



MEMORANDUM

TO: School District Superintendents

FROM: Tom Melcher, Director
Division of Program Finance

SUBJECT: **School Facilities Funding Update - ARRA
Application Materials for Qualified School Construction Bonds
(QSCB) Program**

DATE: April 30, 2009

This memorandum is to provide an update on school facilities funding options available under the American Recovery and Reinvestment Act of 2009 (ARRA).

State Fiscal Stabilization Fund

The State Fiscal Stabilization program is a one-time appropriation that the U.S. Department of Education will award to Governors to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. Minnesota will receive an estimated \$816 million. Of this amount, 81.8 percent or \$667.8 million must be allocated to K-12 education and higher education (CFDA 84.394). The remainder, 18.2 percent or \$148.6 million, is available for education or other governmental services (CFDA 84.397).

Most, if not all, of the funds allocated to school districts and charter schools under the state fiscal stabilization fund will likely go to offset reductions to be enacted by the legislature in state general education and/or special education aid. The Governor's budget allocates \$424 million from the state fiscal stabilization fund to K-12 education, including \$28 million in "new money" and \$396 million to offset proposed reductions in state general education and special education aid. The Senate bill allocates \$520 million of this fund to K-12 education, all of which goes to partially offset proposed reductions in state general education aid. The House bill allocates \$276 million of this fund to K-12 education, all of which goes to offset proposed reductions in state general education aid. Because the allocation of the stabilization fund is dependent upon an enacted budget, funds will not become available until following the end of the legislative session.

State fiscal stabilization funds may be used for any activity authorized under the following federal education acts:

- The Elementary and Secondary Education Act of 1965 (ESEA);
- The Individuals with Disabilities Education Act (IDEA);
- The Adult Education and Family Literacy Act (AEFLA); or
- The Carl D. Perkins Career and Technical Education Act of 2006 (Perkins Act).

The ARRA also provides that, to the extent consistent with State law, an LEA may use Education Stabilization funds for modernization, renovation or repair of public school facilities, including modernization, renovation and repairs that are consistent with a recognized green building rating system.

If an LEA uses Education Stabilization funds for modernization, renovation or repair of public school facilities or for construction of new school facilities, the LEA must comply with specific requirements relating to the use of American iron, steel and manufactured goods used in the project. (See Section 1605 of the ARRA.)

The Governor will submit an initial application to the U.S. Department of Education. Within 2 weeks of an approved application, 67 percent of the state's Stabilization allocation will become available. Phase 2 of the allocation will become available in September of 2009 based on a second application.

School districts and charter schools will be required to submit an application to the state for stabilization funds. More information on the application process will be available soon.

Energy Efficiency Upgrades

Districts considering energy conservation upgrades should be mindful of the federal grant program contained in the stimulus funding. The following programs may contain funds for school districts: state energy program and energy efficiency and conservation block grants. Though state legislation is pending, the Minnesota Department of Commerce will likely serve as the lead agency for energy grant programs. It is likely that MDE will also have a role in the distribution of federal grant dollars. MDE will provide additional information to school districts as it becomes available.

Reduced Cost Borrowing – Federal Programs

There are three school facility stimulus packages that school districts in Minnesota may want to consider in the process of financing school facility projects in calendar years 2009 and 2010.

- 1. Qualified Zone Academy Bonds (QZAB)**
- 2. Qualified School Construction Bonds (QSCB)**
- 3. Build American Bonds (BAB)**

In an effort to provide greater access to federal programs that will lower borrowing costs for school districts in Minnesota, school districts planning to complete work on school facilities that meet the free and reduced lunch eligibility criteria are strongly encouraged to consider the QZAB program before applying for the QSCB program.

Both programs will lower the interest/borrowing costs for qualifying school construction projects through tax credits for lenders, who will lower the interest rates for borrowing funds. The programs will provide a federal tax credits to the holders of locally issued bonds instead of paying interest. Eligible bond holders are limited to banks, insurance companies and other companies that normally borrow to school districts. Both programs will not directly provide additional funds to school districts.

