



QUALIFIED ZONE ACADEMY BOND (QZAB) PROGRAM Guidelines

INTRODUCTION

The Qualified Zone Academy Bond (QZAB) Program was established under Section 226 of the Taxpayer Relief Act of 1997, and, as amended in 1999, appears in Section 1397E of the Internal Revenue Service Code. The American Recovery and Reinvestment Tax Act extended and expanded the QZAB program for 2008 and 2009. This federal program allows for certain schools, known as education zone academies, to finance the renovation of school facilities, purchase equipment, and, if allowed by state law, provide up-to-date technology and instructional materials on an interest-free basis through the allocation of tax credits.

For 2008 and 2009, the U.S. Department of the Treasury has allocated a total of \$62,734,000 (\$13,941,000 for 2008, and \$48,793,000 for 2009) of QZAB authority to the Commonwealth of Pennsylvania. The Pennsylvania Department of Education is responsible for making allocations to local school districts. The Bureau of Budget and Fiscal Management, Division of School Facilities, is responsible for administering the program.

How do QZABs work?

Use of funds. 100 percent of the available project proceeds must be used for renovation, repair or rehabilitation of existing public school facilities or for equipment to be used at the academy. The renovation, repair and rehabilitation work must support the academic program (academy) being proposed. QZAB proceeds may also be used to provide up-to-date technology or instructional materials **but only if the intended use can be classified as a capital asset under the Local Government Unit Debt Act (LGUDA)**. Bond counsel should refer to the definition of a project under the LGUDA. Questions related to LGUDA should be directed to the Department of Community and Economic Development.

Private Contribution Requirement. The school district must enter into a partnership with a private entity or entities to design a program with the goal of enhancing the academic curriculum, increasing graduation and employment rates, and preparing students for college and the workforce.

The partner must make qualified contributions having a present value (as of the date of issuance of the bond issue) of not less than 10 percent of the proceeds of the bond issue. The donations may be comprised of cash, goods, services, internships, etc. Regular tax rules concerning donations apply (consult with bond counsel to ensure contributions meet federal regulations). School districts in Pennsylvania are encouraged to obtain cash to meet the 10 percent private contribution requirement.

APPLICATION REQUIREMENTS

Who can apply?

School districts submitting an application must meet the following federal criteria:

- **Private business contribution:** The school district must receive written commitments from private entities to make qualified contributions having a present value (as of the date of issuance of the bond issue) of not less than 10 percent of the proceeds of the bond issue.
- **Education plan:** The school district must use QZAB proceeds in support of a board-approved education plan with the goal of enhancing the academic curriculum, increasing graduation and employment rates, and preparing students for college and the workforce. Students in the academy program must be subject to the same standards and assessments as other students in the school district.
- **Criteria for school building:** As of the date of the issuance of the bonds, there is a reasonable expectation that at least 35 percent of the students attending the project school building will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

In Pennsylvania, the QZAB Program will initially be offered to school districts that meet the following qualifying criterion:

- **High tax effort/high poverty:** To qualify, (1) the school district's 2007-2008 equalized millage must be greater than or equal to 19.0 **or** the school district must be in a county designated distressed for 2010 by the Appalachian Regional Commission, **and** (2) its October 2008 Free and Reduced Lunch percentage must be greater than or equal to 45 percent.

The application deadline for qualifying school districts is **April 1, 2010**.

If Pennsylvania's total QZAB allocation is not awarded to the initial qualifying school districts, participation in the program will be offered to other school districts.

In addition to the 2008 and 2009 QZAB allocations, Pennsylvania will also receive a QZAB allocation for 2010. Following notification from the U.S. Treasury about the 2010 state allocation, guidance will be issued to school districts based on eligibility criteria to be determined at that time.

How will allocations be awarded?

Allocations will be awarded on a competitive basis.

A school district may apply for more than one project. In addition to completing the application, the school district must prepare a written spending plan specifying how and when bond proceeds are to be used.

School building projects must address one or more of the following program objectives:

1. Creating sustainable schools (increasing energy efficiency, improving energy and water conservation, reducing greenhouse gas emissions, improving indoor environmental quality, and reducing waste). For more ideas, visit www.greenschoolbuildings.org. School districts are encouraged, but not required, to apply for “green” certification (LEED for Schools silver or higher, two or more Green Globes, Energy Star building rating of 75 or more) in these projects; or
2. Creating space within an existing building’s footprint for high-quality pre-school, full-day kindergarten, and/or reducing class size in the early grades; or
3. Creating space within an existing building’s footprint for Science, Technology, Engineering, and Mathematics (STEM) programs; or
4. Correcting health and safety deficiencies, including school building security upgrades and building code violations.

