



**COMMONWEALTH of VIRGINIA  
Department of Education**

February 24, 2017

TO: Division Superintendents

FROM: Steven R. Staples, Superintendent of Public Instruction

**SUBJECT: Guidelines and Application Process for the Calendar Years 2015 and 2016  
Qualified Zone Academy Bonds Allocations**

The federal Qualified Zone Academy Bonds program, better known as QZABs, was authorized by Congress under the Taxpayer Relief Act of 1997. The Virginia Appropriation Act establishes further requirements for the operation of this program in Virginia. A number of school divisions in Virginia have availed themselves of this program since its inception. QZABs are tax credit bonds designed for the state or local issuer to pay zero or near zero interest. The proceeds of these bonds must be used to rehabilitate or repair a public school qualified zone academy facility (i.e., any public school or academic program within a public school established by and operated under the supervision of a local educational agency), the purchase of school equipment for use at a qualified zone academy, development of course materials for use at a qualified zone academy, and/or training of teachers and other school personnel within a qualified zone academy. QZAB proceeds may not be used for new construction and 100 percent of the proceeds must be spent within three years of the sale of the bonds.

States or local governments may issue QZABs. Virginia's remaining calendar years 2015 and 2016 QZAB allocations from the federal government is \$14,193,000. Because of their zero or near zero interest rate, QZABs are a low cost vehicle for school divisions to modernize schools. Purchasers of QZABs receive federal tax credits in lieu of the interest on the bonds. In recent years, the Virginia Public School Authority (VPSA) has assisted with issuing QZABs on behalf of localities, greatly facilitating the use of these bonds in Virginia. Please note that QZAB proceeds are not grants but represent debt of the locality that must be repaid.

Based on the remaining QZAB allocations available, it is anticipated that allocation awards will be made to approximately seven school divisions of approximately \$2.0 million each; however, this is subject to change based on division demand for QZAB funding.

**Requirements**

The following requirement must be met *before* a school division can receive a QZAB allocation:

- At least 35 percent of students in the school division must be eligible for free lunch under the National School Lunch Program. However, the specific qualified zone academy school where the proceeds would be used must have at least 35 percent of students eligible for free or reduced-price lunch under the National School Lunch Program or be located within a federal empowerment zone or enterprise community. However, Virginia law gives priority to schools with at least 35 percent of students eligible for free lunch or located within a federal empowerment zone or enterprise community.

In addition, there are requirements that must be met *after* a school division receives a QZAB allocation and before a QZAB can be issued:

- A QZAB application must be completed and signed by the local government administrator and accompanied by signed and sealed school board and local governing body resolutions;
- A school division must obtain written commitments from private enterprises [not state or local governments or school division employees] equal to 10 percent of the QZAB amount to be borrowed; and
- QZAB renovation projects must be in compliance with the Davis-Bacon Act.

## Revised Guidelines

Since 1998, the Virginia Secretary of Education has directly awarded QZAB allocations to school divisions based on a rank ordering of the student eligibility percentage for free lunch under the National School Lunch Program. However, to facilitate and expedite the issuance of the calendar years 2015 and 2016 Qualified Zone Academy Bonds allocations among a larger pool of eligible school divisions meeting the 35 percent free lunch eligibility criteria, the Secretary of Education's guidelines have been revised as an open application process (effective with the calendar year 2014 allocation) to encourage eligible school divisions that are interested in receiving a QZAB allocation to apply as follows:

- By March 24, 2017, submit an initial Intent to Participate letter to the **Office of the Secretary of Education**, Patrick Henry Building 3rd Floor, 1111 East Broad Street, Richmond, Virginia 23219. Attachment B contains a sample intent to participate letter. School divisions submitting an Intent to Participate letter are then listed in rank order based on their percentage of free lunch eligibility. Failure to meet the March 24, 2017, deadline disqualifies a division from further consideration for an allocation.
- By April 7, 2017, among the eligible school divisions that submitted an Intent to Participate letter by the March 24, 2017, deadline, a preliminary allocation letter and application form will be sent to approximately the first seven school divisions based on the division rank order of free lunch eligibility.
- The deadline for school divisions to submit completed applications to the Department of Education is June 1, 2017. If this deadline is not met, the school division will be disqualified and a preliminary allocation letter will be sent to the next school division on the free lunch eligibility rank order list.
- The 10 percent private contribution commitment letters as well as the final signed and sealed school board and local governing body resolutions must be received by the Department of Education before August 31, 2017.
- By December 31, 2017, the Virginia Public School Authority (VPSA) and/or individual localities will issue the remaining calendar years 2015 and 2016 QZABs.

Attachment A, "Virginia Guidelines for Calendar Years 2015 and 2016 Qualified Zone Academy Bonds (QZABs) Allocations and Award Criteria", provides additional information on the QZAB program. It is also important that a school division consult with its local bond counsel to ensure compliance with all applicable federal and state requirements regarding the issuance and use of such bonds. Should you have any questions about this program, please contact Kent Dickey, Deputy Superintendent for Finance and Operations, at (804) 225-2025.

SRS/KCD/cle

Attachments:

- [Virginia QZAB Guidelines for Calendar Years 2015 and 2016 Allocations](#) (PDF)
- [Sample Intent to Participate Letter](#) (PDF)