1. QUALIFIED ZONE ACADEMY BONDS (QZABs)

Program Description: Congress provided authority to issue Qualified Zone Academy Bonds (QZAB) in Section 226(a) of the Taxpayer Relief Act of 1997 to help strengthen schools serving large concentrations of low-income families. The federal government subsidizes these 15-year (max.) bonds by providing tax credits to bond holders that are approximately equal to the interest that states and communities would ordinarily pay the holders of taxable bonds. The federal government allocates the authority to issue these bonds to states based on their proportion of the U.S. population living below the poverty line. States may directly issue the bonds on behalf of eligible schools or they may suballocate authority to issue the bonds within the state. Issuers are required to have authority under state and local law to incur this additional debt. Bond proceeds may not be used for new construction.

Eligibility: QZAB bonds may be used on behalf of schools that meet the following eligibility requirements:

1. be located in an empowerment zone or an enterprise community
2. have 35 percent of their students eligible for free or reduced-cost lunches under the National School Lunch Act at the site in which improvements are made.
 - Eligible schools must have an education program designed in cooperation with business and receive a private business contribution that is not less than 10 percent of the proceeds of the bond
 - Eligible schools must have an education plan that is approved by the school district and its students must be subject to the same standards and assessments as other students in the district.

Qualified Zone Academy Bonds may be used for:

1. renovation of school buildings
2. purchasing equipment
3. developing curricula, and
4. training school personnel

Funding: The U.S. Treasury has released the state allocations for the Qualified Zone Academy Bonds for FY 2009. In calendar year 2009, Minnesota has been awarded \$16,883,000, compared with \$4,824,000 for calendar year 2008. In addition, carry forward funds of approximately \$9 million from the 2007 and 2008 allocations are available to qualifying school districts.

Application process: The Minnesota Department of Education has an online application for this program. **Bond authority is currently available.** Districts that believe that they meet the qualifications of the QZAB program should apply as soon as possible.

Bonding authority is allocated on a first-come-first-served basis. The application can be found by following this link:

http://education.state.mn.us/MDE/Accountability_Programs/Program_Finance/Financial_Management/Forms_Files/index.html

2. QUALIFIED SCHOOL CONSTRUCTION BONDS (QSCBs)

Program Description: The Qualified School Construction Bonds (QSCB) Program is a new tax credit program created by the American Recovery and Reinvestment Act of 2009. QSCBs provide the bondholder with a tax credit in lieu of an interest payment, resulting in an interest-free or very low-interest method of borrowing for school districts. All school districts and school buildings are eligible regardless of size or poverty levels. Qualified School Construction Bonds (QSCB) may be used for:

1. NEW construction,
2. rehabilitation,
3. repair of public school facilities,
4. equipment, and
5. the acquisition of land

Funding: \$11 Billion is authorized in both 2009 and 2010 for QSCBs nationwide. The 2009 QSCB allocations for Minnesota are shown below. Calendar year 2010 allocations will be announced at a later date.

Minneapolis	21,739,000
St. Paul	16,119,000
Rest of State	<u>75,850,000</u>
TOTAL	113,708,000

- Like the Qualified Zone Academy Bonds (QZAB) program, QSCBs provide tax credits in lieu of interest to financial institutions or other lenders that purchase eligible bonds issued by school districts. The federal tax credit covers, on average, the interest that would normally be paid to bondholders.

- Unlike the QZAB Program, all school districts and school buildings are eligible regardless of size or poverty levels. The bond proceeds may also be used to finance NEW construction, rehabilitation, repair of public school facilities, equipment, and the acquisition of land. Equipment expenditures under this program are limited to the cost of equipment to be used in the portions of a public school facility that is being constructed, rehabilitated or repaired with the proceeds of QSCBs.

