Qualified Zone Academy Bond FAQ

What is the benefit of QZAB?

The benefit of the Qualified Zone Academy Bond (QZAB) program is that it helps school districts save money and make their dollars go further. School districts usually issue bonds in order to finance renovation and repair projects for schools within the district. Interest owed on these bonds can equal up to 50 percent of the costs of the entire project. As a result, districts often find it difficult to undertake school renovation and repair.

In order to facilitate these projects, Congress created the QZAB program in 1998. It provides the bondholder with a federal tax credit in lieu of a cash interest payment. Because the federal government provides the interest payment, the district then is typically only responsible for repaying the principal of the bond. Through this program, school districts are relieved of the burden of financing school renovation, equipment, energy, technology, curriculum and academy programs.

How do local governments obtain the ability to issue these bonds?

Local educational agencies (school districts) apply to the state for authorization. Each state has its own application. The processes are usually fairly simple. A list of contacts for your state can be found at www.qzab.org/statecontacts.

Is there a time limit for issuing QZABs?

QZAB funds have been available to local school districts since January 1998. The following chart identifies deadlines for each year's allocation.

Year Allocated	QZABs Must be Issued By December 31
2011	2013
2012	2014
2013	2015

What are the criteria for eligibility?
Public schools must meet one of two criteria to be eligible for QZAB funds:

- Be located in either an Empowerment Zone or Enterprise Community.
- Have at least 35 percent of the school's students eligible for free or reduced-price lunch under the federal lunch program.

These eligibility criteria are applied on a school-by-school basis, rather than a system-wide basis.

What are the requirements of the program?
A. 10 percent match:
The school district must have a 10 percent match partner—a private or non-profit entity—which provides cash or in-kind that enhances the QZAB academy (see below). Any in-kind contribution must be at or below fair market values and must not include discounts, etc. At the request of the U.S. Department of Education, the non-profit National Education Foundation (NEF) has agreed to provide the 10 percent match to any eligible school district. See www.qzab.org.

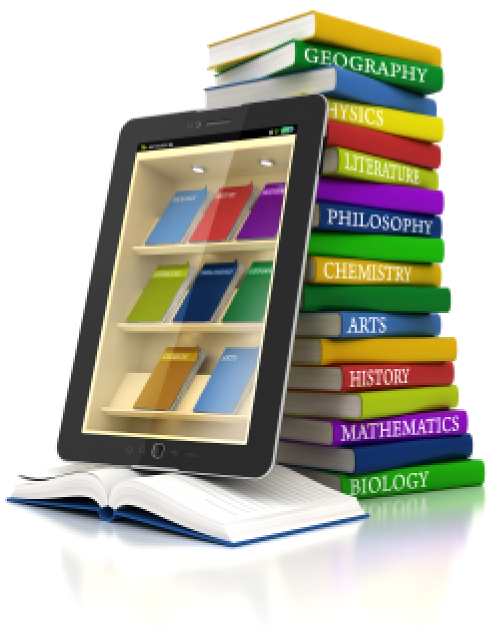
B. QZAB Academy**:**

- An academic program from which schools using QZAB funds will benefit from
- A partnership between the school and private/nonprofit entities

What are the requirements for the academic program?
Programs established with QZABs must have the goal of enhancing the academic curriculum, and increasing graduation and employment rates in order to better prepare students for college and the workforce. The school should work with its 10 percent match partner to design an academic program that will best meet these goals.

What can QZABs be used for?

- Rehabilitating or repairing the public school facility in which the academy is established;
- Improving energy efficiency/renewable energy;
- Providing equipment and technology for use at the academy;
- Developing course materials for education to be provided at the academy;
- Training teachers and other school personnel in the academy.



Is there a limit to the amount of money that can be borrowed through a QZAB?
Yes, a total of $1.2 billion nationally. States have been allocated $400 million in QZABs in each of the following years: 2011, 2012 and 2013. Each state has a specified allotment, which is based on the number of individuals with incomes below the poverty level. A list of state allocations can be found at www.qzab.org/allocations. Some states may set limits on the amounts of bonding authority that can be allocated to individual districts or schools.

Who can purchase these bonds?
QZAB bonds can be purchased by banks (within the meaning of Internal Revenue Code section 581), insurance companies (to which subchapter L of the Internal Revenue Code applies) and corporations actively engaged in the business of lending money. This purchaser of the bond is referred to as the bondholder.

Why is QZAB a zero interest bond?
Federal government pays the interest by giving the bondholder an annual federal income tax credit. See https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.html. The issuer may issue the bond at premium or discount or provide for additional interest payments to take into account the fact that borrowers have different credit ratings.

What is the tax treatment of the purchaser of qualified zone academy bonds?
The purchaser of a QZAB is eligible for an annual tax credit in an amount described in the link above.

What can a holder do if it has insufficient Federal tax liability to fully utilize the credit?
QZABs are freely transferable and, therefore, taxpayers who do not have sufficient federal income tax liability to fully utilize the credit may transfer the bond to other taxpayers who can fully utilize the credit. The credit is allowed to the taxpayer who holds the bond on the credit allowance date regardless of how recently the taxpayer acquired the bond. This is similar to taxable bonds with interest payments where the interest payment is made to the holder on the interest payment date.

What are the other conditions associated with QZABs?
A school district/charter school can issue a QZAB if:

- 98 percent or more of the proceeds of the issue must be used for a qualified purpose with respect to an eligible zone academy;
- The bond is issued by a state or local government or school district/charter school within the jurisdiction of which the QZAB academy is located;
- The issuer designates the bond for purposes of this provision;
- The issuer certifies that it has written assurances that the private business/nonprofit contribution requirement will be met with respect to the school, and certifies that it has the written approval of the local school board for the issuance; and
- The term of each bond in the issue does not exceed the time that the U.S. Secretary of the Treasury estimates will result in the present value of the obligation to repay the principal on the bond being equal to 50 percent of the face amount of the bond (rounded up to a whole year).

The borrower does not have to have a formal bond issue to participate in the program. A simple loan from a local financial institution can qualify as long as it meets the requirements described above.

Qualified zone academy bonds also must be issued in accordance with state or local borrowing requirements.

How will the Internal Revenue Service administer the eligibility requirements?
IRS regulations state that the issuer will make the determination of whether the school is a qualified zone academy. That determination will not be challenged by the IRS and may be relied on by the purchasers of the qualified bonds if there was a reasonable basis for the determinations.

The one exemption is as follows: The law requires that 98 percent of the proceeds from the borrowing must be used for a qualified purpose. The regulations provide that the definition of qualified purposes contained in the statute is to be broadly interpreted. If changes in circumstances result in the issuer not being able to actually spend 98 percent of the bond proceeds for a qualified purpose, the issuer must utilize remedial actions (such as redeeming a portion of the issue) to preserve the qualification of the bond. These remedial actions are similar to those provided in tax-exempt bond regulations.

Thirty million dollars per year per district or school is a Federal limit. Most states operate under a "first come, first served" approach and funds are continuously being requested and approved so the amounts available in any state will vary.