

## – ARRA Bond Programs –

- This PowerPoint presentation is available on PDE's website at [www.education.state.pa.us](http://www.education.state.pa.us).
- Select "American Recovery & Reinvestment Act" under "Hot Topics."
- Select "Qualified School Construction and Qualified Zone Academy Bond Programs" under "Resources."
- Select "QSCB and QZAB Webinar PowerPoint Presentation 3/4/2010."

– ARRA Bond Programs –  
Administered by the  
Pennsylvania Department of  
Education

March 4, 2010

**Edward G. Rendell,**  
Governor

**Dr. Gerald L. Zahorchak,**  
Secretary of Education

Presenters:

## **Office of Administration**

Michael Walsh, Deputy Secretary

## **Division of School Facilities**

Patricia Dengel and Carle Fones

## **State Public School Building Authority**

Robert Baccon

## **Public Financial Management**

John Frey

## Qualified School Construction Bonds (QSCB)

- New school buildings, renovations or repairs of public school buildings, equipment for these facilities, site work, or related site acquisition.

## Qualified Zone Academy Bonds (QZAB)

- No new construction or site acquisition.
- Limited to renovation or repair of existing school facilities.
  - Small learning communities
  - Energy/lighting retrofits/upgrades
- 35% of students attending the project school building must be eligible for free or reduced-cost lunches.
- 10% Private Match
  - May be more than one private match provider
  - In kind / cash
  - Technical assistance / field trips / internships

## QSCB and QZAB

- Proceeds can be used for Act 77 Guaranteed Energy Savings projects if permitted under LGUDA.
- Proceeds can be used on athletic stadium projects.
- Proceeds can NOT be used for district administration offices, bus garages and other non-instructional facilities.
- Proceeds can NOT be used to pay off any type of existing debt (however, PDE believes that a school district can reimburse itself if school district funds were used for eligible projects - Reimbursement Resolution may be needed).
- Proceeds must be spent within 3 years.

## QSCB and QZAB Application

- School building projects must address one or more program objectives; if oversubscribed, will use ranking based on the four program objectives.
- Application deadline – must be received by April 1, 2010.
- One application per project
  - School building
  - Project scope to be bid at one time (bid opening date)
  - Each project stands on its own
  - Can be PlanCon (reimbursable) or non-reimbursable project

## Allocation and Issuance

- **QSCB**

- PA Allocation = \$315,737,000 for 2009
- 2009 QSCBs must be issued by December 31, 2010.

- **QZAB**

- PA Allocation = \$62,734,000
  - \$13,941,000 for 2008
  - \$48,793,000 for 2009
- 2008 QZABs must be issued by December 31, 2010.
- 2009 QZABs must be issued by December 31, 2011.

## PA Green and Sustainable Schools

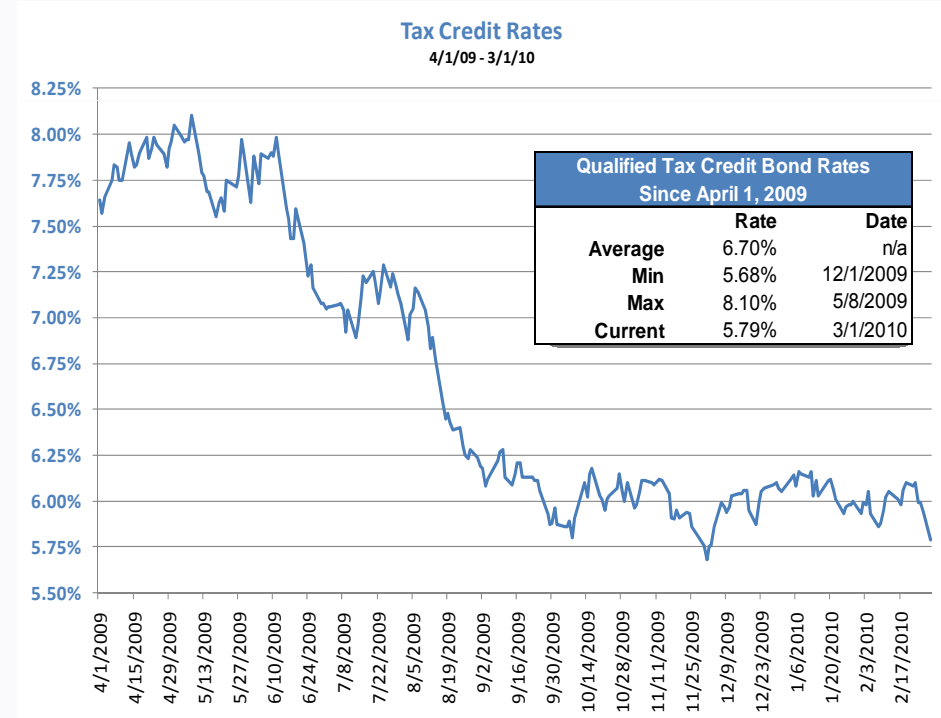
- PDE strongly urges school districts to consider projects that will help make schools green and sustainable by improving energy performance or seeking to obtain LEED or Green Globes certification.
- Consulting services may be available at no charge to school districts for projects being considered in existing or proposed Title I schools identified for School Improvement or Corrective Action.

