

# Recovery Act Bond Finance

## *Qualified School Construction Bonds*



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# Qualified School Construction Bonds

## Overview

- QSCBs are tax credit bonds entitling the holder of the bond to a tax credit for federal income purposes in lieu of receiving tax-exempt interest on the bonds.
- The national limit set by the ARRA includes \$11 billion for 2009 and 2010.
- The QSCB program was created to finance the construction, rehabilitation or repair of public school facilities.
  - This includes existing schools as well as new construction.
  - Proceeds may be used to acquire land on which a facility is to be constructed and funded by proceeds of the QSCBs.
  - Proceeds and interest earned thereon must be spent within 3 years unless an extension is granted.
- The tax credit rate on QSCBs is set by the U.S. Treasury in order to allow for issuance of QSCBs at par and with no interest costs to the issuer.
  - Unused credits may be carried forward to succeeding taxable years.
  - **Tax credits may be stripped from bonds and sold separately.**

# Qualified School Construction Bonds

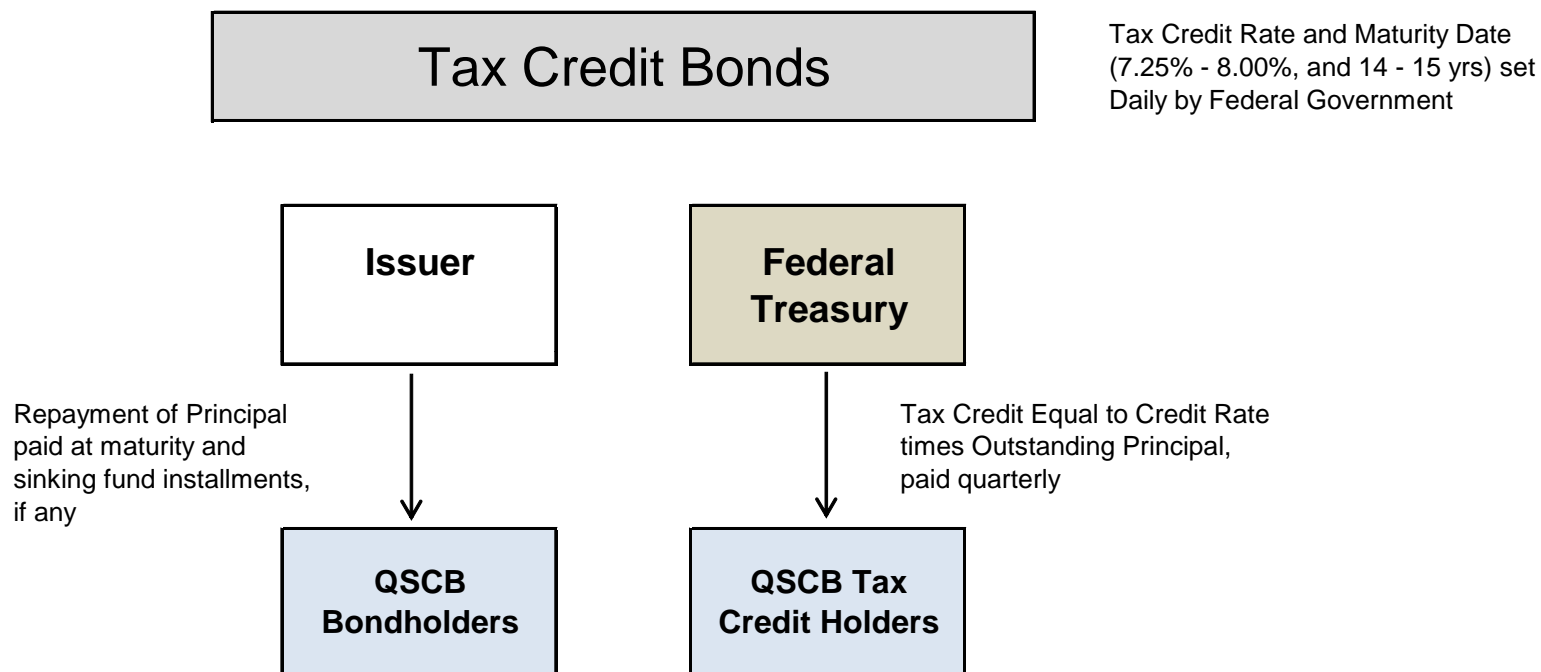
## Overview (Cont.)

