

# American Recovery and Reinvestment Tax Act of 2009 (ARRTA) and Utah School District Finance Options

## Qualified Zone Academy Bonds - QZABs

### History:

QZABs were created by the Taxpayer Relief Act of 1997 in order to promote investment in primary and secondary public education with private-sector involvement in areas with scarce public resources. From 1998 through 2007 congress authorized \$400,000,000 annually nationwide for the program. The TARP (bailout plan) legislation passed in October 2008 reauthorized QZABs for 2008 and 2009 and made some changes that affect QZAB pricing. The ARRTA (federal stimulus package) legislation that was recently passed in 2009 extended QZABs through 2010 and increased the volume authorization from \$400,000,000 to \$1,400,000,000 for 2009 and 2010.

### Qualified Uses of QZAB Proceeds:

1. Can be used to renovate school buildings
2. Purchase equipment
3. Develop curricula
4. Train school personnel
5. QZABs MAY NOT BE USED FOR NEW SCHOOL CONSTRUCTION

### Eligible Beneficiaries of QZABs and Requirements:

1. Public schools in an Empowerment Zone or Enterprise Community OR in which at least 35% of the school's students are eligible for free or reduced-price lunch under the Federal lunch program
2. At least 95% of the bond proceeds must be used for an eligible purpose (i.e. construction, etc.)
3. 10% of the proceeds must be contributed by private entities in the form of property or services.

**Utah QZAB Allocations 1998 to 2009**

Year	Utah	Total	Utah % of Total
1998	\$1,576,000	\$400,000,000	0.39%
1999	1,952,000	400,000,000	0.49%
2000	2,063,000	400,000,000	0.52%
2001	1,406,000	400,000,000	0.35%
2002	2,537,000	400,000,000	0.63%
2003	2,727,000	400,000,000	0.68%
2004	2,495,000	400,000,000	0.62%
2005	2,250,000	400,000,000	0.56%
2006	2,381,000	400,000,000	0.60%
2007	2,381,000	400,000,000	0.60%
2008	2,512,000	400,000,000	0.63%
2009	8,792,000	1,400,000,000	0.63%

### Available Allocation:

There are currently \$11,304,000 of allocated QZAB funds for Utah school districts, all of which come from the recent 2008 and 2009 allocations. The 2010 allocations will be announced at a future time, but Utah would likely receive a similar amount of QZAB allocation in 2010 that it received in 2009, approximately \$8,792,000. Funds that are not used can be rolled over two additional years before the allocation expires.

### Distribution of Allocated Funds:

Historically, the Utah Department of Education has been responsible for dispersing Utah QZAB funds and Larry Newton has been the contact person for the program. Funds have historically been dispersed on a first come, first serve basis, however there has also not been a lot of competition for QZABs funds historically so the distribution process appears to have worked.

### Pricing of Bonds by the Market:

Unlike traditional tax-exempt bonds, where bond purchasers do not have to pay taxes on the interest earned on the bonds, purchasers of QZABs actually receive federal tax credits, which can be deducted from their income tax liabilities. The 2008 TARP legislation increased the value of this tax credit to purchasers, which should result in more attractive borrowing rates, however with the increased number of “tax-credit” type financing vehicles that have been authorized combined with a decrease in profits from potential buyers of QZABs (resulting in a lower demand for offsetting tax credits), we do not yet know how the new QZABs will be priced; however we do not expect the pricing to be too different than what we have seen in past deals. The length of the bonds is set by the U.S. Treasury which also determines the value of the tax credit. The length is typically between 11 and 15 years.

### Utah QZAB Issuance History

School District	Ogden School District	Uintah School District	Duchesne School District, MBA	Salt Lake City School District
Year Issued	2007	2005	2004	2001
Par Amount	\$5,274,000	\$5,977,000	\$3,500,000	\$4,742,722
Borrowing Rate	0%	2.75% Reinvestment Rate	1.69%	0.83%
Final Maturity	2022	2020	2017	2015
Comments	Three total principal payments in 2020, 2021 & 2022 to wrap into other existing debt	District borrowed \$5,977,000 and repays \$4,902,840, resulting in \$1,074,162 interest earned	Financing structure allows for interest only payments and one final principal payment in final year	Financing structure allows for a single final principal payment with annual interest payments

## **Qualified School Construction Bonds - QSCBs**

### **History:**

QSCBs are a new kind of “tax credit bond” similar to QZABS that were recently created as part of the 2009 ARRTA legislation (The Stimulus Bill).

### **Qualified uses of QSCB proceeds:**

QSCBs can be used for new construction, rehabilitation or repair of public school facilities or acquisition of land for a public school to be constructed with QSCB proceeds.

### **Eligible Beneficiaries of QSCBs and Requirements:**

As far as we currently know, there are no requirements unique to QSCBs compared to traditional tax-exempt bonds.

### **Available Allocation:**

ARRTA legislation designated a national limitation of \$11,000,000,000 for 2009 and an additional \$11,000,000,000 for 2010. Approximately 60% (\$6,600,000,000) will go to states in proportion to the “respective population” of individuals below the poverty line. The remaining 40% (\$4,400,000,000) will go to the “large local education agencies” which include the 100 local agencies with the largest number of school-aged children below the poverty line and up to 25 local agencies in particular need of assistance as determined by the Secretary of Education.

Utah has received **QSCB allocation of \$50,962,000 for 2009** and will receive additional QSCB allocation for 2010, in an amount that is likely close to the 2009 allocation. No individual Utah school district received any of the 40% allocation described above.

### **Distribution of Allocated Funds:**

The mechanism for distributing funds has not yet been announced; however it would make sense that the Utah Department of Education would be responsible for determining allocations, just as they do currently for QZABS.

### **Pricing of Bonds by the Market:**

The same tax credit incentives exist for QSCBs that exist for QZABS and at this time we do not anticipate that they would price differently. If the pricing that was used for historic QZABS was applied for QSCBs then we could anticipate interest rates between 0% and 2%.

## **Other ARRTA changes affecting School Bonding**

### **Taxable Option Bonds –or- Build America Bonds:**

Allows for new taxable bond structure where issuer or purchaser of bonds can qualify to receive 35% of the interest expense in the form of a payment from the federal government.

### **New Clean Renewable Energy Bonds:**

\$2,400,000,000 allocated for tax credit bonds used for capital expenditures incurred by government bodies, public power providers, or cooperative electric companies for a qualified renewable energy facilities including those that generate electricity from wind, closed-loop biomass; open-loop biomass; geothermal, small irrigation, hydropower, landfill gas, marine renewable and trash combustion facilities.

### **Qualified Energy Conservation Bonds (QECBs):**

\$3,200,000,000 allocated for tax credit bonds used for capital expenditures, research grants, and demonstration projects that implement or develop “green” energy technology that reduce greenhouse gas emissions.

### **Davis- Bacon Labor Standards:**

Davis-Bacon Labor Standards are required for QZABs, QSCBs, New CREBs, and QECBs, but not Build America Bonds.

This information has been prepared by **Zions Bank Public Finance** based upon information available as of April 3, 2009.