

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2009

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SENATE BILL 754  
Finance Committee Substitute Adopted 4/29/09  
PROPOSED HOUSE COMMITTEE SUBSTITUTE S754-PCS55407-SVx-29

Short Title: Changes for Bonds Authorized Under ARRTA.

(Public)

Sponsors:

Referred to:

March 24, 2009

1 A BILL TO BE ENTITLED  
2 AN ACT TO AMEND THE NORTH CAROLINA GENERAL STATUTES TO ALLOW THE  
3 STATE TO TAKE FULL ADVANTAGE OF THE EXPANSION OF EXISTING BOND  
4 PROGRAMS AND THE CREATION OF NEW BOND PROGRAMS UNDER THE  
5 AMERICAN RECOVERY AND REINVESTMENT TAX ACT OF 2009 (ARRTA).

6 The General Assembly of North Carolina enacts:

7 **SECTION 1.** Article 34B of Chapter 115C of the General Statutes reads as  
8 rewritten:

9 "Article 34B.

10 "Qualified Zone Academy ~~Bonds~~ Bonds and Qualified School Construction Bonds.

11 "**§ 115C-489.5. Qualified zone academy ~~bonds~~; bonds and qualified school construction**  
12 **bonds; findings.**

13 The General Assembly finds:

- 14 (1) Section 226 of the Taxpayer Relief Act of 1997, as codified at ~~26 U.S.C. §~~  
15 ~~1397E~~, 26 U.S.C. § 54E, provides funds for school improvements through  
16 taxable qualified zone academy bonds. Ninety-five percent (95%) or more of  
17 the proceeds of a qualified zone academy bond issue must be used for a  
18 qualified purpose with respect to a qualified zone academy established by an  
19 eligible local education agency.
- 20 (2) Partnerships between private entities and local schools are promoted through  
21 the use of qualified zone academy bonds. Issuers must certify that they have  
22 received written commitments from one or more private entities to make  
23 qualified contributions valued at ten percent (10%) of the proceeds of the  
24 issue.
- 25 (2a) Section 1521, et seq., of the American Recovery and Reinvestment Tax Act  
26 of 2009 (ARRTA), enacted as 26 U.S.C. § 54F, provides a new source of  
27 funds for construction, rehabilitation, or repair of public school facilities or  
28 for acquisition of land for public school facilities through the issuance of  
29 qualified school construction bonds.
- 30 (3) Eligible taxpayers may receive federal tax credits for holding the qualified  
31 zone academy ~~bonds~~ bonds or qualified school construction bonds. It is  
32 intended that the qualified zone academy bonds and qualified school  
33 construction bonds be sold at ~~par value~~ a price so that the tax credits



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1 received ~~are instead~~ produce the economic equivalent of interest that  
2 otherwise would have been paid on the bonds. Therefore, issuers of qualified  
3 zone academy bonds or qualified school construction bonds are obligated to  
4 repay the principal amount of the qualified zone academy bonds or qualified  
5 school construction bonds but need not make interest payments.

- 6 (4) Applicable federal law limits the amount of qualified zone academy bonds  
7 and qualified school construction bonds that may be issued in North  
8 Carolina in a calendar year. The amount of qualified school construction  
9 bonds that may be issued in the State is divided between amounts  
10 specifically designated for identified local school districts pursuant to  
11 ARRTA ("local allocation") and amounts allocated to the entire State for use  
12 throughout the State ("statewide allocation").

13 **"§ 115C-489.6. Administration; consultation; issuance of bonds.**

14 (a) ~~State Board of Education to Administer QZAB Program.~~ – The State Board of  
15 Education is designated the State education agency responsible for administering the qualified  
16 zone academy bond program in North Carolina for the purposes of ~~26 U.S.C. § 1397E.26~~  
17 U.S.C. § 54E. The State Board of Education shall perform all activities required to implement  
18 and carry out the qualified zone activity bond program in North Carolina. Those activities  
19 include:

20 ...

