

Qualified Zone Academy Bonds and Qualified School Construction Bonds

Conference on Recovery Act Bond Finance: *Opportunities in Washington State*

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Qualified Zone Academy Bond (QZAB): Overview

- Taxable, interest free bond issued by a school district.
- Principal is paid at maturity. Secretary of U.S. Department of Treasury sets maximum maturity (7/30/09 = 15 yrs) .
- May be issued as non-voted limited general obligation (LGO) bond or voted unlimited tax general obligation (UTGO) bonds.
- Principal amount of QZAB must not exceed applicable debt limits.
- Investor that buys QZAB is allowed annual federal income tax credits in lieu of periodic interest payments.

QZAB: Eligibility Requirements

- Proceeds may be used to rehabilitate or repair certain eligible public schools. May not be used to construct new public schools.
- Eligible public school (qualified zone academy) must be located either in an empowerment zone or an enterprise community, or have reasonable expectation that at least 35% of the students attending such school will be eligible for free or reduced cost lunches.
- Need commitment from private business to contribute to the public school certain equipment, property, services or cash with a value equal to at least 10% of the principal amount of the QZAB.
- Need approval from OSPI to issue a QZAB.

QZAB: State Limitation and Recovery Act

- Federal law provides a national QZAB limitation for each calendar year, which is allocated among the states (based on poverty population).
- Limitation allocated to each state is then allocated by state education agency (in Washington, OSPI) to eligible school districts.
- States may carry forward any unused QZAB limitation amount for two years following the unused limitation year to be used on a first-in, first-out basis.
- Recovery Act extended national QZAB limitation to 2009 and 2010 (QZAB program originally established in 1997).
- Currently, total Washington QZAB limitation amount that may be allocated by OSPI to school districts is \$32,651,000 (\$7,256,000 from 2008 and \$25,395,000 from the 2009).

Qualified School Construction Bonds (QSCBs): Overview

- Taxable, interest free bond issued by a school district.
- Principal is paid at maturity. Secretary of U.S. Department of Treasury sets maximum maturity (7/30/09 = 15 yrs) .
- May be issued as non-voted limited general obligation (LGO) bond or voted unlimited tax general obligation (UTGO) bonds.
- Principal amount of QSCB must not exceed applicable debt limits.
- Investor that buys QSCB is allowed annual federal income tax credits in lieu of periodic interest payments.

QSCB: Eligibility Requirements

- Proceeds of QSCBs, like QZABs, may be used to rehabilitate or repair certain eligible public schools. Unlike QZABs, however, QSCBs also may be used to construct new public schools and acquire land on which those new public schools will be constructed.
- Unlike QZABs, no requirement that the public school be located either in an empowerment zone or an enterprise community, or have reasonable expectation that at least 35% of the students attending the public school will be eligible for free or reduced cost lunches.
- Unlike QZABs, no requirement to obtain private business contributions.
- Need approval from OSPI to issue a QSCB.

QSCB: Recovery Act and State Limitation

- Recovery Act created QSCBs.
- Federal law provides a national QSCB limitation for each calendar year, which is allocated among the states.
- Limitation allocated to each state is then allocated by the state education agency (in Washington, OSPI) to eligible school districts.
- States may carry forward any unused QSCB limitation amount to following calendar year and the amount of the QSCB limitation amount for such following calendar year will be increased by the amount of such unused limitation.
- Currently, the total Washington 2009 QSCB limitation amount that may be allocated by OSPI to school districts is \$164,111,000.

Other Recovery Act School Finance Options

- Build America Bonds (BABs)
 - Tax Credit BABs
 - Direct Pay BABs
- Recovery Zone Economic Development Bonds

Resources for More Information

- Office of Superintendent of Public Instruction
- Bond Counsel
- Underwriters
- Financial Advisors

Questions?

The End. Thank you!



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Bill Tonkin is a partner with Foster Pepper PLLC. He is the primary lawyer responsible for the firm's work relating to federal tax law applicable to tax-exempt bonds, as well as the American Recovery and Reinvestment Tax Act of 2009 applicable to tax-exempt bonds, Build America Bonds and tax credit bonds. Bill also represents issuers in connection with Internal Revenue Service audits of tax-exempt bonds. He received his A.B. from Northwestern University (1965) and an LL.B. from Harvard Law School (1968).

Jim McNeill is a partner with the law firm of Foster Pepper PLLC and concentrates his practice on public finance, with a special emphasis on serving as bond counsel to Washington school districts. Jim has substantial experience advising Washington school districts on financing capital projects, including bonds and capital levies. He received his J.D. from Gonzaga University School of Law (1985) and his B.A. from Washington State University (1982).