If QZAB allocation requests received by the Pennsylvania Department of Education exceed PA’s total allocation (\$62,734,000), preference will be given to projects based on the following rating system:

1. Increasing energy efficiency, improving energy and water conservation, reducing greenhouse gas emissions, improving indoor environmental quality, and reducing waste – up to 30 points,
2. Creating space within an existing building’s footprint for high-quality pre-school, full-day kindergarten, and/or reducing class size in the early grades – up to 30 points,
3. Creating space within an existing building’s footprint for Science, Technology, Engineering, and Mathematics (STEM) programs – up to 20 points,
4. Addressing health and safety deficiencies, including school building security upgrades – up to 10 points,
5. Opening bids and starting construction in 2010 – up to 10 points.

Allocation amounts will be based on the level of response to the program and how projects meet the goals and criteria set forth above. If there is significant demand, amounts allocated to individual school districts may be limited.

ISSUANCE OF BONDS

How will bonds be issued?

The 2008 QZABs must be issued by December 31, 2010; the 2009 QZABs must be issued by December 31, 2011. A state authority will issue the 2008 and 2009 QZABs to finance eligible projects on behalf of local school districts, and then lend the proceeds of the QZABs to the participating school districts.

Participating school districts must be willing to authorize a general obligation note with a maturity structure consistent with the program requirements. Costs of issuance will be allocated pro rata to participants.

Internal Revenue Service Requirements

- A contract must be in place with a third party to spend down at least 10 percent of the bond proceeds within six months after issuance.
- 100 percent of the proceeds must be spent within 3 years of the bond issuance.
- QZAB proceeds are subject to arbitrage rules.
- Issuers are subject to IRS reporting requirements.
- The maximum maturity and the credit rate for QZABs are determined as of the date that there is a binding, written contract for the sale or exchange of the bond. The applicable maximum maturity, the discount rate for determining the maturity, and QZAB credit rate are published for that date by the Bureau of Public Debt on its internet site for State and Local Government Series securities at:
<https://www.treasurydirect.gov>.

SOURCES FOR ADDITIONAL INFORMATION

Participating school districts should read and thoroughly understand the following documents:

- Title 26, Internal Revenue Service Code, Section 1397E, and
- U.S. Department of Treasury document, 26 CFR Part 1 [TD 8903] RIN 1545-AY01, published in the September 26, 2000 Federal Register,
<http://www.irs.treas.gov/pub/irs-regs/td8903.pdf>.

Additional information is available from the U.S. Department of Education's Web site at www.ed.gov.

Contacts

Internal Revenue Service (202) 622-3980
Office of Division Counsel/
Associate Chief Counsel
Tax Exempt & Government Entities

U.S. Department of Education (202) 401-0907

Pennsylvania Department of Education (717) 787-5480
Bureau of Budget and Fiscal Management ra-schoolfacilities@state.pa.us
Division of School Facilities

**QUALIFIED SCHOOL CONSTRUCTION BOND PROGRAM
 QUALIFIED ZONE ACADEMY BOND PROGRAM
 High Tax Effort / High Poverty School Districts**

