



2009 QUALIFIED SCHOOL CONSTRUCTION BOND (QSCB) PROGRAM 2008 and 2009 QUALIFIED ZONE ACADEMY BOND (QZAB) PROGRAM

FREQUENTLY ASKED QUESTIONS (FAQ)

1. What are the Department review procedures for the QSCB and QZAB Programs?

Allocations will be awarded on a competitive basis. If QSCB and QZAB allocation requests received by the Pennsylvania Department of Education exceed PA's total allocations, preference will be given to projects based on a rating system. Please refer to the QSCB and QZAB program guidelines for detailed information about Pennsylvania's program objectives and rating system.

2. What type of school construction project is eligible?

A school construction project is defined as planned construction to be bid at one time on one school building. One application per school construction project must be submitted. Reimbursable (PlanCon) or non-reimbursable projects are eligible. District-wide projects that involve more than one school building must submit separate applications for each school building.

Please note that QSCB proceeds can be used for construction, rehabilitation, or repair of public school facilities, equipment for these facilities, or related site acquisition. QZAB proceeds, however, can only be used to finance the renovation of school facilities and equipment purchases.

3. Is there a minimum/maximum allocation amount per school construction project for either bond program?

No, there is no minimum or maximum allocation amount per school construction project.

4. Can QSCB and QZAB proceeds be used to fund roof replacement, solar panel installation and renovations to add an elevator for universal accessibility?

Yes. However, if QSCB and QZAB allocation requests received by the Pennsylvania Department of Education exceed PA's total allocations, preference will be given to projects based on a rating system. Based on the rating system, limited scope projects that only address roofing, HVAC or universal accessibility issues may not receive sufficient points to qualify.

5. Can a school district submit applications for two separate projects on the same building?

Yes. If, for example, a school district is planning to bid roof replacement in 2010 and HVAC upgrades in 2011 on the same elementary school building, two separate applications must be submitted. If, however, this work would be bid as one project, then only one application would need to be submitted.

6. Is there a way for a school district to prioritize projects if it intends to submit multiple projects?

The school district should provide a cover letter with its priorities just in case QSCB and QZAB allocation requests received by the Department exceed PA's total allocations.

7. Are completion dates for this type of project required by the federal government or Pennsylvania?

Federal spend-down requirements apply to both QSCB and QZAB. Construction contracts must be in place with a third party to spend down at least 10 percent of the bond proceeds within six months after issuance. 100 percent of the available project proceeds must be spent within 3 years of the bond issuance. Both QSCB and QZAB proceeds are subject to arbitrage rules.

8. Can one school construction project qualify for both QSCB and QZAB?

Yes.

9. Can the Philadelphia School District apply for QSCB and QZAB allocations?

Philadelphia received its own 2009 QSCB allocation and is not eligible to apply for Pennsylvania's state allocation. Philadelphia is, however, eligible to apply for Pennsylvania's 2008 and 2009 QZAB allocations.

10. Is the application procedure different for reimbursable and non-reimbursable projects?

No.

11. What additional documents must be submitted with the QSCB and QZAB applications?

With the QSCB application, a school district must also submit: (1) a detailed description of the project and how the checked QSCB program objectives will be met; and (2) a written spending plan for the proposed project.

With the QZAB application, a school district must also submit: (1) a detailed description of the project and/or program, and how the checked QZAB program objectives will be met; (2) written verification of private business contributions; (3) a detailed description of the educational initiative being proposed under the program; and (4) a written spending plan for the proposed project and/or program.

12. If an application is received prior to April 1st, will it be processed?

Upon receipt, the Department plans to perform an initial review to ensure that applications are complete. A more detailed review of completed applications will take place after the April 1st deadline.

13. How will a school construction project's rating be impacted if a school district plans to open bids in 2010 but not start construction until 2011?

If QSCB and QZAB allocation requests received by the Pennsylvania Department of Education exceed PA's total allocations, preference will be given to projects based on a rating system. Up to 10 points will be given for opening bids and starting construction in 2010. Projects to be bid in 2010 but with construction starting in 2011 may earn less than 10 points.