## Pool Financing Program

- The bonds will be issued as part of a Pool Financing through State Public School Building Authority.
- Financing Team – members of the financing team are being assembled and include bond counsel, underwriter, financial advisor and trustee. (If desired, each school district can pay for its own advisors and legal counsel to assist them with the transaction.)
- PFM has been appointed financial advisor. The other members will also be experienced with PA school finance.
- The Pool concept is being used to minimize issuance costs and take advantage of the Commonwealth's QSCB/QZAB allocation.

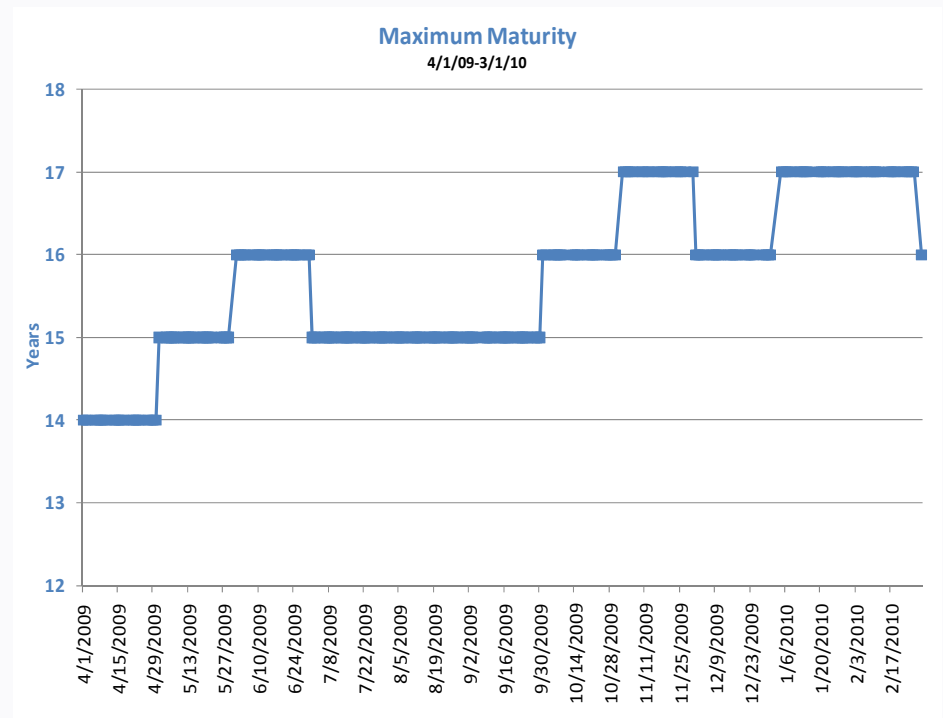
## Tax Credit Rate

- QSCBs/QZABs are tax credit bonds entitling the holder of the bond to a tax credit for federal income purposes in lieu of receiving current interest on the bonds.
  - The tax credit is set daily by the U.S. Treasury, would be set at the time of bond pricing, and would be in effect for the entire life of the bond (3/1/10 rate is 5.79%).
  - While the goal of the tax credit is to provide funds on an interest free basis, market demand and preference will determine the inclusion of additional current interest (supplemental coupon). Any coupon would not be determined until bond pricing date (generally, recent coupons have been 1%-2%).
  - Another potential scenario to attract investors would be to offer the bonds at an initial discounted price to investors.



