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Cut the Cost of Borrowing Now! Get Zero-Interest Federal QZAB Funds

---Colorado School Districts are eligible to apply for up to \$1.8 million

By Dr. Laurence Peters

U.S. Department of Education's First QZAB Director and now the Director of the nonprofit National Education Foundation's (NEF) QZAB Program.

Colorado school districts are facing a series of unpleasant and difficult fiscal choices in this current recessionary environment. Now more than ever, given the recent steep spikes in gas and food prices, is the time for some creative thinking as to how best to manage the precious taxpayer resources. Instead of taking drastic measures such as moving to a four day week or cutting back on heating and air conditioning, it is now worth examining the zero interest QZAB (Qualified Zone Academy Bond) option.

The Federal QZAB program allows districts with schools that have at least 35 percent of their students on free and reduced lunch to borrow money from banks at zero interest to renovate buildings, to purchase equipment for IT, energy efficiency, A/C, heating etc., and to improve curriculum offerings or professional development. The only real prohibition on the use of QZAB funds is that it cannot be used for new construction.

There is one other caveat-- the school district must form a partnership with a business or nonprofit willing to make a cash or in-kind donation equal to ten percent of the QZAB loan value at below market price. Additionally, the 10% match partner must work with the school district to create an Academy to "prepare students for college and workforce." Banks and financial institutions issue the QZAB debt to borrowers at zero interest and receive a Federal tax credit.

Each year the U.S. Education Department allocates \$400 million in QZAB funds to state education departments based on the numbers of students in poverty. While large states like California, New York and Texas receive between \$30-\$50 million each, the average for middle size states is between \$5 and \$10 million.

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The state of Colorado receives \$5.44 million annually in interest free allocation and according to our survey the state currently has \$1.8 m of unspent allocations.

Many school districts are not aware of the QZAB program. Many, who are aware, fail to pursue the QZAB option because of their inability to find a suitable 10% match partner or their unfamiliarity with the esoteric tax code language QZAB rules are couched in. Given the time constraints everyone is under these days, it would be easy to just give up at this point and believe that the program is not for my school. That would be a mistake, and this article is designed to give you a brief primer on why QZAB is such a good deal these days for schools.

First and most importantly, these days no school district can afford to turn away from zero borrowing costs—simply put, it is like getting half the money free! As one Ohio School District business manager told me recently, by borrowing \$5 million dollars at zero interest, he would only be paying back about \$2.5 million in principal over 15 years in present value terms.

Second, as to the issue of partnering with a business or a nonprofit, this should be seen in a positive rather than a negative light—schools get an opportunity to lean on the expertise and resources of an outside organization to help improve student scores and academic skills.

Third, the paperwork really turns out to be minimal—most states have made it easy for school districts to simply state what they intend to use the QZAB proceeds for, the nature of the match and the way they will measure student progress in the Academy. In many states, once you have approval from your board, you can be ready within a couple of months to receive the proceeds.

It is worth noting that IRS has recently increased scrutiny of the perceived QZAB program abuses such as the matching partner failing to work with the school district to set up a credible academic program. Hence, the National Education Foundation (NEF) has set aside \$40 million to provide qualified school districts 10% match that meets the Federal and state QZAB requirements. Currently, NEF, as the national leader in QZAB advocacy, is also working with the Congress for extending the QZAB program.

For information, assistance or free advice with any aspect of QZAB, visit www.qzab.org or contact Dr Laurence Peters at qzab@qzab.org or (703) 823-9999.

Contact Information
Dr. Laurence Peters
QZAB Program Director
National Education Foundation (NEF)
4926 C Eisenhower Avenue
Alexandria, VA 22304
(703) 823 9999
Fax: (703) 823 9990
www.qzab.org

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