14. To the extent a school district has prepared an Act 34 booklet, would that suffice as an attachment for a QSCB or QZAB application?

The application and attachments should address the applicable QSCB or QZAB program objectives so that a project can receive as many ranking points as possible. The Act 34 project description booklet is designed for a different purpose, i.e. to inform the public about a planned project's design, bid and construction timeline, estimated costs, proposed financing and millage impact. For this reason, an Act 34 project description booklet should not be submitted as an attachment to the QSCB or QZAB application.

15. Can an educational foundation provide the private match required for QZAB?

Yes.

16. Is the intent of the consultants to focus on sustainable schools?

Consulting services may be available at no charge to school districts considering projects that will help make their schools more energy efficient and environmentally sustainable. These services are limited to projects being considered in existing or proposed Title I schools identified for School Improvement or Corrective Action.

17. How soon will a determination be made on allocations to school districts? What is the earliest that QSCB/QZAB can be issued on behalf of a school district so that construction can start in 2010?

The Department expects to award the 2009 QSCB and the QZAB allocations for 2008 and 2009 in late April or early May. The first issuance may occur in June or July 2010. 2009 QSCBs must be issued by 12/31/2010. 2008 QZABs must be issued by 12/31/2010. 2009 QZABs must be issued by 12/31/2011.

18. Can a project start before the allocations are awarded and bonds issued?

Yes. Bond proceeds can be used to reimburse general fund monies already expended for a project. However, bond proceeds cannot be used to replace/refund any financing already issued for a project.

19. Could these bonds be used in addition to the financing already issued if bids come in higher than expected?

Yes. If additional financing is needed, QSCB and QZAB proceeds can be used to pay for any additional project costs.

20. Can a school district use the bond proceeds to fund a completed project?

If all of the original financing for a project has already been issued, then the school district cannot use QSCB and QZAB proceeds for a project. If additional financing is still needed to pay for the project, then QSCB and QZAB proceeds can be used.

21. What happens if a school district receives its requested allocation but is unable to use it?

The Department will follow up with school districts awarded QSCB and QZAB allocations to ensure that critical timelines can be met. If a school district is unable to use its QSCB or QZAB allocations

for any reason, the Department will award the unused allocation based on the ranking system to another eligible project.

22. Can a school district use its own bond counsel and underwriter?

The State Public School Building Authority (SPSBA) is in the process of selecting a bond counsel and lead underwriter for the QSCB and QZAB bond programs. School districts may elect, at their own expense, to have their bond professionals work with the bond counsel and underwriter selected by SPSBA.

23. Can these bonds be treated as grandfathered debt for Act 1 purposes?

When issuing bonds/notes under a 'maximum scenario' approval from DCED under the Local Government Unit Debt Act, the school district must make sure that the maturities for each year (stated principal amount and stated interest rate) are within the maximum parameter as approved by Department of Community and Economic Development (DCED). Also, the debt issued must comply with the 'level annual debt service' requirement (either that issue or through a wrap-around debt service schedule), and must be the same type of obligations as DCED approved, i.e., general obligation bond, general obligation notes, etc.

There is no problem if DCED approved general obligation bonds (maximum scenario) and what is being issued are qualified school construction bonds as long as the maturities/rates are within the maximum parameters since they are also general obligation bonds. Since QSCBs and QZABS are term bonds, they would have to be structured with mandatory redemption payments which fall within the maximum parameter for each of those years.

If you have any questions, please contact Bernadette Barattini, Deputy Chief Counsel for the Department of Community & Economic Development at (717) 720-7309.

24. Can QSCB or QZAB proceeds be used to pay for an ESCO/Guaranteed Energy Savings Act project?

Yes. QSCB or QZAB proceeds can be used to pay for an ESCO/Guaranteed Energy Savings Act project as long as the use of bond proceeds for such a project is permitted under the Local Government Unit Debt Act.