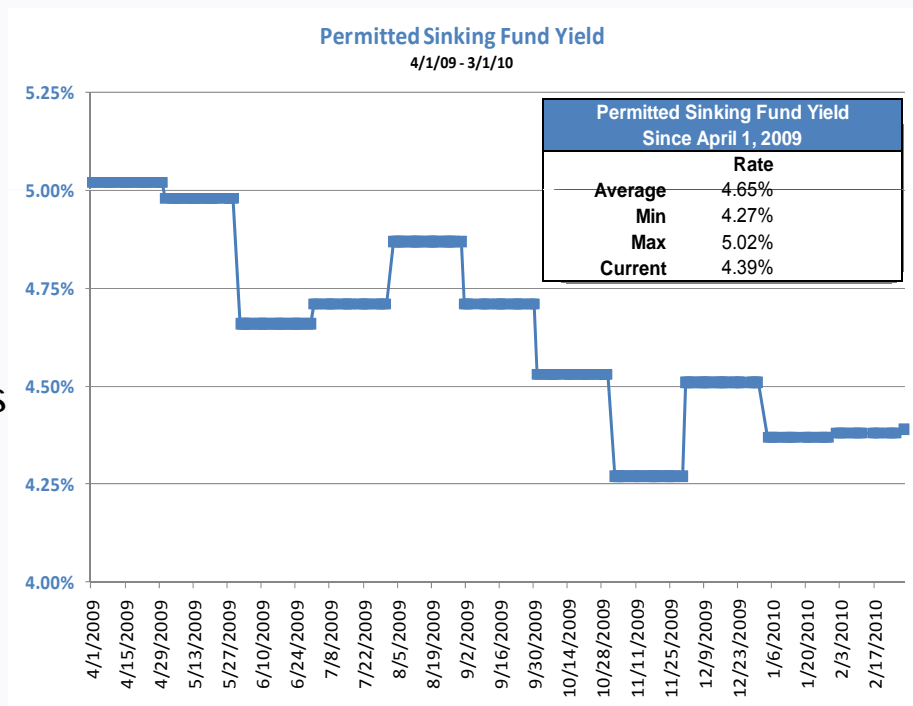
## Maximum Maturity

- The maximum maturity date is set each month by the U.S. Treasury (we believe that earlier final maturities could be selected by a school district).
- Currently, maximum maturity is 16 years (over last year, has ranged from 14-17 years). Maximum maturity date for bonds will be determined on pricing date.
- To meet PA Debt Act requirements, Debt Resolutions will require:
  - Annual principal payments to be made into the Debt Service Sinking Fund
  - School district option:  
Level debt service  
Or
  - Wrap-around: payments plus existing debt service must achieve overall level debt



## Other Conditions

- Annual payments into sinking fund can be invested at a rate that does not exceed the Permitted Sinking Fund Yield (“PSFY”) until applied to pay off bonds at the balloon maturity date.
  - PSFY calculated and published by U.S. Treasury (currently 4.39%).
  - Pool Program will determine investments for sinking fund.
  - School districts will be the beneficiary of any interest earnings.



- Redemption Provisions
  - Generally not subject to optional redemption
  - Extraordinary Mandatory Redemption
    - Loss of status as QSCBs/QZABs
    - Unspent proceeds remaining after 3 years

## Federal Uncertainties

- There is pending federal legislation making QSCB/QZABs like Build America Bonds (issuer issues taxable bonds and receives an on-going federal subsidy).
- Investors are interested in Federal guidance on stripping of tax credits.
  - At this time, we believe this will not have a direct impact on the on-going loan agreements for each school district.
  - No assurance that stripping bonds will be permitted; however, bonds should be made eligible to be stripped.
  - Stripping allows the tax credits to be separated and resold by purchasers.
  - Any discussions with investors or documents regarding this will be handled by the SPSBA Bond Team.

## Approximate Timeline

- Financing Team Selection In process
- Application Due Date April 1
- PDE Selection/Allocation of Funds May 1 – Estimate
- SPSBA Financing Team
  - Develop structure & legal documents
  - Prepare Official Statement
  - Coordinate with Credit Rating Agencies
  - DCED filings for each school district
- Bond Settlement Several months after school district selection process is completed
- Requisition Process and Disbursement of Funds to School Districts



## QSCB and QZAB

Questions?

## Contact Information

Bureau of Budget and Fiscal Management  
Division of School Facilities

- Telephone: (717) 787-5480
- Fax: (717) 705-6805
- E-mail: [ra-schoolfacilities@state.pa.us](mailto:ra-schoolfacilities@state.pa.us)
- Web Address: [www.education.state.pa.us](http://www.education.state.pa.us)  
Click on "Programs." Click on "Programs S-Z."  
Click on "School Construction and Facilities."