21 (a1) Qualified School Construction Bond Program. – The State Board of Education is  
22 designated the State education agency responsible for administering the statewide allocation of  
23 authority to issue qualified school construction bonds under 26 U.S.C. § 54F. The State Board  
24 of Education shall perform all activities required to implement and carry out the statewide  
25 allocation for the qualified school construction bond program in North Carolina. Those  
26 activities include:

- 27 (1) Designing an application process under which proposals may be solicited  
28 from issuers wishing to issue qualified school construction bonds pursuant to  
29 the statewide allocation.  
30 (2) Awarding the State's allocation of total funds among selected applicants and  
31 establishing conditions upon the usage of the allocation. These conditions  
32 may include:  
33 a. Requiring that the bond proceeds be used for purposes permitted  
34 under 26 U.S.C. § 54F.  
35 b. Conditions designed to assure that the allocation is used in a timely  
36 manner and that the allocations are made in accordance with the  
37 requirements of federal statutes, regulations, and rulings.  
38 (3) Confirming that the terms of any qualified school construction bonds issued  
39 in accordance with this program are consistent with the terms of the federal  
40 program.  
41 (4) Acting as the State entity designated to receive notice from any local school  
42 district that it will not utilize its local allocation so that the unused resource  
43 will become part of the statewide allocation. Local school districts receiving  
44 a local allocation are hereby directed to coordinate the use of such allocation  
45 with the State Board of Education so that any local allocation that will not be  
46 used by the local school district becomes eligible for use as part of the  
47 statewide allocation.

48 (b) Assistance. – The Department of Public Instruction shall provide the State Board of  
49 Education any support it requires in carrying out this section.

50 (c) Consultation. – In reviewing applications and awarding allocations, the State Board  
51 of Education shall consult with the Local Government Commission to determine whether a

1 prospective issuer of qualified zone academy bonds or qualified school construction bonds is  
2 able to issue or incur marketable obligations.

3 (d) Issuance of Bonds. – Any ~~bonds designated as~~ qualified zone academy bonds or  
4 qualified school construction bonds may be issued pursuant to the applicable provisions of and  
5 in compliance with the Local Government Bond Act, Article 4 of Chapter 159 of the General  
6 Statutes, or pursuant to the applicable provisions of and in compliance with G.S. 160A-20, to  
7 the extent authorized by G.S. 153A-158.1. As provided in G.S. 159-123(b), ~~bonds designated~~  
8 ~~as~~ qualified zone academy bonds or qualified school construction bonds to be issued pursuant  
9 to the Local Government Bond Act may be sold by the Local Government Commission at  
10 private sale."

11 **SECTION 2.** G.S. 143-433.6 is amended by adding two new subsections to read:

12 "(c) The General Assembly further finds and determines that section 1400U-3 of the  
13 American Recovery and Reinvestment Tax Act of 2009 (ARRTA) added a new type of exempt  
14 facility bond called "recovery zone facility bonds" to be used to finance construction,  
15 renovation, and equipping of recovery zone property for use in any trade or business in a  
16 recovery zone, all as defined in ARRTA, and a new type of governmental bond called  
17 "recovery zone economic development bonds." The ARRTA provides a formula for allocation  
18 of authority to issue recovery zone facility bonds and recovery zone economic development  
19 bonds to the states and by which the authority is to be reallocated by the State to counties and  
20 large municipalities within the State.

21 (d) The General Assembly further finds and determines that section 54D of the Internal  
22 Revenue Code of 1986, as amended, permits the issuance of tax credit bonds called "qualified  
23 energy conservation bonds" (QECBs), the proceeds of which must be used for certain energy  
24 conservation purposes enumerated in section 54D. Section 54D and ARRTA provide a national  
25 bond limitation for the issuance of QECBs, and the Treasury Department has allocated that  
26 authority among the states. Under section 54D, the United States is required to reallocate the  
27 authority to issue QECBs to the counties and large local governments within the states based on  
28 population, in accordance with the guidelines provided by the Treasury Department, and to  
29 assure that not more than thirty percent (30%) of the QECBs issued in a state are used for  
30 private activity bonds, as defined in section 54D."

31 **SECTION 3.** G.S. 143-433.8 reads as rewritten:

32 **"§ 143-433.8. Duties.**

33 The Committee shall perform the following duties:

- 34 (1) Manage the allocation of private activity bonds, low-income housing credits,  
35 ~~and~~ qualified public educational facility ~~bonds-bonds,~~ recovery zone facility  
36 bonds, recovery zone economic development bonds, and qualified energy  
37 conservation bonds and receive advice from bond issuers, elected officials,  
38 and the General Assembly.
- 39 (2) Continue to monitor bond markets, economic development financing trends,  
40 school financing trends, housing markets, and tax incentives available to  
41 induce events and programs favorable to North Carolina, its cities and  
42 counties, and individual citizens.
- 43 (3) Continue to study the ways in which North Carolina can best and most fairly  
44 manage and utilize the allocation of private activity bonds, low-income  
45 housing credits, ~~and~~ qualified public educational facility ~~bonds-bonds,~~  
46 recovery zone facility bonds, recovery zone economic development bonds,  
47 and qualified energy conservation bonds.
- 48 (4) Report to the Governor, Lieutenant Governor, the Speaker of the House of  
49 Representatives, the President Pro Tempore of the Senate, and the Revenue  
50 Laws Study Committee as requested and on not less than an annual basis.  
51 The annual report is due by November 1 of each year."

