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Rockefeller Bill Would Extend QZABs, QSCBs Through 2015

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By [Patrick Temple-West](#)

Sen. John D. Rockefeller, D-W.Va., has introduced legislation to extend stimulus law authorizations for qualified zone academy bonds and qualified school construction bonds through 2015 and allow the debt to be issued with federal payments to issuers.

The QSCB and QZAB direct-pay bonds would be similar to Build America Bonds, but could only be used for schools and would have federal subsidy rates equal to 100% of interest costs, under the bill, S. 796.

The QSCBs, which can be used for school construction, were created by the American Recovery and Reinvestment Act of 2009. The ARRA authorized \$22 billion of them to be issued. Though most ARRA programs expired at the end of 2010, issuers are still selling their unused allocated amounts from 2009 and 2010.

The QZAB program, which has been around since 1997 and permits these bonds to be used for school rehabilitation, received a \$1.4 billion allocation under the ARRA and then another \$400 million under the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, which was enacted last December.

Under ARRA, QSCBs and QZABs were tax-credit bonds, allowing bondholders to receive tax credits in lieu of interest payments. But both programs were adjusted in March 2010 under the Hiring Incentives to Restore Employment Act, which gave issuers the option of selling QSCBs and QZABs as direct-pay bonds with federal subsidy payments equal to 100% of their interest costs.

However, the HIRE Act stipulated that the \$400 million of authority it provided for 2011 was only for tax credit QZABs, not direct-pay bonds.

Still, issuers with QZAB allocations in the nine-month window from March 2010 to the end of that year for the direct-pay subsidy option can still sell the bonds with the BAB-style subsidy.

The QSCB and QZAB tax-credit bond programs have been lackluster with relatively low issuance levels. The credit rate for tax-credit bonds is set by the Treasury Department. Many issuers have had to offer supplemental interest coupons to boost yield and attract buyers.

However, the direct-pay bonds were popular with issuers and investors.

Rockefeller's bill would, in certain circumstances, waive the 10% matching requirement from private parties for QZABs, which the senator said proved to be "a significant barrier" to the issuers.

Roughly \$11.1 billion of QSCBs have been issued over the life of the program through Tuesday, according to Thomson Reuters.

Another \$1.4 billion of QZABs have been issued over the life of that program from 1998 through Tuesday, but Thomson Reuters does not distinguish tax-credit bonds from direct-pay bonds. About \$287 million of the bonds were sold in 2010 and 2011, when the direct-pay option was available – almost equal to the \$293.5 million total amount of QZABs sold over the previous six years when they could only be issued as tax-credit bonds.

Meanwhile, Rep. Earl Blumenauer, D-Ore., last week introduced a bill last week to broaden the qualified veterans' mortgage bond program.

Qualified veterans' mortgage bonds are private-activity bonds that are general obligations of a state issued to fund mortgage loans to finance owner-occupied residential property for veterans.

Blumenauer claims the bill would help provide affordable mortgages for an additional 264,000 veterans.

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