



PUBLIC SCHOOLS OF NORTH CAROLINA

STATE BOARD OF EDUCATION Howard N. Lee, *Chairman*

DEPARTMENT OF PUBLIC INSTRUCTION June St. Clair Atkinson, ED.D., *State Superintendent*

WWW.NCPUBLICSCHOOLS.ORG

MEMORANDUM

TO: Chairs of County Boards of Commissioners
Public School Superintendents

FROM: Benjamin J. Matthews, PhD.,
Director, School Support Division

A handwritten signature in black ink, appearing to read "Ben Matthews".

DATE: April 4, 2007

SUBJECT: Qualified Zone Academy Bonds

The Qualified Zone Academy Bonds program is a tax code provision (Internal Revenue Code 1397E) created under the Taxpayer Relief Act of 1997 (Public law 105.34-August 5, 1997) and designed to assist eligible local education agencies and schools to establish qualified zone academies in partnership with local businesses. The Secretary of Education extols the bonds as a valuable additional resource for education in North Carolina. QZABs allow schools to focus resources more effectively on achieving high standards that will equip students in high-poverty schools for the challenging demands of the 21st century workplace.

Educators and employers have expressed concerns about the ability of high-poverty schools to address the vital issue of how they prepare their students for a more competitive global economy. Under this program, a qualifying school must join a partnership with private business to design its academic program, which must then have approval from the LEA. In addition, the school must have commitment from private business equal to at least 10 percent of the interest free capital provided under the program.

The enclosed packet of materials will explain Qualified Zone Academy Bonds, provide information and cite additional sources, and offer instructions for utilizing this financial resource for eligible schools within your jurisdiction. Pay particular attention to the stated deadlines as the procedure for issuing these bonds is time sensitive. Feel free to request addition clarification from Dr. Ben Matthews, Director of School Support, at (919) 807-3501 or Daniel Boyette, School Planning at (919) 807-3556. Please remember to be eligible for QZAB authority you must submit your application no later than May 30, 2007,

I hope this program will serve our children well, as we continue our journey toward "First in America". Best wishes for every success.

BJM/pjr

LEAs Previously Receiving QZABs Authority

Avery County	2004
Edenton/Chowan	2004
Clinton City	2004
Swain County	2004
Carteret County	2004
Mount Airy City	1999, 2002, 2004
Harnett County	2002, 2003, 2004
Weldon City	2004
Camden County	1998, 2002, 2003, 2004
Lexington City	2000
Thomasville City	2000
Chatham County	2000
Henderson County	2000
Jackson County	2000
Transylvania County	2000
Surry County	2000, 2002
Whiteville City	2000
Elizabeth City / Pasquotank County	2000
Wake County	1999
Johnston County	1999
Cherokee County	2000, 2002
Bertie County	2001
Clay County	2001
Jones County	2001
Wilson County	2001
Yadkin County	2001
Roanoke Rapids City	2002
Hyde County	2002
Polk County	2003
Vance County	2003
Anson County	2003

QUALIFIED ZONE ACADEMY BONDS North Carolina Guidelines

The following define and describe the QZAB program and its implications for public schools in North Carolina.

1. The Qualified Zone Academy Bonds program is a tax code provision (Internal Revenue Code 1397E) created under the Taxpayer Relief Act of 1997 (Public Law 105-34 - AUG. 5,1997) and designed to assist eligible local education agencies and schools to establish qualified zone academies in partnership with local businesses.

2. A qualified zone academy is a public school or academic program within a public school that is established by and operated under the supervision of an eligible LEA (local education agency) to provide education or training below the postsecondary level and which meets the following criteria.

a.. The school or program must be designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for college and the workforce.

b. Students must be subject to the same academic standards and assessments as other students educated by the LEA.

c. The comprehensive education plan of the school or program is approved by the eligible LEA.

d. The school must have established a partnership with one or more businesses (Note: Governmental agencies do not qualify as business partners.) and be located either within an Empowerment Zone (EZ) or an Enterprise Community (EC). To confirm on-line that a school is included in an EC, go to <http://www.hud.gov/ezec/locator>. If a school desiring to use QZABs is not so located, school officials must have a reasonable expectation that at least 35 percent of the school's students will be eligible for free or reduced-cost lunches, as authorized by the National School Lunch Act. More than 1,250 schools in North Carolina meet this criterion.

3. At least 95% of bond proceeds must be used for a qualified zone academy. In North Carolina, proceeds from bonds issued under the Provision may only be used to:

a. Rehabilitate or repair the public school facility in which a qualified zone academy is located, which may include wiring and other infrastructure improvements related to providing technology; and

b. Provide equipment related to the rehabilitation or repair, but not personal computers or similar technology equipment.

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4. The Provision offers tax credits, at a level set by the Treasury Department that is intended to allow the issuance of bonds without interest, to holders of bonds issued by eligible localities.