**SECTION 4.** G.S. 143-433.9(a) reads as rewritten:

"(a) To provide for the orderly and prompt issuance of ~~private activity bonds and qualified public educational facility bonds, there are hereby proclaimed bonds~~ the allocation of which is managed under this Article, the Committee must follow formulas for allocating the following: (i) the unified volume limitation, (ii) the state housing credit ceiling, ~~and~~ (iii) the annual aggregate limitation on the face amount of qualified public educational facility ~~bonds, bonds,~~ (iv) the limitation on issuance of recovery zone facility bonds, (v) the limitation on issuance of recovery zone economic development bonds, and (vi) the limitation on issuance of qualified energy conservation bonds. The unified volume limitation for all issues of private activity bonds, other than qualified public educational facility ~~bonds, bonds and recovery zone facility bonds,~~ in North Carolina shall be considered as a single resource to be allocated under this Article. The annual aggregate limitation on the face amount of qualified public educational facility bonds for all issues in North Carolina shall be considered as a single resource to be allocated under this Article. The Committee shall issue the following: (i) allocations of the unified volume limitation, (ii) allocations of the state housing credit ceiling, ~~and~~ (iii) allocations and reallocations of the aggregate limitation on the face amount of qualified public educational facility ~~bonds, bonds,~~ (iv) allocation and reallocation of the authority for issuance of recovery zone facility bonds allocated to the State, (v) allocation and reallocation of the authority for issuance of recovery zone economic development bonds allocated to the State, (vi) allocation and reallocation of authority for issuance of qualified energy conservation bonds allocated to the State, and (vii) allocation of other limitations on authority to issue bonds as may be directed by the Governor. The Committee shall set forth procedures for making such allocations and in the making of such allocations shall take into consideration the best interest of the State of North Carolina with regard to the economic development, school facility needs, energy conservation, green initiatives, and general prosperity of the people of North Carolina. In making the initial allocations for recovery zone facility bonds and recovery zone economic development bonds, the Committee shall follow the formula provided in section 1400U-1(a)(3) of ARRTA. In making the initial allocation for qualified energy conservation bonds, the Committee shall follow the guidelines provided in section 54D of the Internal Revenue Code of 1986. The Committee shall make all elective carryforwards of the unused unified volume ~~limitation and limitation,~~ the annual aggregate limitation on the face amount of qualified public educational facility ~~bonds on behalf of the State, bonds, recovery zone facility bonds, qualified energy conservation bonds, and any other bonds or tax credits over which it has allocation authority on behalf of the State.~~ The Committee shall monitor the issuance of qualified energy conservation bonds to ensure that not more than thirty percent (30%) of such bonds are used for purposes that would be treated as private activity bonds under the Internal Revenue Code of 1986, as amended. The Committee is authorized to establish a procedure to monitor whether the initial allocations of recovery zone facility bonds or recovery zone economic development bonds to counties and large municipalities pursuant to ARRTA will be utilized, for an allocation that will not be utilized to be waived by notice to the Committee, and for the reallocation of the waived allocation to other projects that qualify pursuant to ARRTA."

**SECTION 5.** G.S. 159-123(b) reads as rewritten:

- "(b) The following classes of bonds may be sold at private sale:
- (1) Bonds that a State or federal agency has previously agreed to purchase.
  - (2) Any bonds for which no legal bid is received within the time allowed for submission of bids.
  - (3) Revenue bonds, including any refunding bonds issued pursuant to G.S. 159-84, and special obligation bonds issued pursuant to Chapter 159I of the General Statutes.
  - (4) Refunding bonds issued pursuant to G.S. 159-78.

