School Bond Program ABCs

CDIAC/CIEDB Conference - June 19, 2009

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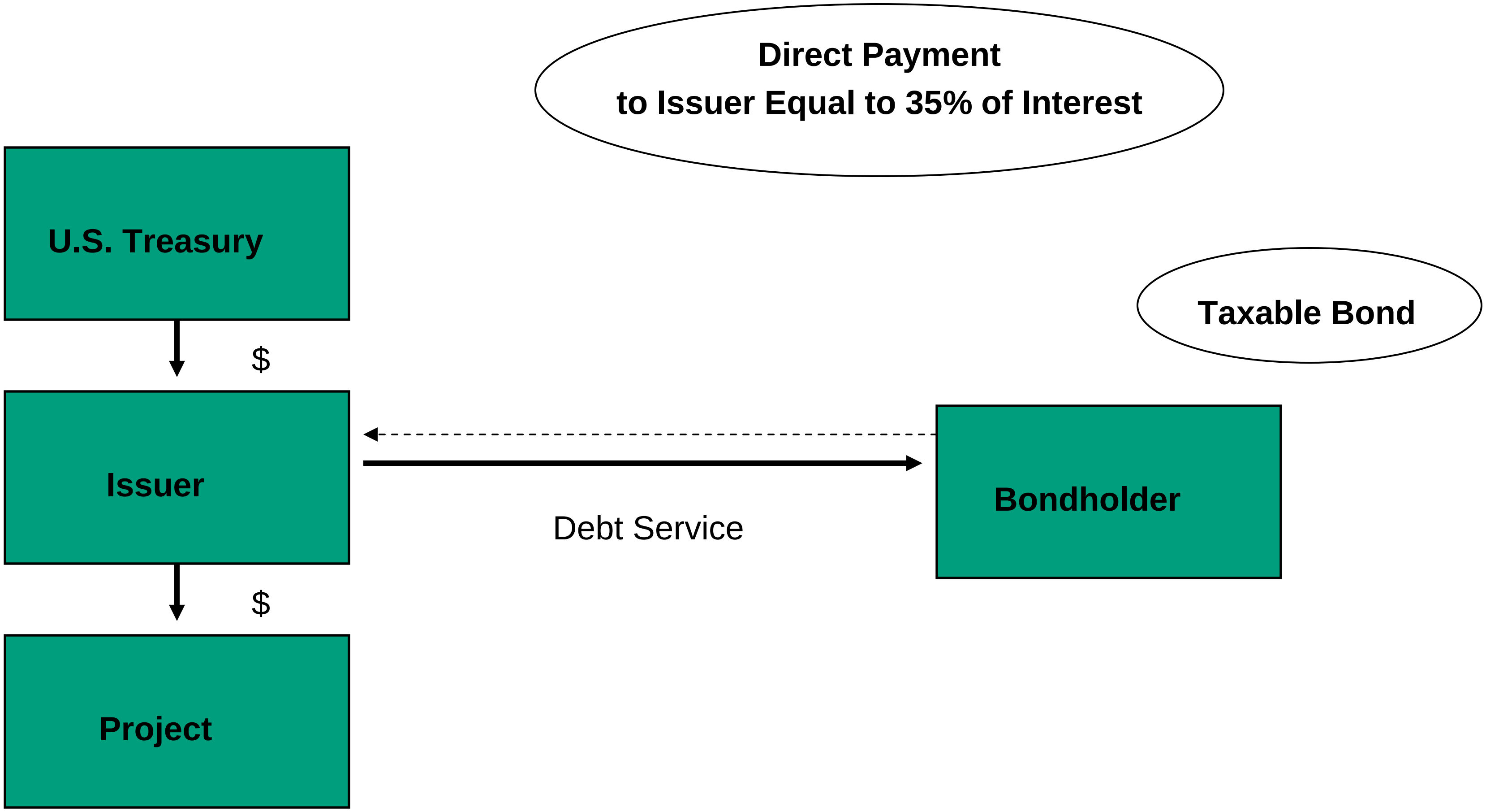
Eugene Clark-Herrera

- Build America Bonds
- Qualified Zone Academy Bonds
- Qualified School Construction Bonds