QZAB holders (these include banks, insurance companies, and corporations actively involved in the business of lending money) receive a federal income tax credit in an amount equal to a percentage of the face value of the bond.

5. The maximum term of indebtedness, about 14 years under current market conditions, is set so that the local government's obligation to repay in present value terms will be 50 percent of the borrowed amount.

6. The Treasury Department has allocated for 2006 the authority to issue QZABs in North Carolina in the face value amount of \$11,444,000 and for 2007: \$11,444,000.

7. Before QZABs may be issued, there must be a written agreement between a qualified zone academy and one or more local businesses, under which the businesses pledge contributions having a present value of at least 10 percent of the gross proceeds of the QZABs and which may be spread over the term of the bonds. For this purpose, the following are eligible contributions:

- a. equipment, including state-of-the-art technology and vocational equipment;
- b. technical assistance in curriculum development or teacher training;
- c. services of employees as volunteer mentors;
- d. internships, field trips, or other educational opportunities for the students outside the academy proper; and
- e. any other property (including cash) or service specified by the LEA.

8. It is the responsibility of the State Board of Education to allocate portions of the amount of QZAB authority allocated to the State to one or more qualified zone academies. The Board will develop its own process to implement the QZAB provisions.

9. QZABs may be issued by local governments, which will then be responsible for repaying the principal amount.

10. The U.S. Department of Education's guidance on the Qualified Zone Academy Bonds program can be found in its entirety at <http://www.ed.gov/offices/OVAE/qzabfin.html>

11. QZAB indebtedness might qualify for federal government loan guarantees issued by the United States Department of Agriculture's Rural Housing Service. For information, contact Eddie Miller at (919)873-2011 or *eddie.miller@nc.usda.gov*

12. Local officials will be responsible for:

a. Determining whether the purposes for which QZABs are issued conform to state law regarding indebtedness;

b. Obtaining written agreement(s) between a qualified zone academy and one or more local businesses that must pledge contributions having a present value, at the time of issue of the bonds, of at least 10 percent of the gross proceeds of the QZABs and which contributions may be spread over the term of the bonds.

c. Working with the financial institution(s) to issue the QZABs; and

d. Payment of the principal, upon maturity.

13. It will be the responsibility of the governmental entity that issues the bonds to certify to prospective purchasers that it has met all requirements under the program. The IRS has indicated that bond holders may rely on these certifications if they are reasonably made. The Department of Public Instruction will not be involved in reviewing or assessing an issuer's eligibility under this program. Potential issuers are strongly encouraged to consult bond counsel before making any certification of eligibility.

14. In addition to federal requirements, any bonds issued for these purposes must also meet the requirements of North Carolina law, which, in some cases, might be more restrictive than federal rules. Borrowing under this plan requires the same authorization as any other municipal borrowing.

15. The minimum amount of bonding authority that will be allotted to an eligible applicant LEA will be \$500,000 and the maximum amount will be \$2,000,000.

16. Incomplete applications will not be considered.

17. Applications will be reviewed by a committee comprised of the Superintendents' Bond Advisory Council (SBAC), the executive director of the North Carolina School Boards Association, and the deputy director of the North Carolina Association of County Commissioners, in cooperation with School Planning staff. The committee will recommend allocations of authority.

18. Authority will be allotted upon recommendation of the SBAC, upon its review of formal applications submitted by eligible LEAs post marked no later than **May 30, 2007**. Formal

application packets will be forwarded to each LEA. Applications from qualified LEAs that did not receive a prior allocation will be given first consideration. If requested authority still exceeds the statewide bonding allocation, the remaining requests will be prorated. If requested authority is less than the statewide bonding allocation, the application process may be reopened. If applications exceed available funds when prorated, additional selection criteria may be established by the SBAC.

19. Copies of the following are a required part of a formal application:

- a. Board of education resolution certifying the eligibility of the academy
- b. Written agreement from partnering business(es) to make in-kind qualified contributions over the term of the bonds of at least 10% of the face value of the bonds on their issue date
- c. Value of 10% match affidavit
- d. Proposed spending plan and project schedule

20. A separate application must be submitted for each individual project.

21. All formal applications must be submitted via certified mail. Hand deliveries will not be accepted.

22. Note: Charter Schools are not eligible for the QZABs program.

23. QZAB bonds must be issued within 2 years after the year of allocation (by Dec. 31 of that year).

24. 10% of the QZAB proceeds must be committed by contract with a third party within 6 months after issuance of the bonds.

25. 95% of the proceeds must be spent within 5 years after bonds issuance.