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- Washington allocated \$164.1 million in QSCB authority in 2009
- Allocation of QSCB authority is administered by OSPI
  - Allocation to be on a first come, first served basis.
  - **Applications to be accepted between August 1 - August 31, 2009.**
  - OSPI reserves the right to reallocate as deemed appropriate
  - Unused State allocation amounts may be carried over to the following calendar year
- Although non-interest bearing, QSCBs are subject to a number of tax-exempt bond regulations as well as some special regulations modified by the Act:
  - No more than 2% of the Available Proceeds may be used for issuance costs.
  - Special Spending Rules - 100% of the proceeds must be reasonably expected to be spent in 3 years and a binding commitment from a 3rd party that 10% of the proceeds will be spent in the first 6 months must be in place.
  - Issuer must comply with arbitrage regulations (Section 148 of the code) but special exemptions are granted during the construction period and if sinking funds meet certain requirements.
  - Projects must comply with certain Federal wage rate requirements & labor standards.

# Qualified School Construction Bonds

## Mechanics



QSCBs have two components that should be considered separately:

- Principal-only, 0% bond, based on the issuer's credit
- Tax Credit - The owner of QSCBs receives a Federal tax credit, rather than receiving interest, if they hold QSCBs on one or more credit allowance dates (March 15, June 15, September 15 and December 15)

# Qualified School Construction Bonds

## Overview - Continued

- The maximum term and rate of QSCBs is determined by the Treasury.
  - Currently, 15 years, 7.29% as of 7/24/09
- Typically structured as a bullet term bond (one payment at maturity), but issuers may amortize the bonds through the creation of a voluntary, internal sinking fund, subject to certain restrictions. (yield limitations, level amortization, etc)
- Three issues completed nationwide
  - San Diego Schools
  - Broward County, Florida (**PFM transaction**)
  - West Virginia School Building Authority

### Considerations

- No separate debt authority is created – District must use existing non-voted or voted bond authority
- Repayment must come from existing District resources
- Investor market is not well defined

# QZAB vs. QSCB

		QZAB	QSCB
Use of Funds:	Rehab/Repair Facilities	Yes	Yes
	New Construction	No	Yes
	Acquisition of Land	No	Yes
	Acquisition of Equipment	Yes	Yes
	Course Development/Training	Yes	No
Eligibility Requirements:	Empowerment Zone or Enterprise Community >=35% Student Eligibility for Free/Reduced Lunch	Required	Not Required
10% Community Match		Required	Not Required
Ability to strip Tax Credits:		No	Yes

# QSCBs vs. BABs

Summary of Programs			
	Qualified School Construction Bonds	Build America Bonds	
		Issuer Subsidy	Investor Subsidy
<b>School District Eligible</b>	Yes	Yes	Yes
<b>Interest on Bonds</b>	None	Taxable	Taxable
<b>Use of Funds:</b>			
Construction	Yes	Yes	Yes
Working Capital	No	No	Yes
Refund Existing Debt	No	No	Yes
<b>Federal Tax Subsidy:</b>			
Benefit to	Investor	Issuer	Investor
Amount	TBD at Issuance	35% of Interest	35% of Interest
Form of Subsidy	Tax Credit	Direct Subsidy	Tax Credit
Paid on	Quarterly	Interest Payment Date	Interest Payment Date
Securitization Potential	Yes	Yes	Yes
<b>Structure:</b>			
Size/Par	Subject to Allocation of Volume Cap Set by Treasury; Generally 14-16 years	No Limit	No Limit
Final Maturity		No Limit	No Limit
Types of Bonds:			
Fixed Rate	N/A	Allowed	Allowed
Variable Rate	N/A	Allowed	Allowed
Notes	N/A	Allowed	Allowed
CABs	N/A	Allowed	Allowed