Application process: Because bonding authority is limited and the anticipated need in Minnesota will far exceed available authority, bonding authority will be allocated using a competitive process. A QSCB application form is attached. To receive consideration for bonding authority under this program, a school district must submit a completed application, together with the required attachments (project description & school board resolution), to the department by June 30, 2009. A second round of applications will be considered only if the available authority has not been allocated in the first round.

The criteria for allocation of bonding authority are as follows:

1. **Project Timeline Preference.** Priority will be given to projects meeting the following criteria:
 - Election Date in current calendar year (if needed)
 - Estimated Date of Bond Sale in current fiscal year
 - Estimated Groundbreaking Date in current fiscal year
2. **Geographic Distribution.** Allocations will be spread as evenly as possible between the seven-county metropolitan area (excluding Minneapolis and St Paul, which receive direct allocations from the U.S. Department of Education under the program) and the remainder of the state, based on total enrollment in each geographic area.
3. **QZAB Eligibility Preference.** Priority will be given to QZAB-eligible districts seeking to finance eligible projects under the QZAB program. If the authority available under QZAB is used up, projects that otherwise would have qualified under QZAB will be given priority under QSCB. In addition, these districts will be given priority under QSCB for projects not eligible under the QZAB program.
4. **Deferred Maintenance Preference.** Priority will be given to deferred maintenance projects over new construction.
5. **Resource Level Measures.** Priority will be given to districts with above-average debt service tax rates, below average adjusted net tax capacity per pupil unit, above average building age, and/or below average operating capital and unreserved general fund balances per pupil unit.
6. **Certain Projects Excluded.** Expenditures for (a) stadiums or other facilities primarily used for athletic contests or exhibitions or other events for which admission is charged to the general public, and (b) expenditures for stand-alone facilities whose purpose is not the education of children, including central office administration or operations or logistical support facilities, will not be authorized for bonding authority under this program.

Districts with qualifying projects that do not receive authority in calendar year 2009 will receive priority for bonding authority available in calendar year 2010. In addition to a detail of the proposed project, districts will be requested to acknowledge the district's responsibility to comply with prevailing wage requirements.

3. BUILD AMERICA BONDS (BAB)

Section 1531 of Title 1 of Division B of the ARRA authorizes school districts to issue taxable bonds that provide federal subsidies for a portion of the borrowing costs. The federal subsidy for BABs can take the form of a tax credit to bondholders (similar to QZAB or QSCB) or a federal subsidy payment made directly to the school district. MDE is not involved in the allocation of authority to issue BABs. However, districts must comply with all applicable state requirements when issuing BABs, including, but not limited to, review and comment for projects exceeding \$500,000 per site. Districts seeking more information about the BAB program are encouraged to contact a financial advisor with BAB issuance experience.

For further information, consult the following Websites:

- <http://www.irs.gov/pub/irs-drop/n-09-30.pdf>
Internal Revenue Service QZAB allocations and guidance
- <http://www.irs.gov/pub/irs-drop/n-09-35.pdf>
Internal Revenue Service QSCB allocations and guidance
- <http://www.irs.gov/pub/irs-drop/n-09-26.pdf>
Internal Revenue Service BAB guidance
- <http://www.ed.gov/policy/gen/leg/recovery/modernization/index.html>, and
The U.S. Department of Education
- [National Clearinghouse for Educational Facilities \(NCEF\)](#) which provides information on planning, designing, funding, building, improving, and maintaining safe, healthy, high performance schools.

How QCSBs & QZABs (Qualified Bonds) “Fit” into Existing Minnesota

Educational Finance Statutes: Since Qualified Bonds are a federal initiative, the programs do not fit cleanly into existing state educational finance statutes. Most districts will find the issuance of capital facilities bonds, alternative facilities bonds or an installment contract the easiest way to take advantage of these programs. However, there are other methods of issuing Qualified Bonds. The information below outlines the various requirements associated with the available options for Qualified Bonds financing in Minnesota.

- ***Review and Comment***

Pursuant to M.S. 123B.71, subd. 8, a Qualified Bonds funding request in excess of \$500,000 is subject to the “review and comment” process.

