

## Federal Subsidies to Issuers of Build America Bonds and Direct Pay Tax Credit Bonds are being Reduced by Sequestration

On March 1, 2013, President Obama issued an order for certain automatic cuts to federal spending. President Obama issued the order under a “sequestration” law previously enacted by Congress. The automatic cuts to federal spending include a reduction in federal payments to issuers of Build America Bonds and certain direct pay tax credit bonds, including Qualified Zone Academy Bonds (QZABs).

In August 2011, Congress voted for the threat of “sequestration” of certain federal funds, which means automatic across-the-board cuts in certain categories of federal spending, as a mechanism to force itself to act on deficit reduction. Sequestration was originally scheduled to begin in January, 2013, but Congress delayed the implementation of sequestration for two months - from January, 2013 to March, 2013.

The cuts to federal spending are set forth in a report prepared by the Office of Management and Budget (the “OMB”), which was released on March 1, 2013 (the “OMB Report”). The OMB Report sets forth the cuts to payments that are scheduled to be made by the federal government to: (i) issuers of Build America Bonds (BABs), including Recovery Zone Economic Development Bonds (RZEDBs), (ii) Qualified Zone Academy Bonds (QZABs), (iii) Qualified School Construction Bonds (QSCBs), (iv) Qualified Energy Conservation Bonds (QECBs), and (v) New Clean Renewable Energy Bonds (NCREBs). The OMB Report shows a total reduction of \$218 million from an original budget amount of \$4.265 billion for the 5 categories of bonds affected.

The OMB Report states that the reduction in payments to issuers of Build America Bonds and other direct pay bonds would be 5.1 percent. However, the current sequester is for the entire fiscal year ending September 30, 2013. Accordingly, since the spending cuts were not implemented at the beginning of the fiscal year in October, the spending cuts will take place over a period of under seven months, rather than over a period of twelve months from the beginning of the fiscal year, and OMB estimates that the effective rate of the reductions to direct pay bonds may be higher.

The Internal Revenue Service is expected to release details concerning the reduction in payments to issuers of Build America Bonds and direct pay tax credit bonds and we will forward those details to you in future Client Alerts as the information becomes available.

To discuss any of the topics covered in this Alert, please contact Brent Feller at (312) 845-3822 or visit us online at [chapman.com](http://chapman.com).

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