# QSCB Examples

	San Diego, CA Unified School District	Broward County, FL School District	School Building Authority of West Virginia
Par Amount	\$38,840,000	\$49,913,000	\$30,000,000
Sale Date	April 21, 2009	June 4, 2009	July 2, 2009
Maturity	Bullet maturity in 2023	Bullet maturity in 2024	Bullet maturity in 2024
Sinking Funds	sinking fund installments beginning in 2017	sinking fund redemption in 2014 to maturity	sinking fund installments in 2010 to maturity
Average Life	13.86 yrs	15.04 yrs	7.96 yrs
Type of Sale	Public Sale	Private Placement	Public Sale
Underwriter/Agent	Goldman Sachs	Merrill Lynch	Citigroup Inc.
Redemption Provisions:	Bonds are not subject to Optional Redemption. Bonds are subject to Extraordinary Mandatory Redemption if proceeds are not spent within 3 years of closing or if bonds lose QSCB status		
Rating	Aa2/AA	NR (District A1/A+/A+)	AAA/A2/A
<u>Tax Credit Information</u>			
Tax Credit Rate	7.87%	7.73%	6.92%
Investor	Guggenheim Partners, LLC	Bank of America Capital Corp.	Guggenheim Partners, LLC
CUSIPs	assigned	not assigned	assigned



# **Qualified School Construction Bonds Case Study**

# QSCB/BAB Case Study

## Broward County Florida School Board

- **Background** – PFM advised the District to accelerate approval of its June 2009 financing to December /January to give staff flexibility to managing market timing given market instability. Board authorized \$135 million COP financing late in the fall. Insurance, ratings and all documents completed in January.
- **Pulled Transaction** - Congress began discussion of special allocations for school districts. This, combined with market deterioration led to PFM recommending to “pull” the deal from the market in February.
- **Revised Plan of Finance** – In order to take advantage of QSCB authorization (\$49 million in 2009) and the potential efficiencies of BABs, PFM recommended that the District amend its authorization to include all three financing structures.
- **Combined Financing** – from April through June, PFM worked with the District in planning and executing a combined funding plan of \$135 million that utilized a combination of QSCBs, issuer subsidy BABs, and tax-exempt COPs to achieve the most strategic financing available.

# QSCB/BAB Case Study

## Reimbursement Analysis

### THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA COPs SERIES 2009

Facilities	Project Description	Estimated Total Project Cost	All Actual Expenses as of May 20	Actual Expenses Prior to February 17	Actual Expenses Prior to May 5	Commitments (Open PO's) as of May 20	Total Expenses/Comm
AC Perry	New Cafeteria	2,120,000	2,600	2,600	-	-	2,600
Banyan ES	New Media Center	2,725,000	11,790	2,600	7,327	-	11,790
Blanche Ely HS	Physical Education Center	10,900,000	10,848	2,700	8,148	-	10,848
Harbordale ES	Classroom Addition Program	2,075,214	3,737	2,700	1,037	729,572	733,309
Lloyd Estates	Media Center	2,725,000	24,100	2,600	21,500	46,217	70,317
Northeast HS	Swimming Pool Complex	5,450,000	2,265	1,900	365	3,606,597	3,608,862
Palmview ES	Kitchen Cafeteria	8,374,000	2,700	2,700	-	-	2,700
Parkway MS	Replacement - Phase 1 (Classroom, Gym)	27,250,000	231,838	3,250	227,106	174,254	406,092
Pines Lakes ES	Classroom Addition	5,617,581	286,149	2,600	219,559	81,638	367,787
PPO Zone 4	New Maintenance Office	5,212,189	148,935	40,475	108,460	4,184,975	4,333,909
Seagull Center	Media Center	3,813,161	4,763	2,600	-	2,000	6,763
Walker ES	Kitchen / Cafeteria	7,199,520	3,250	3,250	-	6,397,771	6,401,021
	<b>SUBTOTAL</b>	<b>83,461,666</b>	<b>732,975</b>	<b>69,975</b>	<b>593,502</b>	<b>15,223,023</b>	<b>15,955,998</b>

QSCB Eligible	BAB Eligible	TE Funded
2,117,400	2,117,400	2,600
2,713,210	2,722,400	2,600
10,889,152	10,897,300	2,700
1,341,905	2,072,514	2,700
2,654,683	2,722,400	2,600
1,841,138	5,448,100	1,900
8,371,300	8,371,300	2,700
26,843,908	27,246,750	3,250
5,249,794	5,614,981	2,600
878,280	5,171,714	40,475
3,806,398	3,810,561	2,600
798,499	7,196,270	3,250
67,505,667	83,391,691	69,975