25. Can QSCB or QZAB proceeds be used to pay for a project on a school district administration office?

No. QSCB or QZAB proceeds cannot be used to pay for a project on a school district administration office.

26. Can QSCB or QZAB proceeds be used to pay for an athletic stadium project?

Yes. QSCB or QZAB proceeds can be used to pay for an athletic stadium project as long as the facilities will be used by the school and district students. QZAB proceeds can only be used on repairs and renovations to existing stadiums, which are used by the academy; this does not exclude their use by other programs or students.

27. Can QSCB or QZAB proceeds be used to pay for site development (parking, paving, playfields, etc.)?

QSCB or QZAB proceeds can be used to pay for parking, paving, and playfields related to a public school building. QSCB or QZAB proceeds cannot be used to pay for work related to maintenance facilities, bus garages or other school administrative and operational facilities.

28. Can issues/notes be shorter than the maximum maturity set by the Treasury?

Yes.

29. Can the bonds be prepaid before the maximum maturity set by Treasury?

Yes.

30. With a conduit issuance, what date will be used to set the coupon rate? The date the school district incurs the indebtedness/executes the bond/note purchase agreement or the date SPSBA executes the BPA, or some other date?

The coupon rates for each QSCB and QZAB issuance are set by the U.S. Treasury and will be based on the date the State Public School Building Authority (SPSBA) executes the Bond Purchase Agreement.

31. With a conduit pool, what happens if one of the school districts backs out for any reason after SPSBA issues the bonds?

If time permits, the allocation will be redistributed to another school district. Otherwise, the bonds issued on behalf of that school district will be immediately redeemed.

32. How quickly will SPSBA be able to issue bonds?

Allocation awards will be announced in May 2010. Bond settlement for QSCB and QZAB issuances will probably occur sometime in early August 2010.

33. Does the school district receive all bond funds up front at closing or are funds received based on a requisition/draw down process when invoices are received for payment?

To ensure that federal arbitrage requirements are met, proceeds will need to be requisitioned from the trustee appointed by SPSBA to administer these bond funds.

34. Does the school district have to pay down the debt via level sinking fund payments or can the school district use a wrap-around debt structure?

The school district can pay down the debt via level sinking fund payments or use a wrap-around debt structure as long as the debt structure complies with the Local Government Unit Debt Act.

35. Can the school district determine its own maturity schedule?

Yes. School districts can determine their own maturity schedules but are limited to the maximum maturity for QSCBs and QZABs set by the U.S. Treasury.

36. Can QSCB/QZAB proceeds be used to pay off construction loans, lines of credit, bank notes and other non-bond-related financing or any bond financing already used to fund eligible projects?

No. QSCB and QZAB proceeds can, however, be used to repay the General Fund for project expenditures already incurred.

37. We installed a new roof over the summer and fall. We have a construction loan and need to secure long term financing. Does the construction loan disqualify?

As stated previously, QSCB/QZAB proceeds cannot be used to pay off construction loans, lines of credit, bank notes and other non-bond-related financing or any bond financing already used to fund eligible projects.

38. Regardless of the coupon rate set at bond issuance, the school district will not pay any interest. Is this correct?

A supplemental coupon may be needed to market QSCBs or QZABs. If a supplemental coupon is needed to market QSCBs or QZABs, the coupon rate will be set by market forces when the bonds are sold.

39. Is the supplemental coupon set or could it go higher?

If a supplemental coupon is needed to market QSCBs or QZABs, the coupon rate will be set by market forces when the bonds are sold.

40. Will the school district receive the benefit of interest earnings on its sinking fund payments?

Yes.

41. Can a school district use its own underwriter?

The underwriter appointed by SPSBA must be used for the QSCB and QZAB issuances. Another underwriting firm may serve as co-underwriter if a school district chooses.

42. Will a school district receive 100% of the loan amount?

That will depend on the bond pricing. The school district will be responsible for its prorata share of SPSBA's issuance costs (underwriting, bond counsel, bond rating, printing, etc.). Fees for a co-underwriter, the school district solicitor or other professionals hired by the school district will be borne entirely by the school district.