skills employers, and our nation, need to compete in the global economy. States receive an allocation and then make it available to local districts. Each State is allotted an amount of money its schools may borrow using QZABs. (The allocation formula is based on state percentages of the national population of individuals with incomes below the poverty line.) States have the flexibility to choose their own processes to award bond authority to qualified schools. Local districts have to apply to the state. Three criteria must be met for eligibility to receive these bonds:

(1) Public schools that are either located in an Empowerment Zone or Enterprise Community or in which at least 35 percent of the school's students are eligible for free or reduced-price lunch under the federal lunch program (National School Lunch Act);

(2) Public schools that have an education program designed in cooperation with business and

receive a private business contribution that is not less than 10 percent of the net present value of the proceeds of the bond; and

(3) Public schools that have an education plan that is approved by their school districts and in which students are subject to the same standards and assessments as other students in the district. Also, the school and business become partners together for how their combined efforts can improve student education.

Specific information can be found at <http://www.irs.gov/pub/irs-drop/n-09-30.pdf> and this includes the state allocations for FY 08 and FY 09. For more information contact: contact Sandra H. Westin or Timothy L. Jones at (202) 622-3980.

Build America Bonds is a new authority and no funding level was set in the legislation. These bonds must be issued prior to January 1, 2011. The bonds can be used for any form of capital and working capital expenditures which includes school construction. The purpose of these bonds is to enable state and local governments to begin issuing bonds for the purposes of promoting economic recovery and job creation. There are two general types of Build America Bonds as taxable governmental bonds with Federal subsidies for a portion of their borrowing costs. The subsidies take the form of either tax credits provided to holders of the bonds or refundable tax credits paid to state and local governmental issuers of the bonds. Build America Bonds have different levels of Federal subsidies and program requirements depending on the particular type of bond. The first type of Build America Bond (Tax Credit) provides a Federal subsidy through Federal tax credits to investors in the bonds in an amount equal to 35 percent of the total coupon interest payable by the issuer on taxable governmental bonds (net of the tax credit), which represents a Federal subsidy to the state or local governmental issuer

equal to approximately 25 percent of the total return to the investor (including the coupon interest paid by the issuer and the tax credit). The second type of Build America Bond (Direct Payment) provides a Federal subsidy through a refundable tax credit paid to state or local governmental issuers by the Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors in these taxable bonds. ARRA also provides for a third type of Build America Bond known as "Recovery Zone Economic Development Bonds (Direct Payment)." It provides for a deeper Federal subsidy through a refundable tax credit paid to state or local governmental issuers in an amount equal to 45 percent of the total coupon interest payable to investors in these taxable bonds.

Specific information is available at: <http://www.irs.gov/pub/irs-drop/n-09-26.pdf> or contact Carla Young and Timothy Jones at 202-622-3980. ■

Other sources of information other than the CEFPI website on these mechanisms and school construction can be found at:

- **The Department of Education's** webpage now includes the timetable for funding, guidelines and fact sheets: www.ed.gov
- **Education Recovery and Reinvestment Center** is a one-stop for educators and policymakers to help them track developments and find current information on the ARRA: <http://www.learningpt.org/recovery/>
- **EducationCounsel** - Under "what's new" has information and analysis about the American Recovery and Reinvestment Act of 2009: <http://www.educationcounsel.com/>
- **National Clearinghouse on Educational Facilities:** www.ncef.org

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