November 20, 2015

Illinois State Board of Education Approves Allocation Guidelines for QSCBs

*Today, the Illinois State Board of Education (ISBE) approved allocation guidelines and an application process for Qualified School Construction Bonds ("QSCBs"). Pursuant to such guidelines and process, ISBE expects to allocate **$495,602,000** in volume limitation for QSCBs to school districts.*

QSCBs are taxable bonds that may be issued by state or local governments (such as school districts) to finance the construction, rehabilitation, or repair of a public school facility. Up to two percent of the proceeds of the QSCBs can generally be used to pay costs of issuance of the bonds. Issuers may also finance the acquisition of land if the public school facility to be constructed with the QSCBs will be located on such land. Issuers may also finance the acquisition of equipment and furniture if it is to be used in the portion of the public school facility that is being constructed, rehabilitated or repaired with proceeds of the QSCBs.

Tax Credit Qualified School Construction Bonds

Owners of tax credit QSCBs will receive a tax credit if they own QSCBs on one or more quarterly credit allowance dates. The federal tax credit provided to the owners of tax credit QSCBs offset their regular federal income tax liability. The amount of the credit is treated as interest to the owners of the QSCBs and is included in their gross income. The owners will generally receive the credit if they hold tax credit QSCBs on one or more quarterly credit allowance dates.

The amount of the credit with respect to any quarterly credit allowance date is twenty-five percent of the annual credit determined with respect to the QSCB. The applicable credit rate (and the maximum maturity for the bonds) is determined as of the first day on which there is a binding, written contract for the sale or exchange of the bonds (the *"Credit Date"*). The credit rate is generally determined daily and is published at https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm

Direct Pay Qualified School Construction Bonds

Instead of issuing *tax credit* QSCBs, the issuer could elect to issue *direct pay* QSCBs. Issuers of direct pay QSCBs will pay taxable interest to the owners of the bonds and are entitled to receive direct subsidy payments for all or a portion of the interest payable on such bonds. Owners of direct pay QSCBs will only receive taxable interest on the bonds and will not receive tax credits or direct subsidy payments.

The amount of the direct subsidy payment to the issuer is equal to the lesser of (i) the interest payable on the direct pay QSCBs on each interest payment date or (ii) the amount of interest that would be payable on the QSCB if the credit rate published at https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm on the Credit Date was the interest rate on the bond. The maximum maturity for the bonds is also determined on the Credit Date. Please note that the federal sequester is currently reducing the direct subsidy payment by an annual percentage determined by the federal government each federal fiscal year. Such reduction *might* be discontinued by the federal government in the future if certain budget goals are met.

Other General Requirements of QSCBs

- The issuer must reasonably expect to incur a binding commitment with a third party within six months of the date of issuance to spend at least ten percent of QSCB proceeds

- The issuer must reasonably expect to spend (and must actually spend) 100 percent of the proceeds of the issue within three years of the date of issuance of the QSCBs (although this period may be extended by the Secretary of the Treasury under certain circumstances) or the issuer must generally redeem an amount of QSCBs as set forth in the regulations

- Wage rate requirements and certain labor standards set forth in Subchapter IV of Chapter 31 of Title 40, United States Code (the Davis-Bacon Act), apply to projects financed with the proceeds of QSCBs

- Modified rules governing certain investments of bond proceeds and rebate of such proceeds to the federal government apply to QSCBs
- Issuers of direct pay QSCBs must file forms with the IRS to receive the direct federal subsidy
- Issuers must file an information return, Form 8038-TC, *Information Return for Tax Credit Bonds and Specified Tax Credit Bonds*, with the IRS

For More Information

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