Direct Subsidy – Build America Bonds



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Subsidy Build America Bonds

- All State and local government issuers, including school districts, may issue BABs
- BABs may be issued in 2009 and 2010
- The interest on BABs is "taxable"
- The bonds must be a "governmental bond" (*i.e.*, private use is limited)
- Direct subsidy BABs may be issued for new money capital expenditures only
- A Federal subsidy equal to 35% of the interest will be paid to the issuer (to County or School District? – this is an open issue)

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Rules For Direct Subsidy BABs

- Tax-exempt bond rules apply to BABs (e.g., arbitrage rebate, too much private use will jeopardize the subsidy); arbitrage yield is calculated net of the BAB subsidy

- Direct Subsidy BABs may be issued for new money capital expenditures only

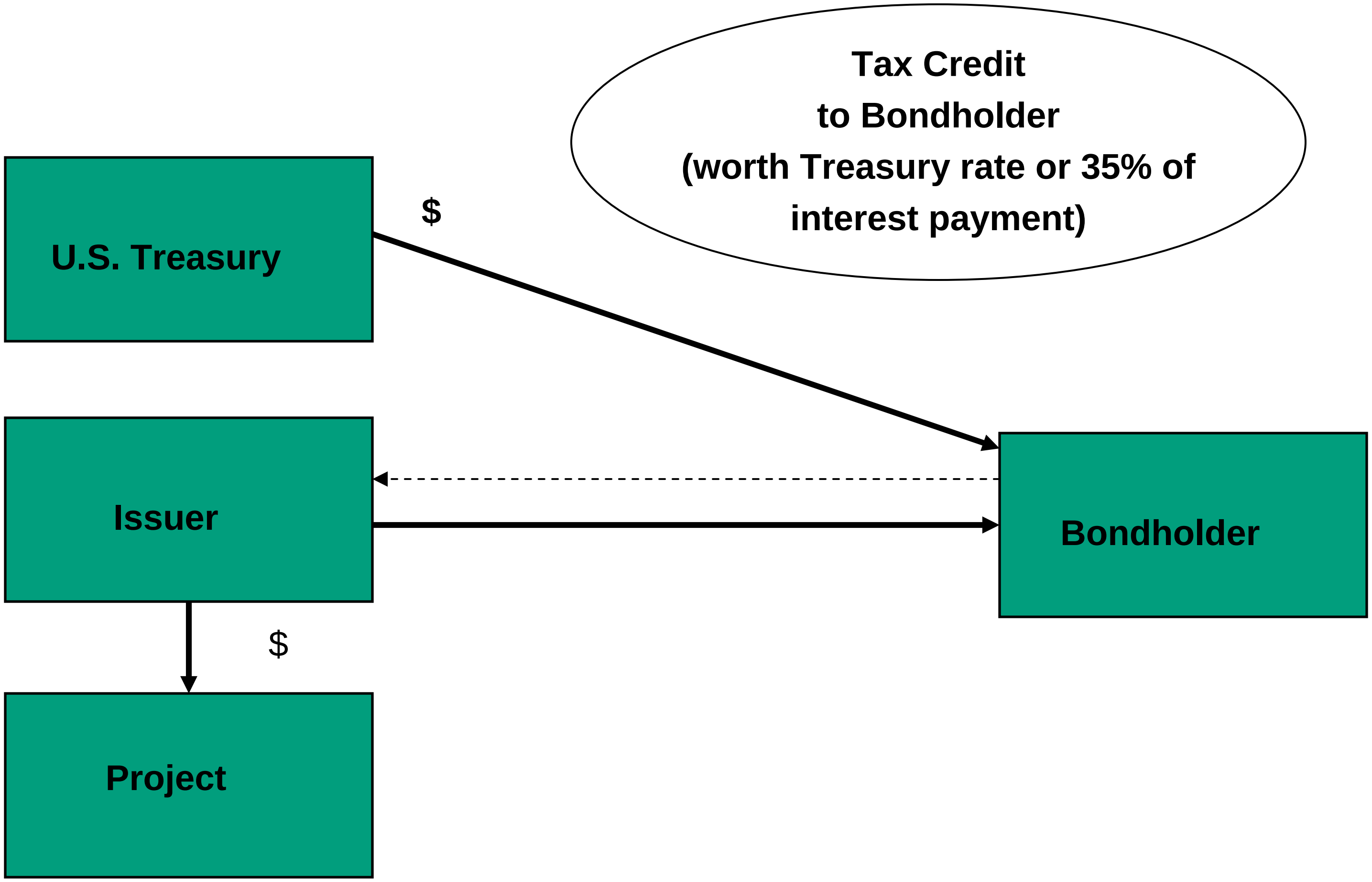
  — 100% of bond proceeds in excess of costs of issuance (up to 2%) and a reasonably required reserve must be used for capital expenditures

