

VIRGINIA GUIDELINES FOR CALENDAR YEAR 2014, 2015, and 2016 QUALIFIED ZONE ACADEMY BOND (QZAB) ALLOCATIONS AND AWARD CRITERIA

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Frequently Asked Questions

What is the Qualified Zone Academy Bond Program?

In 1997, Congress created the Qualified Zone Academy Bond Program (QZAB) so that schools could raise funds to: 1) renovate and repair public school buildings; 2) invest in equipment and current technology; 3) develop challenging curricula; and 4) train quality teachers.

What is a Qualified Zone Academy?

Qualified zone academies are public schools or programs (as the case may be) designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the increasingly complex workforce.

How does the QZAB work?

School divisions (through the local governments) borrow funds from financing institutions or other buyers at zero or low interest. Instead of receiving interest on the funds, a financing institution has the option to receive a tax credit in lieu of interest that they would have charged. The credit rate for QZABs is set by the federal government through the Treasury Department. (See <https://www.treasurydirect.gov/GA-SL/SLGS/selectQZABDate.htm> for current rate information.)

In order to issue a QZAB, school divisions must secure a private contribution equal to at least 10 percent of the QZAB issuance. This private contribution can be in the following forms: 1) cash; 2) goods, including equipment and technology; 3) services, including assistance with the use of technology or with curriculum development; and 4) internships, field trips, or other education opportunities.

How much has Virginia been allocated in QZAB authority?

Each state is provided with an allocation using a formula based on state percentages of the national population of individuals with incomes below the poverty line. States have the flexibility to determine how the allocations will be distributed, so long as each school benefiting from a QZAB is either located in a federal Empowerment Zone authorized through December 31, 2014 (Pub. L 113-295) *or* at least 35 percent of its students are eligible for free or reduced price lunches.

In Virginia, the Secretary of Education makes QZAB awards to applying school divisions, giving priority to divisions based on a ranking of division-level free lunch eligibility of 35 percent or greater pursuant to the State appropriation act. The Virginia program does not recognize reduced-priced lunch factors when determining division awards. Consequently, QZAB allocations are awarded only for divisions with 35 percent or greater *free lunch* eligibility pursuant to the appropriation act. However, QZAB proceeds may be used for qualifying purposes at individual qualified zone academy schools with at least 35 percent of students eligible for free or reduced price lunch or located in a federal Empowerment Zone. Awards are typically made to Virginia school divisions based on a minimum allocation of \$1.5 million per division, until an award cap of \$15 million per division is reached.

Are there time limits for QZAB awards?

A school division must (1) secure at the time of issuance a private entity contribution greater than or equal to 10 percent of the QZAB proceeds; (2) incur within a 6 month period from date of

issuance a binding contract with a third party to spend at least 10 percent of the available project proceeds; and (3) spend 100 percent of the proceeds within 3 years of the issuance date.

How are school divisions informed of QZAB awards?

The Secretary of Education will correspond with the superintendent of each school division eligible for an award based on a rank-ordering of free lunch eligibility of at least 35 percent or greater. Award information is provided to school divisions throughout the year, depending upon the timing of federal awards and whether or not unused allocations of existing Virginia awards are available.

What steps should a school division take once an award has been received?

Every school division receiving notification of a QZAB allocation award is required to submit a formal application to the Department of Education by the required deadline.

Please note that any school division that intends to participate in the Virginia QZAB program should seek legal advice from local bond counsel because of the complexity of the program and its eligibility requirements.

School divisions desiring to participate in the program must first submit a letter of intent to participate to the Virginia Secretary of Education. For those school divisions receiving an allocation award, the completed QZAB application package must then be submitted to the Virginia Department of Education.

VIRGINIA ALLOCATION AND AWARD GUIDELINES

SECTION I – DEFINITIONS

Private Entity Qualified Contribution - A written agreement between a qualified zone academy and one or more business(es) or private entities under which the contributor pledges a contribution having a present value of at least 10 percent of the gross proceeds of the QZAB. For this purpose the following list constitutes eligible contributions:

- Equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment);
- Technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom;
- Services of employees as volunteer mentors;
- Internships, field trips, or other educational opportunities outside the academy for students; or
- Any other property (including cash) or services specified by the local education agency; additional information on private entity qualified contributions can be found on the QZAB web page at: <http://www2.ed.gov/programs/qualifiedzone/index.html>.

Qualified Buyer - A financial institution(s) or other buyer that is willing to purchase QZAB bonds issued by, or on behalf of, a Virginia locality. The Virginia Public School Authority has in the past served as a conduit issuer of QZAB bonds on behalf of participating Virginia localities.

