



THE AMERICAN RECOVERY AND REINVESTMENT ACT

Is it Working?

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Tax Credit Aspects of the ARRA

- The American Recovery and Reinvestment Act of 2009 contained several tax credit authorizations or reauthorizations
- They included:
 - Clean Renewable Energy Bonds (new CREBs)
 - New Market Tax Credits (NMTCs)
 - Qualified Energy Conservation Bonds (QECBs)
 - Qualified Zone Academy Bonds (QZABs)
 - Tax Credit Build America Bonds (TCBABs)
 - School Construction Bonds

Clean Renewable Energy Bonds (CREBs)

- New CREBs were reauthorized in 2008 with a national limitation of \$800 million. The ARRA added an additional \$1.6 billion in authorization for a national total of \$2.4 billion
- California's Alternative Energy and Advance Transportation sold \$20 million CREBs in June of this year
 - 15 year term with a 1.455% interest rate
 - Estimated energy cost savings of \$52.5 million
 - \$27.8 million coming after the bonds are repaid

New Market Tax Credits (NMTCs)

- Prior to the ARRA the maximum annual amount of qualified equity investments under the NMTC program was \$3.5 billion for years 2006-2009
- The ARRA increased this maximum amount by \$1.5 billion to \$5 billion for each year
- 14 entities either located in California or that list California as a predominant market were awarded \$868.25 million in NMTC allocation in 2008
- 2009 allocations have not been awarded yet

Qualified Energy Conservation Bonds (QECBs)

- Qualified Energy Conservation Bond Allocations
 - State of California received \$381,329,000 in total QECB allocation
 - State portion is \$12,746,103
 - Counties receive \$197,669,919
 - Municipalities receive \$170,173,417
 - Indian Tribal Governments receive \$739,561
- The ARRA requires that not less than 70% of the allocation received in the State is to be used for non-private activity projects / no more than 30% can be used for private activity projects
- Maximum allocation for private activity use - \$114,398,700
- Minimum allocation for governmental use - \$226,930,300
- QECBs were originally authorized as part of the TARP legislation and had a national limitation of \$800 million
- The ARRA increased the amount of QECBs from \$800 million nationally to \$3.2 billion

Qualified Zone Academy Bonds (QZABs)

- QZABs are a form of tax-credit bonds which offer the holders a federal tax credit instead of interest
- In general a “Qualified Zone Academy” is any public school (or academic program within a public school) located in an empowerment zone or enterprise community
- Between 1998-2009 QZABs had an annual issuance cap of \$400 million
- The \$400 million cap was allocated each year to states according to their respective populations or individuals below the poverty line
- The ARRA authorized an additional \$1.4 billion of QZAB issuing authority to states and local governments in 2009 and 2010

Tax Credit Build America Bonds (TCBABs)

- TCBABs are bonds that provide bondholders with a tax credit equal to 35% of the interest payable by the issuer on each interest payment date
- TCBABs can be issued to fund working capital needs as well as for advance refundings direct pay BABs can not
- To date there have been no TCBABs issued in California

Qualified School Construction Bonds

- A bond is a qualified school construction bond if:
 - 100% of the available project proceeds are used for the construction, rehabilitation, or repair of public school facilities or the acquisition of land on which public school facilities will be constructed
 - The bond is issued by a state or local government which the school is located in
 - The issuer designates the bond as issued pursuant to this provision
 - There is a national limitation on the amount of qualified school construction bonds that may be issued by state and local governments of \$22 billion (\$11 billion allocated initially in 2009 and the remainder allocated in 2010)
 - The allocation of the national cap is governed by a complex scheme:
 - Forty percent (40%) of the national limitation is allocated among large local educational agencies

Qualified School Construction Bonds (cont.)

- A “large local educational agency” means any local educational agency is such agency is:
 - Among the 100 local educational agencies with the largest numbers of children aged 5 through 17 from families living below the poverty level or;
 - One of not more than 25 local educational agencies (other than those in category 1 above) that the Secretary of Education determines are in particular need of assistance
- California received more than \$773 million in allocation of this amount \$73 million was reserved for Charter schools
- If an amount allocated to a state is unused for a calendar year it may be carried forward by the state to the next calendar year
- If any amount allocated to a large local educational agency is unused for a calendar year, the agency may reallocate that amount to the state
 - San Diego
 - Oakland

Qualified School Construction Bonds (cont.)

■ Two (2) Qualified School Construction Bond financings completed in the State of California since the passage of ARRA, they are:

\$38,840,000 San Diego Unified School District

- 2009 General Obligation Bonds – Qualified School Construction Bonds (tax credit bonds)
- Final maturity: 3/15/2023
- Tax credit rate: 7.87%
- Ratings: Moody's Aa2 / S&P AA

\$26,320,000 Oakland Unified School District

- Taxable General Obligation Bonds, Series 2009
- Qualified School Construction Bonds (tax credit bonds)
- Final maturity: 8/1/2024
- Tax credit rate: 7.18%
- Interest rate: 2.820%
- Ratings: Moody's Baa1 / S&P BBB+