26. QZABs are subject to arbitrage rules, just as any other tax exempt bonds.

27. Go to www.schoolclearinghouse.com for a copy of the 2007 Qualified Zone Academy Bonds (QZABs) package

28. Go to www.qzab.com for a comprehensive website for QZAB information furnished by the National Education Foundation (NEF), including how LEAs can take advantage of the non profit NEF's offer to participate in the 10% match and in setting up the academy required by the QZAB program.

QUALIFIED ZONE ACADEMY BONDS PROGRAM

APPLICATION FOR AUTHORIZATION

NOTE: A separate application is required for each individual project.

Submittal Date:	Contact Person:
LEA:	Title:
School:	Address:
Address:	City:
City:	Phone/Fax: E-mail:

Certification of Eligibility
<p>The Board of Education of the above-named LEA certifies, through a board resolution dated _____, that the school in which the proposed academy will be located has satisfied Criterion 1a <u>or</u> 1b and Criteria 2 through 4. Please check the appropriate boxes below.</p> <p><i>Note: A copy of the resolution must accompany this application.</i></p>

Criterion 1: Qualified by virtue of location or composition of student body

Location

a. The school is located in an Empowerment Zone or Enterprise Community.

OR

Composition of student body

b. There is a reasonable expectation that, as of the date of issuance of the bonds, at least 35% of the students attending the school will be eligible for free or reduced-cost lunches under the National School Lunch Act.

Criterion 2: Qualified by virtue of private business contribution

The eligible school has written commitment from private entities to make qualified contributions (over the term of the bonds) having a value, as of the date of issuance of the bonds, of not less than ten percent of the proceeds of the bond issue, to include such items as equipment for the academy, technical assistance in developing curriculum, teacher training, volunteer mentoring, internships, cash, and other items approved by the LEA. Providers of services or materials for the proposed project are not eligible as contributors to meet the 10% contribution requirement. Neither are governmental entities eligible.

The application must also include an affidavit signed by the school Superintendent, financial advisors, bond counsels, and the 10% match partners stating that the value of the 10% match is below the fair market value offered by any entity providing similar projects or services.

Note: A copy of the written agreement must accompany this application.

Criterion 3: Qualified by virtue of the characteristics of the program

The public school or academic program within the public school is established by and operated under the supervision of an eligible LEA.

- 1. Such school or program is 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;
- 2. Students within the academy are subject to the same academic standards and assessments as other students educated by the LEA; and
- 3. The comprehensive education plan of the program is approved by the LEA.

Criterion 4: Qualified by virtue of use of bond proceeds

For the purposes of this application, proceeds of the QZABs will be used for:

- 1. Rehabilitation and/or repair of the public school facility in which the qualified zone academy is located, which may include wiring and other infrastructure improvements related to providing technology; and/or
- 2. Provision of equipment related to the rehabilitation or repair, but not personal computers or similar technology.

Note: A copy of the proposed spending plan and project schedule must accompany this application.

_____	Board of Education	_____	County Board of Commissioners
_____	Chair	_____	Chair
_____	Secretary	_____	Clerk
_____	Date	_____	Date

Please return original via certified mail post marked no later than **May 30, 2007** to:

QZAB IV
 School Planning Section
 North Carolina Department of Public Instruction
 6319 Mail Service Center
 Raleigh NC 27699-6319

LEA _____

School _____

Project Description

Provide a brief narrative that describes the academy, to include as a minimum:

1. Purpose and goals
2. Target student population, including estimated number of participants
3. Curriculum enhancement
4. Partnership with business
5. Administration and management

VALUE OF 10% MATCH
AFFIDAVIT

We the undersigned, agree that the value of the contribution pledged by the private business partner(s) to match 10% of the value of the gross proceeds of the QZABs is below the fair market value offered by any entity providing similar products or services.

_____ School Superintendent Date _____

_____ Financial Advisor(s) Date _____

_____ Bond Counsel(s) Date _____

_____ 10% Match Partner(s) Date _____

Public Schools of North Carolina
Qualified Zone Academy Bonds Program

PROPOSED SPENDING PLAN AND PROJECT SCHEDULE

LEA _____ Date _____

LEA Code ___ ___ ___ School Code ___ ___ ___ DSP Property Number (if known) ___ ___ ___

School _____ Grades _____

Name of Academy _____

Proposed Spending Plan

Administration cost and design fees \$ _____

Renovation cost \$ _____

Total project cost \$ _____

Amount of QZAB authority requested \$ _____

Cash contributions (if any) from partnering business(es) to be used for renovation \$ _____

[To comply with the Federal QZAB requirements, we understand that a commitment in the form of contracts for the renovation work with the architects / engineers or other third party for 10% of the funds must be made within 6 months and 95% must be spent within 5 years after the issue of QZAB bonds. Signed _____

Provide a written explanation clearly showing the means by which the district intends to repay the bond principal upon maturity.

Proposed Project Schedule

Date of design start _____

Date of renovation start _____

Estimated completion date _____