# QSCB/BAB Case Study

## Broward County School Board

- **Implementation** – PFM first separated the process into \$49 million QSCB and the remaining \$80 million funded by either BABs or traditional tax-exempt COPs.
  - QSCB – PFM evaluated underwriter proposals and solicited separate concepts to privately place the QSCB. PFM was able to draw on a wide range of concepts and used competition to lock in a price at “par” without any onerous conditions
  - Tax Exempt versus BAB – Concurrent with the QSCB process, PFM’s pricing desk worked to develop strategies to minimize/eliminate “make whole” call provisions, large block size requirements and bullet maturities. This enabled the District to make an apples-to-apples comparison between BABs and tax-exempt COPs.
- **Cohesive Funding Plan with Separate Sales**
  - (i) privately placed \$49 million as a QSCB,
  - (ii) \$20 million in tax-exempt COPs for projects that were not eligible for QSCB/BABs (due to expenditure eligibility or occurred prior to authorized dates), and
  - (ii) \$64 million in taxable “BABs”. Recent market spreads for COPs were 130 bps to 160 bps over MMD. The BABs sold at a net spread of 30bps over MMD(after taking into account the interest subsidy payments).
- **Savings** - The net savings to the District is approximately \$20 million.

# QSCB / Tax-Exempt / BAB Bonds

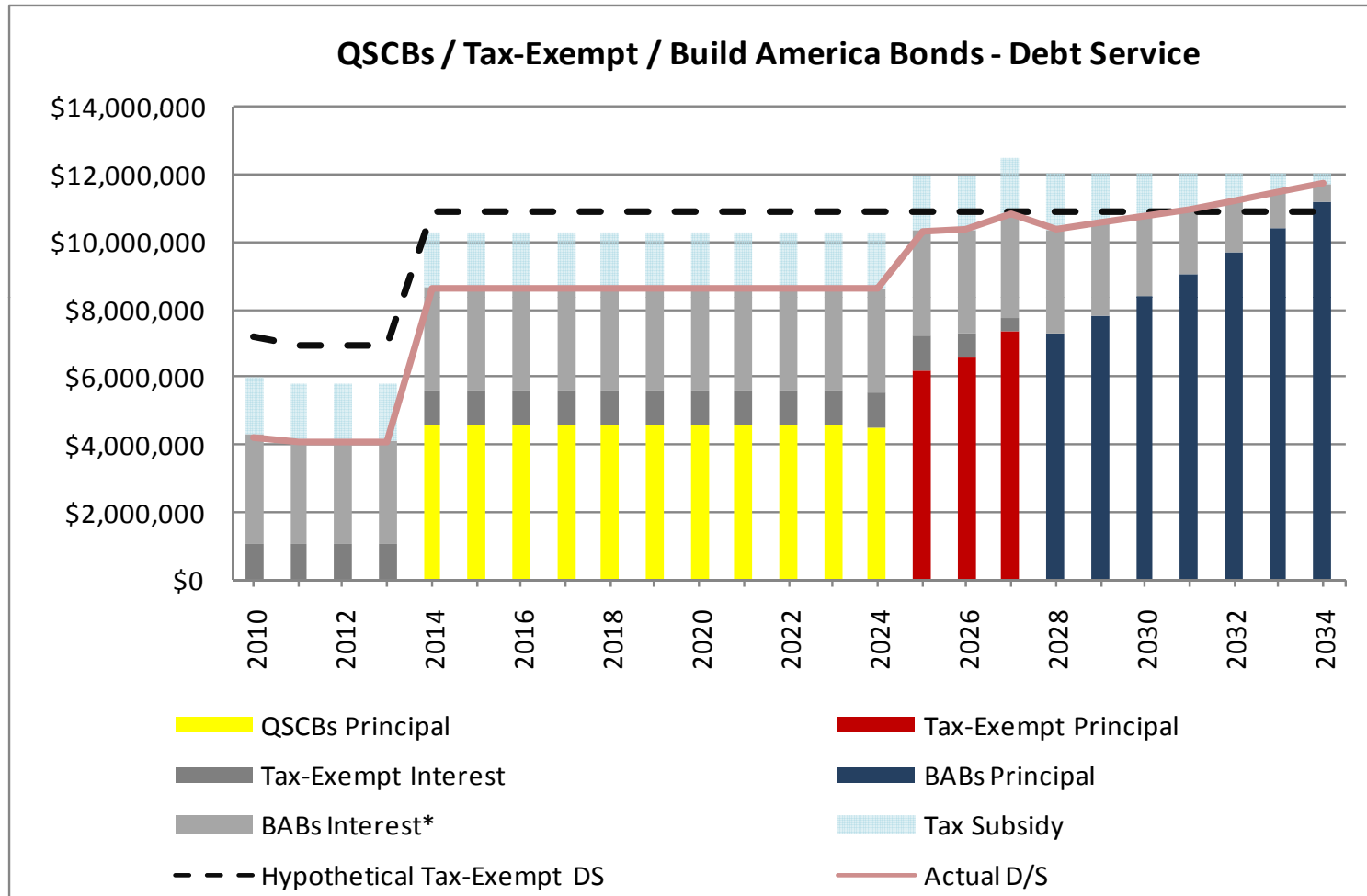
## Yields

Issuer	School Board of Broward County									
Sale Type	QSCBs			Tax-Exempt			BABs			
Par	\$49,913,000			\$20,140,000			\$63,910,000			
Insurance				Assured Guaranty						
Underwriter/ Placement Agent	Bank of America Capital Corp			Merrill Lynch			Merrill Lynch			
