U.S. DEPARTMENT OF EDUCATION QZAB: QUALIFIED ZONE ACADEMY BONDS

The Nonprofit National Education Foundation(NEF) presents $400 Million per year QZAB Zero Interest Program for schools

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FAQ

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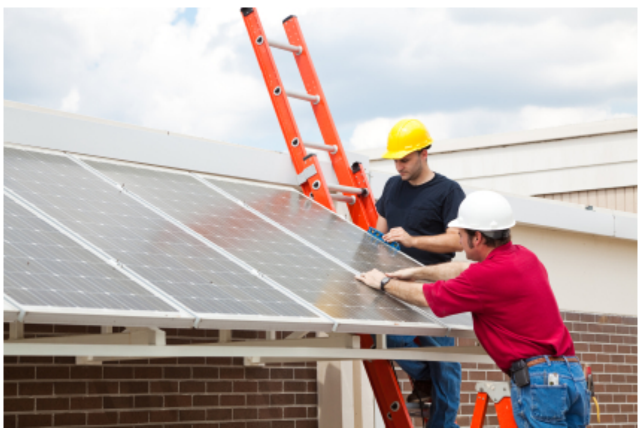
1. **What is the benefit of the QualifiedZoneAcademy Bond program?**

The benefit of the 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 to 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, which 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 value of the bond. Through this program, the burden on school districts of financing school renovation is eased.

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

Local educational agencies 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.

3. **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

4. **What are the criteria for eligibility?**

Public schools must meet one of two criteria to be eligible for QZAB funds:

A. Either located in an Empowerment Zone or Enterprise Community. A list of these areas can be found in this booklet.
B. Or, have at least 35 percent of the school's students eligible for free or reduced-price lunch under the federal lunch program. This criteria is the one that schools are most

likely to meet. Under the National School Lunch Act, free meals are provided for students from families whose income is below 130 percent of the Federal poverty level. Reduced-price lunches are provided if the family's income is between 130 percent and 180 percent of the federal poverty level.

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

5. **What are the requirements of the program?**

10% Match:

Some states have set additional parameters for the QZAB program. Contact your state educational agency for these details.

Requirements of the program include:

QZAB Academy:

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

6. **What are the requirements for the academic program?**

Programs established with QZABs must have the goal of enhancing the academic curriculum, increasing graduation and employment rates, or better preparing students for college and the workforce. The school should work with its 10% match partner to design an academic program that will best meet these goals.

7. **What is required of the public-private partnership?**

Each school must enter into a partnership with a private entity or entities. The partner must contribute at least 10 percent of the net present value of the amount of money borrowed. Contributions can include:

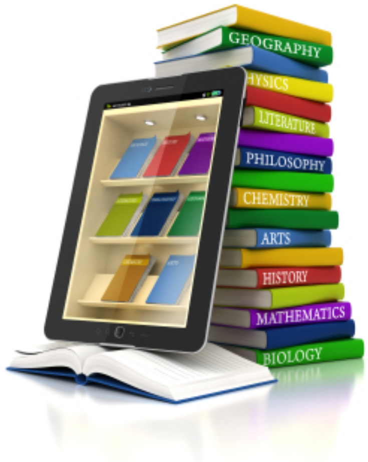
A. cash donation
B. equipment
C. technical assistance in implementing the academic program
D. training for teachers
E. internships or field trips for students in the program
F. services for students, such as mentoring programs
G. other property or services specified by the local school board

In addition to the private contribution, the school and business partners must work together to plan and implement the academic program associated with the QZAB. In this manner, the school and the business work together to improve the quality of education in the school, as well as the opportunities available to students.

8. **What can QZABs be used for?**

QZABs can be used for renovation and modernization to an existing school structure. QZABs cannot be used for new construction. The funds borrowed must be used for one or more of the following:

A. rehabilitating or repairing the public school facility in which the academy is established;
B. improving energy efficiency/renewable energy;
C. providing equipment and technology for use at the academy;
D. developing course materials for education to be provided at the academy; or
E. training teachers and other school personnel in the academy.



9. **Is there a limit to the amount of money that can be borrowed through a QZAB?**

Yes. A total of $1.4 billion and $400 million in QZABs have been allocated to States in each of the following years: 2010 and 2011 respectively. 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.

10. **Who can purchase these bonds?**

A local government's bond issue 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.

11. **What is the new source of capital?**

Interest on the QZAB will be paid by the federal government through a district reimbursement or tax credit to the bondholder. Thus, the school districts/charter schools are permitted to borrow money from financial institutions at a zero interest rate. The maximum maturity of QZABs is set each month pursuant to a statutory formula. It is currently 23 years.

12. **What are the other conditions associated with QZABs?**

A school district/charter school can issue a QZAB if:

A. 98 percent or more of the proceeds of the issue must be used for a qualified purpose with respect to an eligible zone academy;
B. 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;
C. the issuer must designate the bond for purposes of this provision;
D. 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
E. the term of each bond in the issue does not exceed the time that the Secretary of the U.S. 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.

13. **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.

14. **How is the interest subsidy provided to the bondholder?**

Rather than being paid interest by the bond issuer, purchasers of QZABs will receive a direct reimbursement of interest by the U.S. Treasury or an annual federal income tax credit equal to the principal amount of the bond times 110 percent of the applicable federal long-term rate (AFR) for the month in which the bond was issued.

For QZABs sold on or after July 1, 1999, the credit rate is established on the date of sale and is equal to the rate published for that date on the following Web site: **www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm** . Maximum maturities are also published on that Web site.

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.

15. **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 above. That credit effectively makes the bond purchaser whole, as though it purchased a taxable bond. The tax credit can offset both regular and Alternative Minimum Tax federal income tax liabilities. The temporary regulations treat that credit as if it were taxable interest for all purposes of the tax law. In addition, any premium or discount on the bond will be treated as premium or discount on a taxable obligation.

16. **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.