AUN	School District	County	2007-08 Equalized Mills	Appalachian Regional Commission - Distressed County	2008-09 Free & Reduced Percent
103021903	Clairton City SD	Allegheny	35.0		87.17
103022103	Cornell SD	Allegheny	29.6		56.46
103022503	Duquesne City SD	Allegheny	35.2		98.88
103022803	East Allegheny SD	Allegheny	38.8		47.45
103024753	Highlands SD	Allegheny	30.4		45.34
103026002	McKeesport Area SD	Allegheny	26.9		69.07
103027352	Penn Hills SD	Allegheny	35.6		49.21
102027451	Pittsburgh SD	Allegheny	24.4		68.82
103028833	Steel Valley SD	Allegheny	24.1		48.64
103028853	Sto-Rox SD	Allegheny	37.1		65.34
103029803	Wilkinsburg Borough SD	Allegheny	43.9		80.72
103029902	Woodland Hills SD	Allegheny	32.1		65.75
127040503	Aliquippa SD	Beaver	25.2		80.44
127041503	Big Beaver Falls Area SD	Beaver	28.6		62.82
127045653	New Brighton Area SD	Beaver	20.3		49.91
127046903	Rochester Area SD	Beaver	23.9		59.06
114067002	Reading SD	Berks	25.5		88.08
122091303	Bristol Borough SD	Bucks	20.0		60.50
108112003	Ferndale Area SD	Cambria	21.8		57.02
108112502	Greater Johnstown SD	Cambria	19.9		73.84
121136603	Panther Valley SD	Carbon	27.8		61.05
110171003	Clearfield Area SD	Clearfield	19.9		49.74
110173003	Glendale SD	Clearfield	22.0		49.34
110173504	Harmony Area SD	Clearfield	20.3		54.93
110179003	West Branch Area SD	Clearfield	19.7		47.22
115222752	Harrisburg City SD	Dauphin	31.0		87.02
115228003	Steelton-Highspire SD	Dauphin	30.4		68.32
125231232	Chester-Upland SD	Delaware	26.3		67.87
125238402	Southeast Delco SD	Delaware	31.7		62.98
125239452	Upper Darby SD	Delaware	28.1		47.01
125239652	William Penn SD	Delaware	37.1		59.77
105251453	Corry Area SD	Erie	21.9		53.36
105252602	Erie City SD	Erie	23.1		75.40
105256553	Iroquois SD	Erie	26.1		48.75
106272003	Forest Area SD	Forest	14.0	Yes	46.26
101306503	Southeastern Greene SD	Greene	27.2		57.22
101308503	West Greene SD	Greene	21.1		46.22
128327303	Purchase Line SD	Indiana	20.9		54.32
119351303	Carbondale Area SD	Lackawanna	25.8		55.08
119357402	Scranton SD	Lackawanna	26.1		56.52
113361503	Columbia Borough SD	Lancaster	26.7		55.00
113364002	Lancaster SD	Lancaster	26.6		77.37
104375302	New Castle Area SD	Lawrence	23.1		56.11
113384603	Lebanon SD	Lebanon	25.5		69.22
121390302	Allentown City SD	Lehigh	24.8		71.81
118402603	Greater Nanticoke Area SD	Luzerne	22.6		46.35
118403003	Hanover Area SD	Luzerne	22.6		50.10

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118408852	Wilkes-Barre Area SD	Luzerne	26.3		54.28
118409302	Wyoming Valley West SD	Luzerne	23.5		50.08
117417202	Williamsport Area SD	Lycoming	19.9		57.76
109426003	Otto-Eldred SD	McKean	20.9		47.16
104432503	Farrell Area SD	Mercer	22.2		82.13
104435603	Sharon City SD	Mercer	23.7		66.67
120455403	Pocono Mountain SD	Monroe	25.6		45.12
123465602	Norristown Area SD	Montgomery	26.6		62.05
123466403	Pottstown SD	Montgomery	33.3		60.12
120481002	Bethlehem Area SD	Northampton	19.8		45.73
126515001	Philadelphia City SD	Philadelphia	19.7		75.35
129544503	Mahanoy Area SD	Schuylkill	28.1		55.92
129546103	Pottsville Area SD	Schuylkill	24.1		47.99
129547203	Shenandoah Valley SD	Schuylkill	28.0		63.18
119586503	Susquehanna Community SD	Susquehanna	19.9		49.39
106616203	Oil City Area SD	Venango	24.6		45.53
101631803	Charleroi SD	Washington	24.5		48.31
101638803	Washington SD	Washington	26.1		59.08
107654103	Jeannette City SD	Westmoreland	25.0		57.47
107655803	Monessen City SD	Westmoreland	22.6		66.44
107656303	New Kensington-Arnold SD	Westmoreland	26.4		57.06
112679002	York City SD	York	38.5		84.10

Note: Philadelphia City School District is not eligible to apply for the state's 2009 QSCB allocation since it received its own 2009 QSCB allocation as one of the 100 largest local education agencies in the nation.

QUALIFIED ZONE ACADEMY BOND PROGRAM APPLICATION (1 OF 2)

INSTRUCTIONS: One signed copy of this application must be submitted for each school building for which a QZAB allocation is being requested. Applications should be submitted to: PA Department of Education, Division of School Facilities, 333 Market Street, Harrisburg, PA 17126-0333. Any questions regarding the completion of this form should be directed to the Division at (717) 787-5480.