	Yield	MMD	Spread	Yield	MMD	Spread	Yield	Tax Equiv. Yld.	MMD	Spread
Maturity										
7/1/2014	0.00%	2.02%	-2.02%							
7/1/2015	0.00%	2.22%	-2.22%							
7/1/2016	0.00%	2.42%	-2.42%							
7/1/2017	0.00%	2.62%	-2.62%							
7/1/2018	0.00%	2.82%	-2.82%							
7/1/2019	0.00%	3.01%	-3.01%							
7/1/2020	0.00%	3.18%	-3.18%							
7/1/2021	0.00%	3.31%	-3.31%							
7/1/2022	0.00%	3.44%	-3.44%							
7/1/2023	0.00%	3.57%	-3.57%							
7/1/2024	0.00%	3.70%	-3.70%							
7/1/2025				5.15%	3.82%	1.33%				
7/1/2026				5.27%	3.94%	1.33%				
7/1/2027				5.37%	4.04%	1.33%				
7/1/2034							7.47%	4.86%	4.56%	0.30%



# Build America Bonds

## Debt Service Breakdown



•**BABs Interest net of 35% tax subsidy**



# Broward Schools 2009

## Benefit Analysis

- The combination of QSCBs, BABs, and traditional tax-exempt COPs provided an estimated \$20 million savings (\$15 million present value) to Broward Schools.

Issuance Comparison		
	Traditional Tax-Exempt Bonds	Broward Schools COPs, Series 2009A
Total Par	\$134MM	\$134MM
Term	25 years	25 years
Issuer Subsidy	None	35% Tax Credit
Structure	Tax-Exempt \$134MM Level DS: 2014-2034	QSCBs \$49.9MM Level DS: 2014-2024 Tax-Exempt \$20.1MM Level DS: 2025-2027 BABs \$63.9MM Term Bond 2034 (2028-2034)
Scale	Tax-Exempt AAA MMD (6/4/09)	Tax-Exempt AAA MMD (6/4/09) Taxable AAA MMD x 65% (6/4/09)
Avg. Life	17.05 years	16.96 years
TIC	5.43%	5.21%
All-in TIC	5.60%	3.80%
Total Net Debt Service	\$257,351,056	\$237,963,566
Present Value of Debt Service <sup>1</sup>	\$159,657,889	\$144,532,067
Savings to Issuer	N/A	\$15,125,822 (1) .28% of Par

(1) Debt Service present valued at 3.80% (All-in TIC of Series 2009A COPs)

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