Revised October 2010

Questions & Answers
Qualified School Construction Bonds (QSCBs)

Q: What are Qualified School Construction Bonds (QSCBs)?
A: QSCBs are tax credit bonds created under the American Recovery and Reinvestment Act of 2009 (ARRA) for school construction and renovation projects. The structuring option for QSCBs that will likely be used by the VPSA enables the locality to issue taxable bonds, and receive a federal subsidy reimbursement that is expected to completely offset the interest expense paid by the issuer. In that way, QSCBs are designed to provide zero or near zero interest to the issuer. Issuers are still responsible for repayment of principal.

Q: What types of projects can QSCBs be used for?
A: 100 percent of available project proceeds must be used for the construction, rehabilitation, or repair of public school facilities. In addition, a portion of the proceeds may be used for the acquisition of land on which a public school facility is to be constructed, and equipment to be used in the facility that is being constructed, rehabilitated or repaired with the proceeds. No more than two percent of the proceeds may be used for issuance costs.

Governor McDonnell has announced that the focus of the third round of QSCBs will be for projects that reduce local operational costs or modernize schools, such as school consolidations, elimination of student overcrowding or trailers, and replacement of facilities that are more than 35 years old. Projects that include the installation of school-wide, high-speed computer networks and projects from school divisions that have not received any prior QSCB funding from Rounds 1 and 2 will also be considered, as will local economic conditions as measured by the Composite Index or unemployment rate. Also, Governor McDonnell may, on a discretionary basis, award direct QSCB allocations to eligible projects on the Literary Fund First Priority Waiting List, to emergency projects with significant health or safety issues, or to projects with other significant extenuating circumstances.

Q: Since these are taxable bonds, are they subject to arbitrage rebate regulations?
A: Yes. Issuers must still comply with arbitrage regulations, but special exemptions are granted during the construction period and if sinking funds meet certain requirements.

Q: Are there other eligibility requirements for QSCBs projects?
A: Yes. And there are important additional federal rules that should be considered by any locality thinking about issuing QSCBs such as:

- Special Spending Rules – a binding commitment with a 3rd party to spend 10 percent of the proceeds must be entered into within 6 months of the issuance of the bonds, and 100 percent of the proceeds (including earnings thereon) must be spent within three (3) years of issuance. ANY PROCEEDS REMAINING AT

THE END OF THE THREE YEAR TEMPORARY PERIOD MUST BE USED TO REDEEM BONDS AND WILL NOT BE AVAILABLE FOR THE PROJECT.

- Davis-Bacon Act Prevailing Wage Requirements – Projects/construction contracts must be in compliance with the Davis-Bacon Act prevailing wage and labor standards established by the U.S. Department of Labor.
- Refinancing of Existing Debt – QSCB proceeds can be used to pay off interim financing. However, any such interim financing (1) cannot be a qualified tax credit bond (this would be highly unlikely), (2) must otherwise meet the requirements for qualifying expenditures for QSCB financing, and (3) must have been issued or incurred on or after March 18, 2010.

Q: What is the term (i.e., repayment period) on QSCBs?
A: The maximum term for QSCBs is set by formula by the U. S. Treasury each month, and has ranged between 14 and 16 years. Even though this term is shorter than with typical school construction financing, it still results in debt service payments significantly less than a comparable 20-year financing due to the interest rate subsidy.

Q: Is there a limit to the amount of QSCBs that can be issued?
A: Yes. The U.S. Treasury Department established state allocation limits and sets the tax-subsidy rate for QSCBs. The ARRA authorized a national cap of $11.2 billion in QSCBs in each of 2009 and 2010. Virginia was allocated $191.1 million in 2009 and $172.2 million in 2010. An additional 2010 allocation was made directly to Virginia's two Large Local Education Agencies (LEAs) by the U. S. Treasury. States may directly issue the bonds on behalf of eligible schools or they may suballocate authority to issue the bonds within the State. The remaining balance available for allocation (from the 2009 and 2010 state allocations) is $229.5 million.

Like Virginia's first two issuances of QSCBs, the third issuance will be conducted as a "pooled" issuance through the Virginia Public School Authority (VPSA), which requires each participating locality to issue general obligation debt for purchase by the Authority from the participating localities. An Executive Order will document the awarded projects, the awarded allocation amounts, and set out the parameters of the bond issuance. Under Round 3, the maximum QSCB allocation that can be awarded per division (for one or multiple projects) will be $15 million.

Q: Can Virginia's remaining calendar year 2009 and total calendar year 2010 QSCB allocation be carried forward to calendar year 2011 if necessary?
A: Yes. Any remaining 2009 or 2010 allocation not issued by December 31, 2010, may be carried forward for issuance in calendar year 2011.

The U.S. Treasury Department's guidance on the QSCB program can be found at:
http://www.irs.gov/pub/irs-drop/n-09-26.pdf; *http://www.irs.gov/pub/irs-drop/n-10-17.pdf*;
http://www.irs.gov/pub/irs-drop/n-10-35.pdf.