

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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Person To Contact:

Telephone Number:

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Date:
December 08, 2014

LEGEND:

District =

State =

Bonds =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

x =

y =

Dear _____ :

This is in response to your request under section 54A(d)(2)(B)(iii) of the Internal Revenue Code (the Code) for an extension of the expenditure period for the available project proceeds of qualified tax credit bonds.

Facts and Representations

District is a public school district and an agency of State. District issued the Bonds on Date 1 and designated the Bonds as qualified school construction bonds within the meaning of section 54F(a)(3). At the time the Bonds were issued, all available project proceeds of the Bonds were expected to be spent before Date 2 on meeting the requirements of certain selected portions of District's plan (the "Plan"). The purpose of the Plan is to identify the capital needs for the facilities of District, including but not limited to new construction, major renovations, alterations and improvements to existing facilities, emergency and code compliance requirements and equipment, and technology necessary for the operation of District. Prior to issuing the Bonds, District had identified all of the projects from the Plan that it expected to finance with the Bond proceeds (the "Project").

The original three-year expenditure period for the Bonds under section 54A(d)(2)(B)(i) will expire on Date 2 (the "Original Expenditure Period"). However, several unexpected events have resulted in an unforeseen delay in the expenditure of the available project proceeds of the Bonds.

Subsequent to issuing the Bonds, District encountered financial distress caused principally by reductions in funding provided to District by State. This financial distress impeded District's operations and caused layoffs of teaching, support, and administrative staff. Among the steps taken by District to address its financial condition was a review and reprioritization of facilities and building uses. On Date 3, implementation of the Plan was suspended pending completion of this review. No additional commitment of funds to the Project could be made during this suspension period.

Upon completion of the review on Date 4, District determined and identified x schools to be closed (the "School Closure Plan"). As of Date 5, y schools have been closed. As part of the School Closure Plan, District changed its building uses. This necessitated a reprioritization of projects in the Plan, including projects identified as part of the Project, and required determinations concerning which projects would be substituted for those previously earmarked for the closed schools.

As a result of this substitution and reprioritization, District was required to undertake additional planning and preparation of specifications and bidding, which was necessary to comply with applicable law. This caused a significant delay in committing and spending the proceeds of the Bonds and will prevent District from spending all of the available project proceeds of the Bonds by Date 2. All of the available project proceeds of the Bonds will be spent on the Project by Date 6, which is approximately 16 months after the Original Expenditure Period expires.

District submitted this request for a ruling prior to Date 2.

Law and Analysis

Section 54A(d)(1) provides that a qualified school construction bond is treated as a qualified tax credit bond for purposes of section 54A.

Section 54A(d)(2)(B)(i) provides in part that to the extent that less than 100 percent of the available project proceeds of the issue are expended by the close of the expenditure period for 1 or more qualified purposes, the issuer shall redeem all of the nonqualified bonds within 90 days after the end of such period.

Section 54A(d)(2)(B)(ii) provides that for purposes of this subpart, the term “expenditure period” means, with respect to any issue, the 3-year period beginning on the date of issuance. Such term shall include any extension of such period under clause (iii).

Section 54A(d)(2)(B)(iii) provides that upon submission of a request prior to the expiration of the expenditure period (determined without regard to any extension under this clause), the Secretary may extend such period if the issuer establishes that the failure to expend the proceeds within the original expenditure period is due to reasonable cause and the expenditures for qualified purposes will continue to proceed with due diligence.

Section 54A(d)(2)(C)(v) provides that for purposes of this paragraph, in the case of a qualified school construction bond, a “qualified purpose” means a purpose specified in section 54F(a)(1).

Section 54A(e)(4) defines “available project proceeds” to mean (A) the excess of (i) the proceeds from the sale of an issue, over (ii) the issuance costs financed by the issue (to the extent that such costs do not exceed 2 percent of such proceeds), and (B) the proceeds from any investment of the excess described in subparagraph (A).

At the time the Bonds were issued, District reasonably expected to spend all available project proceeds within the Original Expenditure Period. The expected failure to spend all available project proceeds of the Bonds by the expiration of the Original Expenditure Period was caused by events that were not reasonably expected at the time the Bonds

were issued, that were beyond the control of District, and that caused a significant delay in committing and spending the Bond proceeds. The expected failure to spend all available project proceeds was due to reasonable cause.

District will continue to spend the remaining available project proceeds on the Project with due diligence. District expects to spend all available project proceeds not later than Date 6, which is approximately 16 months after the Original Expenditure Period expires.

Conclusion

Under the facts and circumstances of this case, we conclude that District's expected failure to expend the available project proceeds of the Bonds by Date 2 is due to reasonable cause and that District's continued expenditure of the proceeds for qualified purposes will proceed with due diligence. Therefore, District is granted an extension of the Original Expenditure Period with respect to the Bonds until Date 6.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with a Power of Attorney on file with this office, a copy of this letter is being sent to District's authorized representative.

The ruling contained in this letter is based upon information and representations submitted by District and is accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the materials submitted in support of the request for a ruling, it is subject to verification upon examination.

Sincerely,

Associate Chief Counsel
(Financial Institutions & Products)

/S/

By: _____
James Polfer
Chief, Branch 5