- 1 (5) Refunding bonds issued pursuant to G.S. 159-72 if the Local Government
- 2 Commission determines that a private sale is in the best interest of the
- 3 issuing unit.
- 4 (6) ~~Bonds designated as qualified zone academy bonds pursuant to~~
- 5 ~~G.S. 115C-489.6, the ownership of which results in a tax credit to the~~
- 6 ~~owners thereof pursuant to the provisions of the federal income tax laws if~~
- 7 ~~the Local Government Commission determines that a private sale is in the~~
- 8 ~~best interest of the issuing unit.~~
- 9 (7) Project development financing debt instruments.
- 10 (8) General obligation bonds issued pursuant to the Local Government Bond
- 11 Act that have been rated by a nationally recognized credit rating agency at a
- 12 credit rating below "AA" (or comparable category if stated differently) or
- 13 that are unrated and that are not described in subdivisions (1) through (7) of
- 14 this subsection that are sold prior to December 31, 2010.
- 15 (9) Bonds that are part of an issue in which the interest payments on some or all
- 16 of the bonds is intended to be subsidized by payments from the federal
- 17 government pursuant to the provisions of the federal tax laws, if the Local
- 18 Government Commission determines that a private sale is in the best interest
- 19 of the issuing unit."

20 **SECTION 6.** G.S. 159C-3 reads as rewritten:

21 **"§ 159C-3. Definitions.**

22 The following definitions apply in this Chapter:

- 23 ...
- 24 (3a) Code. – The Internal Revenue Code of 1986, as amended.
- 25 ...
- 26 (6b) Industrial project. – Any industrial or manufacturing factory, mill, assembly
- 27 plant, or fabricating plant; freight terminal; industrial research, development,
- 28 or laboratory facility; industrial processing facility; facility used in the
- 29 manufacturing or production of tangible personal property; facility used in
- 30 the creation or production of intangible property as described in section
- 31 197(d)(1)(C)(iii) of the Code; or distribution facility for industrial or
- 32 manufactured products.
- 33 ...
- 34 (15a) Special purpose project. – Any structure, equipment, or other facility for any
- 35 one or more of the following purposes:
- 36 ...
- 37 m. Facilities that qualify as recovery zone property in connection with
- 38 the issuance of recovery zone facility bonds pursuant to the
- 39 American Recovery and Reinvestment Tax Act of 2009."

40 **SECTION 7.** G.S. 159C-6 is amended by adding a new subsection to read:

41 "(a1) A county or city that receives an allocation to issue recovery zone facility bonds

42 within the meaning of the American Recovery and Reinvestment Tax Act of 2009 to finance

43 recovery zone property may designate any authority as the governmental entity authorized to

44 issue recovery zone facility bonds."

45 **SECTION 8.** G.S. 159D-3 reads as rewritten:

46 **"§ 159D-3. Definitions.**

47 The following terms, whenever used or referred to in this Article, shall have the following

48 respective meanings, unless a different meaning clearly appears from the context:

- 49 ...
- 50 (3a) "Code" means the Internal Revenue Code of 1986, as amended.
- 51 ...

1 (13) "Project" ~~shall mean~~ means any land, equipment or any one or more  
 2 buildings or other structures, whether or not on the same site or sites, and  
 3 any rehabilitation, improvement, renovation or enlargement of, or any  
 4 addition to, any building or structure for use as or in connection with (i) any  
 5 industrial ~~project for industry which project may be any project, which may~~  
 6 be an industrial or manufacturing factory, mill, assembly plant or plant,  
 7 fabricating plant, or freight terminal, or industrial research, development or  
 8 laboratory facility or facility, industrial processing facility for industrial or  
 9 manufactured products, a facility used in the manufacturing or production of  
 10 tangible personal property, a facility used in the creation or production of  
 11 intangible property as described in section 197(d)(1)(C)(iii) of the Code, or  
 12 a distribution facility for industrial or manufactured products, or (ii) any  
 13 pollution control project for industry which project may be any air pollution  
 14 control facility, water pollution control facility, or solid waste disposal  
 15 facility in connection with any factory, mill, plant, terminal or facility  
 16 described in clause (i) of this subdivision, or (iii) any combination of  
 17 projects mentioned in clauses (i) and (ii) of this subdivision. Any project  
 18 may include all appurtenances and incidental facilities such as land,  
 19 headquarters or office facilities, warehouses, distribution centers, access  
 20 roads, sidewalks, utilities, railway sidings, trucking and similar facilities,  
 21 parking facilities, landing strips and other facilities for aircraft, waterways,  
 22 docks, wharves and other improvements necessary or convenient for the  
 23 construction, maintenance and operation of any building or structure, or  
 24 addition thereto.

25 ...."

26 **SECTION 9.** G.S. 159D-45 is amended by adding the following new subsection to  
 27 read:

28 "(g) A county or city that receives an allocation to issue recovery zone facility bonds  
 29 within the meaning of the American Recovery and Reinvestment Tax Act of 2009 to finance  
 30 recovery zone property may designate the agency as the governmental entity authorized to  
 31 issue recovery zone facility bonds."

32 **SECTION 10.** This act is effective when it becomes law.