

## QZAB ALLOCATION AMOUNTS

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation
\$4,772M	\$4,606M	\$5,440M	\$5,440M	\$5,694	\$19,930M	\$18,468M	\$5,527M	\$5,326M	\$5,326M
12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15

### Frequently Asked Questions about QZABs

**1. What is the benefit of the Qualified Zone Academy Bond (QZAB) 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, US Congress created the Federal 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 via the federal tax credit, the district then is relieved of the majority of the interest on the bond. Through this program, the burden on school districts of financing school renovation is eased.

**2. How do school districts 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. Some Consultants who can help are: Todd Snidow at George K. Baum, (303)391-5527/ James S. Harrington at Public Finance Associates, LLC, (303)699-8272/ Dan O’Connell at RBC Capital Markets, (303)595-1222/ Dr. Appu Kuttan or Dr. Laurence Peters at CyberLearning, (703)823-9999/ G. Joseph McLiney at McLiney and Company, (800)432-4042/ Thomas Murphy at North by NorthWest Capital, (888)580-7050, Troy Bernberg at Stifel Nicolaus, (800)525-9989, and Clyde Dinnell at QZAB Academy Solutions, LLC, (888-540-9008).

**3. Is there a time limit for issuing QZABs?**

QZAB funds have been available to local school districts since January 1998. QZABs based on the authority allocated for 1998 and 1999 had to be issued by the end of the third following year. QZABs issued on the basis of authority allocated for 2000, thru 2013 must be issued by the end of the second following year.

**NEW: Furthermore, a contract with a third party to spend down at least 10% of bond proceeds must be in place within 6 months after issuance. 100% of the QZAB must be spent within 3 years of date of issuance, for all QZAB’s issued after October 3, 2008.**

The following chart identifies deadlines for each year’s allocation.

Year Allocated	QZABs Must be Issued By December 31,
1998	2001
1999	2002
2000	2002
2001	2003

2002	2004
2003	2005
2004	2006
2005	2007
2006	2009
2007	2009
2008	2010
2009	2011
2010	2012
2011	2013
2012	2014
2013	2015

#### 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. Go to [www.ezec.gov](http://www.ezec.gov) for more information.
- B. Or, have at least 35 percent of the school's students eligible for free or reduced-price lunch under the federal lunch program. 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.
- C. **NOTE:** *No districts in Colorado are located in an Empowerment Zone or an Enterprise Community so your only option for eligibility is Item B..*
- D. 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?

Requirements of the program include:

- An academic program that QZAB funds will benefit;
- A partnership between the school and private entities, and;
- A 10% match must be made from an outside party.

#### 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 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:

- Equipment;
- Technical assistance in implementing the academic program;
- Training for teachers;
- Internships or field trips for students in the program;
- Services for students, such as mentoring programs, and/or;
- 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:

- Rehabilitating or repairing the public school facility in which the academy is established;
- Providing equipment for use at the academy;
- Developing course materials for education to be provided at the academy, and/or;
- 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 \$400 million a year in QZAB has been allocated to States in each of the following years: 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007, 2008, and 2011. In 2009 and 2010 \$1.4 billion dollars has been allocated. Each state has a specified allotment, which is based on the number of individuals with incomes below the poverty level. Colorado's allocations are listed at the beginning of this document. A list of other state allocations can be found on the following website: <http://www.qzabs.com>

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

A school district'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.

For bonds issued per Section 54A after October 3, 2008, any person can be a bond holder.

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

Interest on the QZAB will be paid by the federal government through a tax credit to the bondholder. Thus, the school districts are permitted to borrow money from financial institutions at a zero interest rate. The maximum maturity of the QZAB is set each month pursuant to a statutory formula.

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

A school district can issue a QZAB if:

- 100% of QZAB proceeds and interest must be spent within 3 years including investment earnings put in the bank. Proceeds must be used for a qualified purpose with respect to an eligible zone academy, the unspent QZAB proceeds must be used to redeem QZABs within 90 days. If proceeds have not been spent within the 3-year period, an extension request may be submitted prior to the expiration of the expenditure period;
- Up to 2% of QZAB bond proceeds can be spent on issuance costs without taking into account the investment earnings on QZAB proceeds;
- The bond is issued by a school district within the jurisdiction of which the zone academy is located;
- The issuer must designate the bond for purposes of this provision;
- The issuer certifies that it has written assurances that the private business 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;
- 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);
- 10% Contribution: QZAB can only be issued if the school district secures a private entity partner willing to contribute in-kind services or materials having an acceptable present fair market value as of the date of the QZAB bond issuance;
- School districts must comply with all Davis-Bacon Act requirements and documentation requirements if they receive federal funding for a construction project pursuant to Section 1606 Wage Rate Requirements of the American Recovery and Investment Act of 2009.

A school district 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.

### **14. New: Arbitrage Restrictions modified for QZAB's issued after October 3, 2008**

In 2008, Congress pass House Resolution H.R. 1424, which addressed arbitrage and allows a reserve account to be created for QZAB issues with the following requirements:

- The reserve account is funded at a rate not more rapid than equal annual installments;
- There must be a reasonable expectation that the amount in the account at maturity will equal the QZAB balance;
- The yield on the reserve account can not be greater than 110% of the IRS AFR (Applicable Federal Rates) long-term adjusted applicable federal rate published for the month in which the bond is sold, and available at [www.irs.gov](http://www.irs.gov).

### **15. How is the interest subsidy provided to the bondholder?**

Rather than being paid interest by the bond issuer, purchasers of QZAB sold before July 1, 1999 will receive 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 Treasury Department Web site: <http://www.treasurydirect.gov/> and type "QZAB Rate" in the site search engine. Maximum maturities are also published on this 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.

Note for 2009 and 2010 allocations: The bond issuer is paid interest in lieu of a tax credit. The interest rate is determined from the Treasury Department Web-site at the following address: <https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDDate.htm>. In the event that the interest is higher than the allowable treasury interest rate, the district is responsible for paying the difference.

### **16. 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. The tax credit is included in the bondholders gross income. 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.

**17. 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.

Unused portions of tax credit may be used for the succeeding taxable year.

**18. What is the process for receiving a QZAB Allocation in Colorado?**

The process for CDE to approve the QZAB allocation is as follows:

1. CDE will review the application.
2. CDE will forward the application to the CCAB (Capital Construction Assistance Board) for their review.
3. The application will be discussed at a CCAB board meeting.
4. The CCAB will approve the QZAB allocation.
5. CDE will provide the applicant with written notification that the award allocation has been authorized.