



COMMONWEALTH of VIRGINIA
Department of Education

December 18, 2015

TO: Division Superintendents

FROM: Steven R. Staples, Superintendent of Public Instruction

**SUBJECT: Revised Guidelines and Application Process for the Calendar Year 2014
Qualified Zone Academy Bond Allocations**

The federal Qualified Zone Academy Bond 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 for school renovation, the purchase of school equipment, development of course materials, and/or training of teachers within a qualified zone academy (i.e., any public school or academic program within a public school established by and operated under the supervision of a local education agency). QZAB proceeds cannot be used for new construction and 100 percent of proceeds must be spent within three years of the sale of the bonds.

States or local governments may issue QZABs. Virginia's calendar year 2014 QZAB allocation from the federal government is \$7.4 million. 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 represent debt of the locality that must be repaid.

Requirements

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

- At least 35 percent or greater of students in the division [and in the school where the proceeds would be used] must be eligible for the free or reduced cost lunches under the National School Lunch Program. However, Virginia law gives priority to schools with at least 35 percent of students eligible for free lunch.

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 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 (usually 65 percent or greater). However, to facilitate and expedite the issuance of the calendar year 2014 Qualified Zone Academy Bonds 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 to an open application process effective with the calendar year 2014 allocation and encourages eligible school divisions that are interested in receiving a QZAB allocation to apply as follows:

- By March 1, 2016, send an initial Intent to Participate form to the **Office of the Secretary of Education**, Patrick Henry Building, 1111 East Broad Street, Richmond, VA 23219. These divisions are then listed in rank order based on their percentage of free lunch eligibility. Failure to meet the March 1 deadline disqualifies a division from further consideration for an allocation.
- By April 1, 2016, among the eligible school divisions that submitted an Intent to Participate form by April 1, a preliminary allocation letter and application form will be sent to approximately the first four divisions based on the rank order of free lunch eligibility.
- The deadline for completed applications received by the Department of Education is June 1, 2016. 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 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, 2016.
- By November or December 2016, the Virginia Public School Authority (VPSA) and/or individual localities will issue Calendar Year 2014 QZABs. December 31, 2016, is the expiration deadline for the issuance of Calendar Year 2014 QZAB bonds.

The attached document "Virginia Guidelines for Calendar Year 2014 QZABs" 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 regulations regarding the issuance and use of such bonds. Should you have any questions about this program, please contact Christina Snellings in the Budget Office at (804) 225-2025.

SRS/KCD/cps

Attachments:

- A. [Virginia Guidelines for CY 2014](#) (PDF)
- B. [Intent to Participate Form](#) (PDF)