



## QUALIFIED ZONE ACADEMY BOND (QZAB) PROGRAM Guidelines

### INTRODUCTION

The Qualified Zone Academy Bond Program (QZAB), was authorized through the American Recovery and Reinvestment Tax Act and, by extension, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312). This federal program allows for certain schools, known as education zone academies, to finance the renovation of school facilities, purchase equipment, and, if allowed by state law, provide up-to-date technology and instructional materials on an interest-free, or nearly interest-free, basis through the allocation of tax credits.

The Pennsylvania Department of Education is responsible for making allocations to local school districts. These Guidelines provide information about how to apply for the Pennsylvania QZAB allocations. The Bureau of Budget and Fiscal Management, Division of School Facilities, will competitively allocate the remaining \$6,441,000 to successful applicants for settlement at the local school district level by December 31, 2012 (Tier 1). The U.S. Department of the Treasury also has allocated a total of \$13,556,000 in bonds for 2011. PDE will competitively allocate these new funds to be settled by December 31, 2013 (tier 2). Applications for a QZAB allocation for either Tier 1 or Tier 2 will be accepted until September 5, 2012.

### How do QZABs work?

Use of Funds: One hundred percent of the available project proceeds must be used for renovation, repair or rehabilitation of **existing** public school facilities or for equipment to be used at the academy. The renovation, repair and rehabilitation work must support the academic program (academy) being proposed. QZAB proceeds may also be used to provide up-to-date technology or instructional materials **but only if the intended use can be classified as a capital asset under the Local Government Unit Debt Act (LGUDA)**. Bond counsel should refer to the definition of a project under the LGUDA. Questions related to LGUDA should be directed to the Department of Community and Economic Development.

Private Contribution Requirement: The school district must enter into a partnership with a private entity or entities to design a program with the goal of enhancing the academic curriculum, increasing graduation and employment rates, and preparing students for college and the workforce.

The partner must make qualified contributions having a present value (as of the date of issuance of the bond issue) of not less than 10 percent of the proceeds of the bond issue. The donations may be comprised of cash, goods, services, internships, etc. Regular tax rules concerning donations apply (consult with bond counsel to ensure contributions meet federal regulations). School districts are encouraged to obtain cash to meet the 10 percent private contribution requirement.

## **APPLICATION REQUIREMENTS**

### **Who can apply?**

School districts submitting an application must meet the following federal criteria:

- **Private business contribution:** The school district must receive written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the bond issue) of not less than 10 percent of the proceeds of the bond issue.
- **Education plan:** The school district must use QZAB proceeds in support of a board-approved education plan with the goal of enhancing the academic curriculum, increasing graduation and employment rates, and preparing students for college and the workforce. Students in the academy program must be subject to the same standards and assessments as other students in the school district.
- **Criteria for school building:** As of the date of the issuance of the bonds, there is a reasonable expectation that at least 35 percent of the students attending the project school building will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

### **How will allocations be awarded?**

Allocations will be awarded on a competitive basis.

An allocation request must total at least \$5 million to finance one or more projects. In addition to completing an application for each project, the school district must prepare a written monthly spending plan specifying how and when bond proceeds are to be used.

School building projects must address one or more of the following program objectives:

1. Creating or renovating space within an existing building's footprint for Science, Technology, Engineering, and Mathematics (STEM) programs; or
2. Creating or renovating space within a comprehensive vocational education program or a comprehensive high school program; or
3. Increasing building performance to reduce operational costs (increasing energy efficiency, improving energy and water conservation, improving indoor environmental quality, and reducing waste). School districts are encouraged, but not required, to apply for "green" certification (LEED for Schools silver or higher,

two or more Green Globes, Energy Star building rating of 75 or more) in these projects; or

4. Correcting health and safety deficiencies, including school building security upgrades and building code violations.

If QZAB allocation requests received by the Pennsylvania Department of Education exceed Pennsylvania's total allocation, preference will be given to projects based on the following rating system:

1. Creating or renovating space within an existing building's footprint for Science, Technology, Engineering, and Mathematics (STEM) programs – up to 35 points,
2. Creating or renovating space within a comprehensive vocational education program or a comprehensive high school program – up to 35 points
3. Increasing energy efficiency, improving energy and water conservation, reducing greenhouse gas emissions, improving indoor environmental quality, and reducing waste – up to 15 points,
4. Addressing health and safety deficiencies, including school building security upgrades – up to 15 points.

## **ISSUANCE OF BONDS**

### **How will bonds be issued?**

**Tier 1** – Bonds for Projects meeting the qualifiers and using the remaining 2010 QZAB allocation must be settled by **December 31, 2012**.

**Tier 2** – Bonds for projects meeting the qualifiers and using the 2011 QZAB allocation must be settled **by December 31, 2013**.

Participating school districts must be willing to authorize a general obligation note with a maturity structure consistent with the program requirements. Successful applicants must settle the full amount of the allocation at the local school district level.

### **Internal Revenue Service requirements**

- A contract must be in place with a third party to spend down at least 10 percent of the bond proceeds within six months after issuance.
- One hundred percent of the proceeds must be spent within 3 years of the bond issuance.
- QZAB proceeds are subject to arbitrage rules.
- Issuers are subject to IRS reporting requirements.
- The maximum maturity and the credit rate for QZABs are determined as of the date that there is a binding, written contract for the sale or exchange of the bond. The applicable maximum maturity, the discount rate for determining the maturity, and

QZAB credit rate are published for that date by the Bureau of Public Debt on its internet site for State and Local Government Series securities at:  
<https://www.treasurydirect.gov>.

- In addition, **for the QZAB 2011 Allocation**, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) continues the QZAB program, but repeals a cash subsidy alternative to tax credits that was created as part of the American Recovery and Reinvestment Act (ARRA). As a result, issuers will no longer have the option of receiving a cash subsidy on QZABs issued after December 31, 2010, using the 2011 allocation.

## SOURCES FOR ADDITIONAL INFORMATION

Participating school districts should read and thoroughly understand the following documents:

- Title 26, Internal Revenue Service Code, Section 1397E, and
- U.S. Department of Treasury document, 26 CFR Part 1 [TD 8903] RIN 1545-AY01, published in the September 26, 2000 Federal Register, <http://www.irs.treas.gov/pub/irs-reg/td8903.pdf>. Section 1522 of Title I of Division B of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009) ("2009 Act") amended § 54E(c)(1)
- Section 758 of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Public Law No. 111-312, 124 Stat. 3296 (2010) ("2010 Act") further amended § 54E(c)(1) to provide an authorization for QZABs of \$400 million for calendar year 2011.
- Letter from Education Secretary Arne Duncan, dated March 11, 2011 (ed.gov)

Additional information is available from the U.S. Department of Education's Web site at [www.ed.gov](http://www.ed.gov) or from [www.irs.gov](http://www.irs.gov)

## Contacts

Internal Revenue Service (202) 622-3980  
Office of Chief Counsel  
Financial Institutions and Products  
Branch 5 -Tax Exempt Bonds

U.S. Department of Education (202) 401-0907

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