

## Boston Sells ARRA Qualified School Construction Bonds

*First Massachusetts city to sell new stimulus QSCB tax credit bonds*

The City of Boston successfully sold \$20M of Qualified School Construction Bonds (QSCB) at no interest cost which will generate a net present value savings of \$3.6M. This tax credit bond issue was purchased in a competitive process on October 28 by Guggenheim Partners, LLC for which it will receive Federal tax credits. The City will substitute the \$20M in QSCBs for the same amount of General Obligation (GO) bonds planned for school capital projects this year and save the cost of interest payments. Several investors expressed interest in the City's competitive QSCB sale, but in the end only Guggenheim Partners, LLC submitted a bid. Boston is the first city in Massachusetts or New England to issue QSCBs.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides a new funding alternative for capital spending for primary and secondary school building projects. The new Qualified School Construction Bond program provides investors with quarterly tax credits from the Federal government, thereby significantly reducing or eliminating the interest paid by the City to investors in traditional GO bond issues. The tax credits can only be used as a direct offset against Federal income tax liabilities.

The ARRA provides for \$11B of QSCB authority in each of CY2009 and CY2010 to states and school districts, with 40% of the allocation distributed to the 100 largest local school districts. Boston's QSCB allocation has been established at \$37M for each calendar year for a total of \$74M. The bond allocation can be carried over to future years so the City should be able to issue QSCBs for the next 2-3 years.

QSCBs are required to be structured with a maximum 15-year final maturity compared to the 25-30 year maturity of typical GO bond issues. Boston's QSCBs were sold as a bullet maturity with no amortization which means the full principal maturity is paid at one time in the 15<sup>th</sup> year. The City will set up a sinking fund and make level payments quarterly so that the \$20 million will be available for full principal payment in 2024.

The City is scheduled to spend \$31.7M on school capital projects in FY10. QSCB proceeds will support exterior renovations, fire alarm replacements and masonry or concrete repairs at various schools. Work also will include reorganization plan renovations for selected schools as part of the Superintendent's Pathway to Excellence program.