  — No working capital use or refunding

  — With no "bad money" category very important to be very clear on use of proceeds

- Can be issued in combination with regular tax-exempt bonds

Tax Credit Bonds



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Tax Credit Bonds

A. Qualified School Construction Bonds

B. Qualified Zone Academy Bonds

C. Tax Credit Build America Bonds

How Do Tax Credit Bonds Work?
(QSCBs and QZABs only, not Credit BABs)

- Tax credits to bondholders in lieu of issuer interest; if credits cannot be used by investor in a tax year, they may be carried forward
- Credit rate set daily by US Treasury, and credits may be stripped
- New money only
- Proceeds in project fund not subject to arbitrage rebate provided 100% spent within 3 years
- Funds can be set aside annually by the issuer to repay the bonds and investment earnings may be retained up to stated limits (i.e., possible to earn “arbitrage” in a sinking fund)
- Coordination with County officers about tax levy for sinking fund
- Bullet maturity (14 – 16 years, set by US Treasury)

Qualified School Construction Bonds

- Permitted Issuers: States and school districts that receive allocation of volume cap
- Eligible Projects: Construction, rehabilitating or repairing public school facilities and acquiring land for public school facilities or equipment to be located in such facilities
- Tax Credit Bonds: Bondholders are provided a tax credit in lieu of interest by the issuer

  Policy is to provide issuers with a 0% cost of funds

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Qualified School Construction Bonds

• Volume Cap:	- Direct allocations to certain CA districts - State of California = $774 million for 2009 - National = $11 billion for 2010
• Allocation Process:	California Department of Education is expected to open allocation program on July 15, 2009
• Carryover:	There is no new allocation available for 2011 or later years, but unused allocation from 2009 and 2010 may be carried forward to the next calendar year
• Prevailing Wages:	Federal Davis-Bacon prevailing wage rules apply to projects financed with proceeds of Qualified School Construction Bonds

Qualified Zone Academy Bonds

- Permitted Issuers: School districts
- Eligible Projects: Proceeds must be used to renovate, equip or train teachers and personnel at qualified zone academies or develop course materials for qualified zone academies, and private entities must have committed to provide certain assistance for a school to qualify for financing
- A "**qualified zone academy**" is a below-college-level public school that is generally located in an economically disadvantaged area or serving an economically disadvantaged student population and that operates special academic programs in cooperation with private businesses

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Qualified Zone Academy Bonds

• Volume Cap:	$1.4 billion for 2009 and 2010 national $200 million available for California
• Allocation Process:	Among States on the basis of population below poverty line California Department of Education allocation process is currently open
• Tax Credits:	A "tax-credit bond" that provides bondholders with a federal tax credit against income and seeks to provide issuers with a 0% cost of funds

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Tax Credit Build America Bonds

- In lieu of cash subsidy paid to the issuer, a tax credit equal to 35% of the interest is provided to the bondholder
- If credits cannot be used by investor in a tax year, they may be carried forward; credits may be stripped as well
- Unlike QZAB and QSCB programs, not designed to provide a 0% interest cost to issuer
- Unlike Direct Subsidy BABs, Credit BABs may be issued for both refunding purposes and working capital purposes; not subject to 2% costs of issuance limit
- Credit BABs would be attractive mostly in situations where Direct Subsidy BABs are not permitted

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More information

Copies of "Recovery Act" are available in this conference session (or anytime upon request), and in PDF format online at www.orrick.com under the "Publications" tab (and on the conference session webpage).

EUGENE CLARK-HERRERA

ORRICK, HERRINGTON & SUTCLIFFE LLP
THE ORRICK BUILDING
405 HOWARD STREET
SAN FRANCISCO, CA 94105

SF office (415) 773-5911
LA office (213) 612-2132
fax (415) 773-5759
ech@orrick.com

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