School District Name: _____

Project Building/Site Name: _____

Project Building/Site Address: _____

Contact Person and Title: _____

Telephone Number - Ext.: _____

FAX Number: _____

Email Address of Contact Person: _____

Grades Housed _____ - _____

Estimated Bid Opening Date: _____

Estimated Date By Which the School District Can Participate In a QZAB Sale: _____
Month/Year

PROJECT DESCRIPTION

Briefly describe the work to be completed by this project.

PROJECT COST AND QZAB REQUEST

DOLLAR AMOUNT

Renovate, repair or rehabilitate the public school facility in which the academy is established. \$ _____

Provide equipment for use at the academy. \$ _____

Provide up-to-date technology or instructional materials \$ _____
(only if intended use can be classified as a capital asset under the Local Government Unit Debt Act (LGUDA). Refer to the definition of a project under LGUDA or consult with the Department of Community and Economic Development.)

Other (describe on attached sheets) \$ _____

TOTAL QZAB REQUEST
for this school building only _____

QZAB PROGRAM OBJECTIVES

School district project must address one or more of the following objectives.

Check all that apply and attach a detailed description of how each checked objective will be met.

Creating sustainable schools (increasing energy efficiency, improving energy and water conservation, reducing greenhouse gas emissions, improving indoor environmental quality, and reducing waste)

Creating space within an existing building's footprint for high-quality pre-school, full-day kindergarten, and/or reducing class size in the early grades

Creating space within an existing building's footprint for Science, Technology, Engineering, and Mathematics (STEM) programs

Correcting health and safety deficiencies, including school building security upgrades and building code violations

QUALIFIED ZONE ACADEMY BOND PROGRAM APPLICATION (2 OF 2)

SCHOOL DISTRICT NAME:

PROJECT BUILDING/SITE NAME:

QZAB CERTIFICATION OF ELIGIBILITY -- THE FOLLOWING FOUR CRITERIA MUST BE MET:

CRITERIA 1: SCHOOL BUILDING - STUDENT ELIGIBILITY (check box if criteria has been met)

As of the date of issuance of the bonds, there is a reasonable expectation that at least 35% of the students attending the project school building will be eligible for free or reduced-cost lunches under the school lunch program established under the National School Lunch Act.

For the project building, indicate the percent of students eligible in School Year 2009-2010 _____%.

CRITERIA 2: PRIVATE BUSINESS CONTRIBUTION (check box if criteria has been met)

The school district has written commitments from private entities to make qualified contributions having a present value (as the date of the issuance of the bond issue) of not less than 10% of the proceeds of the bond issue. **Written verification from private entities must be attached.**

CRITERIA 3: CHARACTERISTICS OF THE PROGRAM/EDUCATIONAL INITIATIVE (check box if criteria has been met) **A detailed description of the educational initiative being proposed must be attached.**

The project school or program is designed in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and to better prepare students for the rigors of college and the increasingly complex workforce, and

Students in the academy are subject to the same academic standards and assessments as other students educated by the local school system, and

The comprehensive education plan of the school or program is approved by the school district.

CRITERIA 4: USE OF BOND PROCEEDS (check box if criteria has been met)

A written spending plan associated with the proposed project and/or program is attached to this application.

SUPPORTING DOCUMENTATION (check box if documents are attached to this application)

Detailed description of the project and/or program, and how the checked QZAB program objectives will be met.

Written verification of private business contributions. Written commitments must provide specifics on the type of contributions, such as, equipment for use in the program, technical assistance in developing curriculum to promote market-driven technology in the classroom, volunteer mentors, internships, cash, etc.

Detailed description of the educational initiative being proposed under the program. Describe how the proposed use of qualified zone academy bonds supports the proposed educational initiative.

Written spending plan associated with the proposed project and/or program.

BOARD CERTIFICATION

The Board hereby certifies that 100% of the available project proceeds of the QZAB issue will be used for the renovation, repair or rehabilitation of a public school facility or for equipment to be used at the academy, which support the academic program being proposed, or for up-to-date technology or instructional materials if the intended use can be classified as a capital asset under the Local Government Unit Debt Act (LGUDA). The Board certifies that the information in this application and the attached documentation are true and correct.

BOARD ACTION DATE: _____

VOTING: AYE ____ NAY ____ ABSTENTIONS ____ ABSENT ____

Signature, Board Secretary

Board Secretary's Name, Printed or Typed