Qualified Purpose of QZAB Proceeds

- Rehabilitating or repairing a public school facility in which a qualified zone academy is established;
- Providing equipment for use at a qualified zone academy;
- Developing course materials for education to be provided at a qualified zone academy; and/or
- Training teachers and other school personnel in a qualified zone academy.

Qualified Zone Academy

A qualified zone academy is defined as any public school (or academic program within a public school) which is established by and operated under the supervision of an eligible local education agency to provide education or training below the postsecondary level if:

- The school is designed in cooperation with private business to improve the academic curriculum, enhance graduation and employment rates, and better prepare students for college and the workforce, as required by QZAB legislation.
- The school or academic program specifies how many students will be trained in which academic areas using what resources, when the program will be implemented, who will direct the implementation and evaluation, and how the evaluation (pre- and post-tests) will be accomplished.
- Students of the school are subject to the same academic standards and assessments as other students educated by the local education agency.
- The school's comprehensive education plan is approved by the local education agency.
- The school is located in either a federal empowerment zone (current designation authorized through December 31, 2014) or there is a reasonable expectation when the bonds are issued that at least 35 percent of the school's students (or program participants) will be eligible for free or reduced price lunch under the school lunch program established pursuant to the National School Lunch Act.

Qualified Zone Academy Bond (QZAB) - *A bond that is issued by a state or local government for the area where the qualified zone academy is located.*

The bond must meet all of the following requirements:

The issuer:

- a. Designates the bond issue for the use of a qualified zone academy;
- b. Has written assurances that the private business contribution requirement will be met;
- c. Has written assurances that a binding commitment with a third party to spend at least 10 percent of available project proceeds will be incurred within the 6-month period beginning on date of issuance;
- d. Has written approval for the bond issue from the local education agency.

100 percent of the bond proceeds must be used within 3 years of the issue of the Qualified Zone Academy Bond for one or more of the following qualified purposes:

- a. Rehabilitating or repairing the public school facility in which the academy is established;
- b. Providing equipment for use at an academy;
- c. Developing course materials for education to be provided at an academy; or
- d. Training teachers and other school personnel in an academy.

The term of each bond cannot exceed a maximum term. The maximum term is set so that the state or local government's obligation to repay in present value terms will be 50 percent of the borrowed amount. For more information, please see Section 1397E of the Internal Revenue Code:

<http://uscode.house.gov/view.xhtml?req=Section+1397E&f=treesort&fq=true&num=6&hl=true&edition=prelim&granuleId=USC-prelim-title26-section1397E>.

SECTION II - PROGRAM DESCRIPTION

In 1997, Congress created the Qualified Zone Academy Bond to help schools raise funds to achieve the following: (1) renovate and repair buildings; (2) invest in equipment and up-to-date technology; (3) develop challenging curricula; and (4) train quality teachers. The QZAB program is designed to assist school divisions serving low-income students by reducing the burden of interest payments by giving financial institutions holding the bonds a tax credit in lieu of interest, or, when permitted, if interest payments are received by the bond holder, the QZAB issuer may be reimbursed for interest payments through a direct subsidy payment (to date, 2010 QZABs only). A school division must still pay back the amount of money that is initially borrowed, but the school division does not have to pay any interest, or pays low interest.

The federal government provides each state with an allotment of principal bond proceeds that may be borrowed through the QZAB program. The Virginia Secretary of Education determines which school divisions will receive awards based on procedures in these guidelines. The following table provides information on total awards for the Commonwealth of Virginia:

Calendar Year	Virginia Allocation	Expiration
1998	8,188,000	Dec. 31, 2001
1999	9,051,000	Dec. 31, 2002
2000	6,395,000	Dec. 31, 2002
2001	6,288,000	Dec. 31, 2003
2002	6,391,000	Dec. 31, 2004
2003	6,462,000	Dec. 31, 2005
2004	7,683,000	Dec. 31, 2006
2005	7,818,000	Dec. 31, 2007
2006	7,020,000	Dec. 31, 2008
2007	7,020,000	Dec. 31, 2009
2008	7,436,000	Dec. 31, 2010
2009	26,025,000	Dec. 31, 2011
2010	26,185,000	Dec. 31, 2012
2011	7,197,000	Dec. 31, 2013
2012	7,264,000	Dec. 31, 2014
2013	7,264,000	Dec. 31, 2015
2014	7,444,000	Dec. 31, 2016
2015	7,620,000	Dec. 31, 2017
2016	7,620,000	Dec. 31, 2018

Before final allocation awards are made to school divisions, the school division must have obtained written commitments from private entities for qualified contributions with a present value (as of the bond issue date) of not less than 10 percent of the proceeds of the bond issue. The school division must have incurred within the 6-month period beginning on the bond issuance date a binding commitment with a third party to spend at least 10 percent of available project proceeds. The proceeds from the bond issue can only be used for schools that fall under the definition of a qualified zone academy.

