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AOS Technical Update
ARRA Interest Subsidies for General Obligation Debt

Attention Local Governments and Local Government Auditors:

Synopsis: The provisions of the American Recovery and Reinvestment Act of 2009, (ARRA), Section 6431 “Credit for Qualified Bonds Allowed to Issuer” state, in part:

“Section 6431(a) In General – In the case of a qualified bond issued before January 1, 2011, the issuer of such bond shall be allowed a credit with respect to each interest payment under such bond which shall be payable by the Secretary as provided in subsection (b).

Section 6431(b) Payment of Credit – The Secretary shall pay (contemporaneously with each interest payment date under such bond) to the issuer of such bond (or to any person who makes such interest payments on behalf of the issuer) 35 percent of the interest payable under such bond on such date (40 percent in the case of an issuer described in section 148(f)(4)D)....”

Consistent with Iowa Code sections 298A.10 (School Districts); 331.430 (County); 384.4 (City), and ARRA, Section 6431, we believe local governments receiving the ARRA subsidies for general obligation debt issues must deposit the subsidies in the local government debt service fund to be disbursed for interest expense payments. ARRA, Section 6431 creates a direct nexus or link between the receipt of the interest subsidies and the aforementioned statutory requirements of the Code of Iowa.

Since the ARRA interest subsidies are reimbursement basis, the local government may not reduce the first year tax levy. However, it is a logical and reasonable expectation then, local governments will reduce the debt service levy (or transfers in from other funding sources) in subsequent periods by the amount of the ARRA interest subsidies.

Conclusion: The aforementioned Iowa Code sections require school districts, counties and cities receiving funds pledged or available to service general obligation debt to deposit the funds in the Debt Service Fund. As such, the ARRA interest subsidies must be deposited in the Debt Service Fund for payment of interest expense. Local governments should demonstrate compliance with these provisions.

NOTE: This guidance is provided for accounting and compliance purposes but should not be considered to be legal advice. Entities requiring legal advice or assistance should contact their legal counsel.