



TEXAS EDUCATION & FACILITIES FUND

Administered by Government Capital Corporation



Qualified School Construction Bonds

Ed King

Vice President



About Us

The Texas Education & Facilities Fund is a pooled program for tax-credit financings (such as QSCBs) and administered by Government Capital Corporation, based in Southlake, Texas.

Government Capital is a leading public finance firm with expertise in structuring and placing various types of debt instruments for state and local government agencies. We have served over 200 school districts in the state of Texas alone with fundings totaling over \$1 Billion.

What our clients say

“Government Capital did a great job for the District and their expertise saved us over \$350,000 in interest cost compared to standard tax-exempt structures. This allows us to both maintain our reserves and complete these important facility upgrades.”

- O.K. Wolfenbarger III, Superintendent of Comstock ISD

“Government Capital’s expertise and knowledge of QSCBs saved the District thousands of dollars in borrowing costs which helps us maximize our local revenues.”

- Dr. David Faltys, Superintendent of Carroll ISD

What our clients say

“We really benefited from Government Capital’s expertise and ability to structure QSCBs efficiently”

- Michael White, Superintendent of Bloomburg ISD

“Government Capital did a great job for the District. Their expertise saved us thousands of dollars in borrowing costs and allowed us to both maintain our reserves and maximize the stimulus dollars that were available to us.”

- Vic Salazar, Superintendent of Gonzales ISD

“The Government Capital QSCB program has allowed us to complete needed projects while preserving our fund balance reserves. We are excited about getting started on our projects and appreciate the GCC team that worked to make this happen.”

- Kevin Allen, Superintendent of Iraan-Sheffield ISD

What are QSCBs?

- Title I of Division B of the American Recovery and Reinvestment Act of 2009 (ARRA) authorizes the issuance of QSCBs by public school districts to be used for the construction, rehabilitation, or repair of a public school facility, or for the acquisition of land on which such a facility is to be constructed.
- School districts are able to borrow money at zero interest, or very low interest rates, for a term not to exceed 15 years.
- The bonds can be in any form of indebtedness (maintenance tax notes, time warrants, GO bonds, etc.)
- The lender receives tax-credits in lieu of interest.

Example – QSCB vs. Tax-Exempt

- \$5,000,000 bond or note – 15 years (maximum term of QSCB)
- QSCB Interest Rate 1.25% - TOTAL INTEREST COST \$514,484
- Tax-Exempt Rate 4.25% - TOTAL INTEREST COST \$1,864,031

QSCB saves over \$1.3 Million of interest cost

Do we have to hold a bond election?

- Yes, if the project is new construction with a couple of exceptions (see below).
- No, if the project is renovations.
 - A. Time Warrants - authorized under Texas Education Code, §45.103 – may be issued in an amount not to exceed \$500,000 for a maturity not to exceed five years. This means you could complete a new construction project of \$500,000 or less, issue time warrants as QSCBs, make the payments out of M&O and not have to call an election.
 - B. Public Facilities Corporation - authorized under Local Government Code, §271.005 – allows districts to create a conduit (the facilities corp) which will issue the QSCBs, own, and lease the new facility to the District. The District is able to use M&O dollars to make annual payments to the conduit as a facilities lease payment, thus avoiding an I&S levy and requisite election.

What types of projects qualify?

- Construction, rehabilitation, or repair of a public school facility including athletic facilities.
- The acquisition of land on which such a facility is to be constructed.
- Equipment to be used in such portion or portions of the public school facility that is being constructed, rehabilitated, or repaired with the proceeds of QSCBs.
- May not be used for refunding existing debt.

Who Is Eligible?

- All school districts are eligible.
- Texas received \$1 Billion with 40% of this going directly to the 15-18 largest districts.
- The remaining school districts must apply through TEA.
- TEA will soon publish the 2010 application and the allotment formulas which will most likely provide for a minimum of \$5 Million per district plus an amount based upon PEIMS enrollment over 400.

How do we qualify?

- Qualification is based upon completing the TEA application and having a qualifying project.
- **NOTE: TEA allotment is first come, first served.**

Other requirements?

- In addition to the application, a District must acknowledge its intent to comply with prevailing wage scale requirements of the Davis-Bacon Act.
- Bonds or notes must be issued within 6-12 months of receiving TEA approval
- 10% must be spent within 6 months of issuance of debt

Interest Rates

There are now two options for receiving the reduced interest cost benefit.

1. Lender Tax Credit Option
2. Direct Subsidy

All of the 2009 closings shown here were Lender Tax Credits as the Direct Subsidy option only became available in April 2010.

Iraan-Sheffield	0.30%	Atlanta ISD	1.05%
Hermleigh ISD	1.01%	Nixon-Smiley ISD	1.01%
Valley View ISD	1.50%	Gonzales ISD	0.89%
Groesbeck ISD	0.91%	Carroll ISD	0.30%
Comstock ISD	1.15%		

Lender Tax Credit Option

- Lender received tax-credit based upon tax credit yield
- Lender applies tax credits over the 15 year term
- School pays net interest (.30-1.70% historically) and has no additional requirement regarding applying for the interest tax credit

Example:

Yield Required by Lender	7.00%
Tax-Credit Yield	6.00%
Net Interest Rate	1.00%

Direct Subsidy Option

Hiring Incentives to Restore Employment Act (HIRE) of 2010

- District can elect to receive a direct cash subsidy from the U. S. Treasury in lieu of lender receiving tax credit
- Subsidy = the lesser of the tax credit rate or the taxable interest rate
- The election for issuing tax credit or direct cash subsidy bonds is irrevocable
- The school district then must file (prior to an interest payment date as described below) IRS Form 8038-CP to receive a subsidy payment.
- To insure timely receipt of the subsidy, Form 8038-CP must be filed no more than 90 days before nor less than 45 days before the interest payment is due. Late filing of Form 8038-CP may delay the receipt of the interest refund (forms filed after the statutory 3-year period of limitations may be barred).

Example

Market rate	6.25%
Tax Credit Yield	6.00%
Interest Rate Paid By District	6.25%
Rebate from US Treasury	(6.00%)
Net Interest Rate	0.25%

Considerations

- Lower net interest rate – potentially 0%
- Administrative burden and risk is shifted from lender to the school district
- Higher issuance costs - district comes out of pocket for anything over 2%
- Exposed to interest rate risk until bonds sell

Evaluate both options, make decision based upon long term administrative and risk criteria, as well as interest rate.



Thank you

Texas Education & Facilities Fund
Government Capital Corporation
345 Miron Drive
Southlake, Texas 76092

Ed King, Vice President
ed@govcap.com
(817) 722-0236 office
(817) 319-1637 cell