SECTION III - AWARD PARAMETERS

Consistent with federal regulations, the Virginia Appropriation Act (Chapter 665, 2015 Acts of Assembly, Item 127.A.), states the following:

“The Secretary of Education is hereby authorized to make allocations to qualified zone academies of the portion of the national zone academy bond limitation amount to be allocated annually to the Commonwealth of Virginia pursuant to Section 1397E of the Internal Revenue Code of 1986, as amended, and to provide for carryovers of any unused limitation amount. In making such allocations, the Secretary of Education is directed to give priority to allocation requests for qualified zone academies having at least 35 percent free lunch participation or either located in federal enterprise communities or located in cities and counties within which federal enterprise communities are located.”

Federal regulations allow school divisions to use allocation awards for any qualifying school, which is defined as any school with 35 percent or greater free or reduced price lunch eligibility. If a school division is located in a federal Empowerment Zone as designated through December 31, 2014, then a QZAB allocation may be used for any school, regardless of the free or reduced price lunch eligibility percentage. IRS Notice 2015-26.

QZAB awards to school divisions are based on a rank order of each school division’s free lunch eligibility percentage. Allocation awards are made in rank order of each school division’s free lunch eligibility percentage among those school divisions submitting an Intent to Participate form during an open application period (as detailed in Sections IV and V below). School divisions receiving an award are permitted to use the QZAB allocation for any school with 35 percent or greater free or reduced lunch eligibility or for any school located as of December 31, 2014, in a designated federal Empowerment Zone.

Any school division receiving an award must submit a formal application to the Department of Education by the required deadline. A deadline for application submission will be included in the award letters provided to school divisions. Any school division receiving an award letter from the Secretary of Education must be prepared to issue QZAB bonds within the calendar year of the award notification. If a school division is unable to meet this timeline, then its award for that calendar year may be reallocated. The school division will continue to remain eligible for future awards, until the state QZAB issuance cap of \$15.0 million per division is reached or the division wide free lunch eligibility factor for the division falls below 35 percent.

SECTION IV - APPLICATION PROCESS

The Virginia Secretary of Education will determine the award amount for eligible school divisions based on a rank-ordering of the division level free lunch eligibility percentages of the division's submitting an initial Intent to Participate form by the required deadline and having a division-level free lunch eligibility percentage of 35 percent or greater. These school divisions will be notified in writing of their allocation amounts. These school divisions will then be required to submit a formal application to the Department of Education by the required deadline.

If a school division declines its allocation award or misses the application deadline, then another school division will be selected for an award based on the rank-ordering of division free lunch eligibility percentage. However, the school division declining the allocation or missing the application deadline will continue to be eligible for future awards, until the \$15.0 million QZAB issuance cap is reached or it no longer qualifies based on its free lunch rate. Should circumstances arise where a school division indicates its intent to participate and submits an application but later finds that it cannot issue QZABs within the December 31 time frame, the affected school division must notify the Secretary of Education as soon as possible, so that the allocation may be provided to another eligible school division. The affected school division will continue to be eligible for future awards, until the QZAB \$15.0 million issuance cap is reached or it no longer qualifies based on its free lunch rate.

SECTION V – INTENT TO PARTICIPATE/APPLICATION/ISSUANCE DEADLINES

- **April 22, 2016**
Initial Intent to Participate forms submitted by eligible school divisions (35 percent or greater free lunch eligibility) to establish a pool of potential awardees. These divisions are listed in rank order based on percentage of free lunch eligibility. Failure to meet the April 22 deadline disqualifies a division from further consideration for an award.
- **May 6, 2016**
Among the eligible school divisions submitting Intent to Participate Forms by April 22, a preliminary award letter and application form from the Secretary of Education is sent to approximately the first twelve divisions on the free lunch eligibility rank order list.
- **June 10, 2016**
Completed applications are received by the Department of Education. If this deadline is not met, the school division will be disqualified and a preliminary award letter will be sent to the next school division in the rank order list of eligible divisions that submitted an Intent to Participate form.
- **August 31, 2016**
Final signed and sealed resolutions from the local school board and the local governing body as well as the 10 percent private contribution letters received by the Department of Education.
- **By December 2016**
Virginia Public School Authority (VPSA) and/or individual localities issue Calendar Year 2014, 2015, and 2016 QZABs.
- **December 31, 2016**
Expiration deadline to issue Calendar Year 2014 QZAB bonds.