



State of Tennessee

*Secretary of State Tre Hargett
State Comptroller Justin P. Wilson
State Treasurer David H. Lillard, Jr.*

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Communities Receive School Construction Loans with No Net Interest Costs

Fifteen Tennessee communities will receive loans for new construction projects through the state's Qualified School Construction Bond program with no net interest costs.

In July, the Tennessee State School Bond Authority (TSSBA) approved \$212 million in loans for school systems in 15 counties. The bonds to finance the loans were sold last week.

The U.S. Treasury Department subsidizes the interest costs on bonds sold through the program based on the current federal tax credit rate.

The bonds were sold at an interest rate of 4.848 percent (the bond interest rate) while the tax credit rate was 4.91 percent. Since the bond interest rate was lower than the tax credit rate, the interest cost to the borrowers will be zero.

The anticipated closing date for the bonds is October 7, 2010.

The bond proceeds will be invested in the Local Government Investment Pool until the school districts need them to cover expenses related to their construction projects. Interest earnings on the investment of bond construction proceeds will be spent on the qualified school projects. In addition, since the borrowers' principal payments accumulate and earn interest as well, the net loan costs may be less than the amount that was initially borrowed.

"What this means is the communities participating in the Qualified School Construction Bond program this year are getting, in essence, interest-free loans," said Comptroller Justin P. Wilson, who serves on the TSSBA.

"Given the challenges in our economy today, this is a terrific shot in the arm for local governments as they grapple with construction needs for their school systems," said Treasurer David H. Lillard Jr., another TSSBA member.

"I applaud members of the General Assembly for creating the Qualified School Construction Bond program, which has once again shown its value for school districts in need of low-cost financing," said Secretary of State Tre Hargett, another TSSBA member.

The Qualified School Construction Bond program allows communities to borrow money to build or repair schools, purchase land for future construction projects or purchase equipment used in connection with qualified school construction projects.

Last year, the TSSBA approved \$177 million in loans to 13 local governments across the state. Those loans are being repaid over a 17-year period at an interest rate of 1.515 percent.

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