



Qualified Zone Academy Bonds (QZAB) Parameters

The Taxpayer's Relief Act of 1997 (P.L. 105-34) provides opportunities for elementary and secondary *schools* (not districts) to benefit from interest-free capital to support improvements in facilities and in curriculum and instruction. Schools may use borrowed funds to renovate or repair a facility, purchase equipment, develop course materials, or train teachers and other school personnel.

Eligible Schools:

Eligible schools must have established a partnership with a private business to develop an academic program at the school or benefiting students enrolled in the school, and the site(s) receiving the allocations must be located in an Empowerment Zone or an Enterprise Community or have at least 35% of their students eligible to receive free and reduced lunches under the National School Lunch Program.

Ohio has four Empowerment Zones (located in Cincinnati, Cleveland, Columbus and Ironton) and three Enterprise Communities (located in Akron, Columbus, and the Greater Portsmouth area). Districts having schools in an Empowerment Zone or in an Enterprise Community can be found by reviewing this website: <http://egis.hud.gov/egis/cpd/rcezec/welcome.htm> .

Sites outside an Empowerment Zone or Enterprise Community must have at least 35% of their students eligible to receive free and reduced lunches to qualify for the program. The Department of Education will use National School Lunch Program data to determine if a school meets the 35% requirement.

The 10 percent match business partner must, in cooperation with the school, design an academic program (academy) that will enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce. The business member of the partnership must make qualified contributions to the school in an amount not less than 10 percent of the interest-free capital provided by the program. Qualified contributions may consist of equipment for use in the school, technical assistance in developing curriculum or teacher training, services of employees as volunteer mentors, internships, and any other identified educational opportunities or services required by the school. The value of the 10 percent match must be below the fair market value offered by any entity providing similar products or services.

Participant Prerequisites:

Please note, this is an interest-free loan program for schools. So in order to receive the benefits, a district of which a school is a part must be in a position to legally issue debt pursuant to state law. Funds are generated by the state or local government selling debt that is deemed to be Qualified Zone Academy Bonds. The amount of principal borrowed must be paid back over a period of years, but interest on the bonds is paid by the federal government in the form of tax credits granted to the purchaser.

Ninety-five percent of the proceeds of this bond must be used for a qualified purpose, as per 1397E(d)(1)(A) of the federal QZAB law. The school district must produce a written spending plan including commitment to use 10 percent of funds within 6 months and 95 percent within 5 years of the issuance of the QZABS.

In addition, the application requires an overview of the proposed academic program/academy details. This overview should reflect the program description, the number of students benefiting, resources used, when and how the program will be implemented, who will direct the implementation and evaluation, and how the evaluation (pre and post tests) will be accomplished. A signed letter from the business partner, on company letterhead, explaining their commitment to the program must be attached to the application.

Program Administration:

The Ohio Department of Education is responsible each year funds are allocated to establish a procedure for allocating the bond amounts among eligible schools in the state. The state may also allocate portions or all of the QZAB authority to one or more Qualified Zone Academies.

The bonds issued by the district are purchased by financial institutions. These institutions will receive a federal income tax credit in an amount equal to the interest that would be paid under a normal bond issue. The local government is responsible for paying the principal amount, and interest, if the bond so specifies.

Outlined below is a "modified" example provided by the U.S. Department of Education of one way a QZAB could work:

"A for-profit hospital in an enterprise community has a written agreement to establish a special academic program that would prepare students for jobs at the hospital. The hospital is willing to donate state-of-the-art medical equipment and computer software to the school and to provide internship and mentoring experiences for the students. The school has determined that it needs to renovate a classroom to accommodate the donated equipment, purchase appropriate instructional material, and train teachers to facilitate the use of the equipment. The school estimates a cost of \$500,000 as their part of the new program."

In order to obtain the benefits of the low-cost capital afforded through the Qualified Zone Academy Bond tax credit, the school would need to take the following steps:

- 1) The school obtains from the hospital an estimate of the value of the equipment, personnel time and facility cost associated with the internship and mentoring opportunities.
- 2) If the value of the hospital's donation is equal to at least 10 percent of the gross bond proceeds (10 percent of \$500,000, or \$50,000), the school would obtain a written commitment from the hospital for this donation.
- 3) The school contacts the financial officer and other school system personnel responsible for debt issuance.
- 4) The parties determine the source of repayment of the \$500,000.
- 5) The school system seeks an allocation from the Ohio Department of Education for an amount equal to \$500,000.
- 6) The Department reviews the request and, upon approval, issues a written verification of a \$500,000 QZAB allocation.
- 7) Arrangements are made (by the local school district) for a financial institution, bank, insurance company or corporation in the business of lending money to purchase the QZAB.
- 8) The proceeds of the QZAB are used to renovate and equip the classroom.

Other types of businesses may also serve as partners. However, providers of services or materials for the project are not eligible as contributors to meet the 10 percent contribution requirement. The Ohio Department of Education encourages districts to be creative when considering their partnership activities.

Ohio Parameters:

Districts may apply for more than one project (i.e. several school sites) as long as each site meets the eligibility requirements. The target allocation maximum for each site is \$1,000,000, with a target allocation maximum for each school district of \$3,000,000. In the event applications received amount to less than the total State allocation, the allocation maximum for buildings and/or school districts may be increased. Districts may, therefore, indicate on their application the actual need, even if it is over and above the established target allocation maximum.

Preference will be given to school districts that have not already participated in the program.

Individual school districts should consult with counsel to ensure all applicable federal and state laws, rules, and regulations are observed.

Bond issuance must occur within six months of the notice of allocation. A three-month extension may be requested, but a request must be in writing and must include current status and extension justification.

Applications must be complete and original.