



THE SECRETARY OF EDUCATION
WASHINGTON, DC 20202

March 1, 2007

Honorable Joe Morton
Superintendent of Education
State Department of Education
Gordon Persons Office Building
50 North Ripley Street
Montgomery, Alabama 36104-2101

Dear Joe:

I am pleased to inform you about the extension of Qualified Zone Academy Bonds (QZABs) through 2007 and to remind you that the 2005 allocations for QZABs will expire at the end of this year. QZABs are an important tool that States and local educational agencies (LEAs) can use to provide additional resources for improving school facilities and instruction.

As you may know, QZABs are bonds the Federal Government subsidizes by allowing bondholders to receive tax credits that are approximately equal to the interest that States and communities would pay holders of taxable bonds. As a result, issuers are generally responsible for repayment of just the principal. QZABs were first authorized under Section 226 of the Taxpayer's Relief Act of 1997 (Section 1397E of the Internal Revenue Code).

States and LEAs have considerable flexibility in the use of QZABs. They may be used for rehabilitating or repairing school facilities, purchasing equipment, developing curricula, and training school personnel, but not for new construction. QZABs can help schools save up to 50 percent of the cost of financing allowable activities. In addition, State educational agencies are not required to submit an application to the Federal Government before using QZABs.

Congress adopted President Bush's proposal to extend the QZAB authority through 2007 as part of the Tax Relief and Health Care Act of 2006 (Public Law 109-432). This legislation continues the QZAB program at its prior annual bond allocation level of \$400 million a year but includes new restrictions for issuers. Under the new law, issuers must reasonably expect to spend 95 percent of QZAB proceeds within five years of a sale and must expect to enter into a binding commitment with a third party to spend at least 10 percent of the proceeds within six months. Issuers must also comply with arbitrage rebate and information reporting requirements and redeem QZABs within 90 days if the proceeds have not been spent within the five-year period.

As the following chart shows, QZABs are currently available. However, unused funds from the 2005 allocations will expire at the end of this year and, to make use of these allocations, bonds must be issued by December 31, 2007. If a State does not issue the amount of QZABs allocated by the Federal Government between the calendar year the funds are first made available and the date by which they must be issued, the unused QZAB allocation expires and cannot be used. The 2004 QZAB allocation has already expired.

Our mission is to ensure equal access to education and to promote educational excellence throughout the nation.

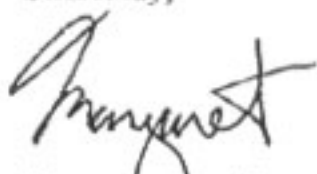
Page 2

Amount	Calendar year first available	Bonds must be issued by December 31 of the year
\$400 million	2005	2007
\$400 million	2006	2008
\$400 million	2007	2009

For your information, I have enclosed a table showing the State allocations of QZABs for the years 2005-2007. The allocations represent the maximum amount of QZABs that may be issued within a State beginning in a given calendar year. The Internal Revenue Service recently published the 2006 and 2007 allocations in Rev. Proc. 2007-18.

If you have questions, please contact either Zoran Stoyanovic of the Internal Revenue Service (202-622-3980) or Ian Soper of the U.S. Department of Education (202-401-0907). I am confident that your school districts have needs that can be met by this simple-to-use program. Thank you for working with them to ensure that no child is left behind.

Sincerely,


Margaret Spellings

Enclosure

**Qualified Zone Academy Bonds: Allocations for
2005, 2006 and 2007**
(in thousands of dollars)

State	Calendar Year Funds are First Available		
	2005	2006	2007
Alabama	7,004	7,698	7,698
Alaska	665	677	677
Arizona	7,913	9,412	9,412
Arkansas	5,008	3,621	3,921
California	48,956	48,404	48,404
Colorado	4,806	5,440	5,440
Connecticut	2,937	3,348	3,348
Delaware	834	801	801
District of Columbia	972	1,180	1,180
Florida	22,893	20,271	20,271
Georgia	10,713	13,322	13,322
Hawaii	1,236	1,129	1,129
Idaho	1,458	1,468	1,468
Illinois	16,819	14,790	14,790
Indiana	6,444	7,944	7,944
Iowa	2,747	3,356	3,356
Kansas	3,043	3,459	3,459
Kentucky	6,223	6,148	6,148
Louisiana	7,923	7,677	7,677
Maine	1,574	1,704	1,704
Maryland	4,969	5,563	5,563
Massachusetts	6,888	6,579	6,579
Michigan	11,885	12,275	12,275
Minnesota	3,972	4,229	4,229
Mississippi	4,817	5,861	5,861
Missouri	6,360	6,764	6,764
Montana	1,468	1,314	1,314
Nebraska	1,775	1,714	1,714
Nevada	2,576	2,089	2,089
New Hampshire	771	749	749
New Jersey	7,828	6,076	6,076
New Mexico	3,571	3,562	3,562
New York	28,698	28,326	28,326
North Carolina	13,618	11,444	11,444
North Dakota	844	718	718
Ohio	12,952	14,287	14,287
Oklahoma	4,648	5,573	5,573
Oregon	4,712	4,475	4,475
Pennsylvania	13,512	14,082	14,082
Rhode Island	1,278	1,304	1,304
South Carolina	5,451	6,425	6,425
South Dakota	1,004	924	924
Tennessee	8,758	8,950	8,950
Texas	39,142	37,781	37,781
Utah	2,250	2,381	2,381
Vermont	548	482	482
Virginia	7,818	7,020	7,020
Washington	6,092	6,628	6,526
West Virginia	3,275	2,633	2,633
Wisconsin	5,678	5,678	5,678
Wyoming	607	554	554
American Samoa	373	363	363
Guam	403	397	397
Northern Mariana	381	380	380
Puerto Rico	19,827	19,230	19,230
Virgin Islands	373	363	363

Source: U.S. Treasury
 www.treasury.gov