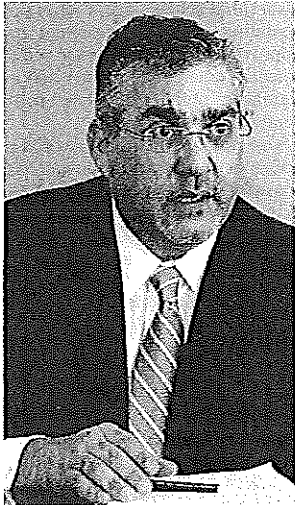


## Tax-credit bonds will be issued under ARRA



*Fernando Batlle Hernalz,  
GDB executive vice president in  
charge of financing & treasury*

Tucked away in the American Recovery & Reinvestment Act (ARRA) economic stimulus package is a potential boon for Puerto Rico's public-school infrastructure with its creation of a new category of tax-credit bonds for the construction, rehabilitation, or repair of public-school facilities or for the acquisition of land on which a public-school facility will be constructed.

Puerto Rico is in line to issue some \$752 million in Qualified School Construction Tax Credit Bonds (QSCBs) over the next two years.

"The law authorizes the amount of QSCBs that may be issued by state and local governments at \$22 billion. Puerto Rico received an allocation of \$376 million for 2009 and should receive a similar amount for 2010, for a total of approximately \$752 million. The allocation is the third largest after California (\$1.547

billion) and Texas (\$1.077 billion)," said Fernando Batlle, GDB executive vice president for financing & treasury.

Batlle explained the QSCBs provide a federal tax credit equal to 100% of the interest component of bonds issued. That could save Puerto Rico millions in interest payments and provide an incentive for school infrastructure projects.

"The tax credits will make construction projects more affordable and more attractive to investors by providing an extremely cost-effective source of financing," he said.

### **\$123.5 MILLION IN QUALIFIED ZONE ACADEMIC BONDS**

ARRA also provides for a \$2.8 billion nationwide allocation of Qualified Zone Academic Bonds (QZABs), of which Puerto Rico received \$123.5 million, the fifth-largest state allocation.

Batlle explained that QZABs can be issued by schools where 35% of the students qualify for free or reduced-price school lunches. At least 85% of the proceeds must be used for rehabilitation or repair of public schools.

QZABs were created in 1997 and have been limited in scope. The 2006 and 2007 national allocation was for only \$400 million per year but the program was dramatically expanded under ARRA.

To issue QZABs, the school must create a partnership with businesses and/or private entities, which must make a contribution to the school worth at least 10% of the money borrowed. Private contributions can include cash, equipment or services (including curriculum development and training). ■

—C.M.

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## PPPs will cover design, improvements and maintenance of public schools

The Fortuño administration will look to public-private partnerships (PPPs) for the critical tasks of upgrading public schools by granting design-build-maintenance contracts to expedite the construction, modernization and rehabilitation process.

"School PPPs will allow greater efficiency in refurbishment and ongoing maintenance without compromising control of the academic program. A clear set of goals for construction, improvements, maintenance performance and budget compliance will be implemented," said Public Buildings Authority (PBA) Executive Director Jesús Méndez.

The PPP plan aims to establish partnerships geared to substantially improve school infrastructure and maximize available financing vehicles for the immediate construction, rehabilitation and consolidation of public-school facilities.

The administration is expected to issue requests for qualifications (RFQs) in the first quarter of 2010 for a master plan to assess existing conditions of the public education infrastructure system. The plan should define short, intermediate and long-term goals to enhance the system. It will also involve the design of a work plan to accomplish the established goals including, but not limited to, the implementation of a design-build-maintenance

program, as well as metrics to measure the quantitative and qualitative progress accomplished. Experienced companies in this field participated during the administration's recent PPP conference and indicated interest in these projects.

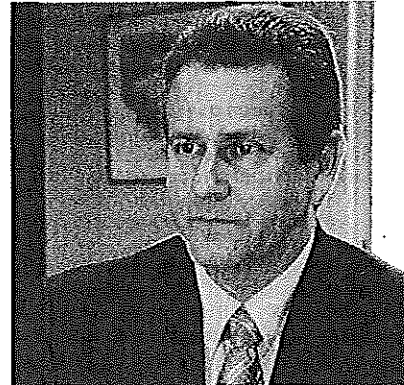
Tapping PPPs will allow for the transfer of construction and ongoing maintenance cost risk from the public sector to the private sector, providing budget certainty.

"We must separate education from facilities management. That way the Education Department will be able to focus on delivery of academic programs," said Méndez.

The PBA chief noted public-school PPPs have been successfully implemented in a host of jurisdictions including the U.S. mainland, Canada, Ireland, Australia and the United Kingdom. (See sidebar.)

"A possible school PPP structure could be the participation of the private sector through a special purpose school company (SPSC), which enters into a concession agreement with a contracting government agency. The SPSC would be responsible for building or rehabilitating and maintaining the schools in exchange for annual payments to cover operation and maintenance," Méndez said.

"Given the availability of federal American Recovery & Reinvestment Act (ARRA) programs,



*Jesús F. Méndez, GDB executive vice president  
in charge of administration, operations, and  
controllership & executive director of the PBA*

PPP contracts will likely have design-build-maintain features mitigating, to a certain extent, the capital and financing requirement. Initial projects will be granted through 2010," he said. ■

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