- ***Voter approved Qualified Bonds issuance:***

M.S. 475.58 requires voter approval for the issuance of non-exempt debt obligations. Voter approval is also a prerequisite for obtaining debt service aid. Refer to the debt service aid section below for details.

- ***Non-Voter approved Qualified Bonds issuance:***

Alternative Facilities (M.S. 123B.59, subd. 3)

Eligible alternative facilities districts or districts with eligible alternative facilities projects may issue Qualified Bonds without voter approval. For districts that qualify, health and safety aid may be available.

Facilities Bonds (M.S. 123B.62)

A district issuing Qualified Bonds as facilities bonds need not obtain voter approval unless required to do so under a reverse referendum. Note: a facilities bond obligation does not result in additional revenue to the district. The general education levy will be reduced by the amount necessary to service Qualified Bonds issued as facilities bonds.

Installment Purchases (M.S. 126C.40 & M.S. 465.71)

Districts may enter into an installment purchase contract as a means of issuing Qualified Bonds without voter approval. Levy authority for lease payments may be available if requirements under M.S. 126C.40 are satisfied.

- ***Federal Arbitrage Provisions***

Though QSCB bonds are taxable, there are federal arbitrage requirements related to sinking fund investment earnings and the timing and use of bond proceeds. Districts are encouraged to contact a financial advisor for more information.

- ***Debt Service Aid***

Pursuant to M.S. 123B.53 sub 1, obligations issued under M.S. 123B.62 (facilities bonds) are not eligible for debt service aid. However, if a district were to obtain voter approval for the issuance of QSCBs, debt service aid is a possibility. To qualify for debt service aid the dollar-weighted average maturity of a new issue must be at least 12.5 years and exhibit a relatively uniform repayment schedule.

- ***Taxpayer Notification***

Districts issuing QSCBs as facilities bonds must comply with M.S. 123B.62, regarding published notice. All districts issuing QSCBs in excess of the review and comment threshold of \$500,000, must also comply with M.S 123B.71, subd. 12, regarding published notice.

Questions should be directed to Chris Kubesh at (651) 582-8319 or chris.kubesh@state.mn.us.

Attachment: QSCB Application Form



Division of Program Finance
1500 Highway 36 West
Roseville, MN 55113-4266

QUALIFIED SCHOOL CONSTRUCTION BONDS PROGRAM APPLICATION

ED-02398-01

GENERAL INFORMATION AND INSTRUCTIONS: The following information and required attachments are necessary for applying for the Qualified School Construction Bonds (QSCB) Program. Please return completed application to the above address – Attention Chris Kubesh. If you have questions, please contact Chris Kubesh at (651) 582-8319 or e-mail: chris.kubesh@state.mn.us

DISTRICT IDENTIFICATION INFORMATION

District Name		District Number	
District Contact Person	Title	Telephone Number () -	Fax Number () -
Fiscal Agent Representing District (if any)		Telephone Number () -	Fax Number () -

REQUIRED PROGRAM INFORMATION

A. Program Intent – Indicate the planned use of the bond proceeds.

- Renovation
 New Construction
 Equipment
 Deferred Maintenance
 Land Acquisition

B. Project Description → Attached

Attach a detailed description of the proposed project, including an itemized capital budget.

C. Bond Allocation Requested – Provide the amount of QSCB authorization requested. → \$ _____

Also applying for QZAB, check here →

D. Proposed Financing Method

- GO Bonds – Voter Approved
 Capital Facility Bonds
 Alternative Facility Bonds
 Installment Contract

E. School Board Resolution → Attached

Board authorization calling for issuance of debt to fund proposed projects.

CERTIFICATION OF INFORMATION

I certify that to the best of my belief and knowledge, the information contained in this application is correct and complete. If bonding authority is received, the district will comply with all reporting requirements.

Signature – District Superintendent

Date

MDE USE ONLY

Postmark Date: _____

Application Materials Complete: _____

Initials: _____