
Qualified Zone Academy Bond ("QZAB") Program Extended

By James M. Crowley / Feb 21, 2013

The QZAB program, originally created under the Taxpayer Relief Act of 1997, and recently extended through 2013 under the American Taxpayer Relief Act of 2012, is intended to encourage the formation of partnerships between public schools and local businesses. A QZAB allows a public school to borrow money on a reduced or interest-free basis through the issuance of bonds which provide a tax credit to the bondholders in lieu of interest payments. The tax credit on the QZAB reduces or eliminates the cost of interest only, not the principal.

A QZAB can be issued by a public school that establishes a Qualified Zone Academy (see requirements below) and receives a written commitment from private entities to make qualified contributions to the Qualified Zone Academy with a present value equal to at least 10% of the value of the QZAB. A "qualified contribution" is defined to include the following: equipment for use in the school; technical assistance in developing curriculum or in training teachers to promote appropriate market driven technology in the classroom; employees' services as volunteer mentors; internships, field trips or educational opportunities outside the school; or other property or services

A "Qualified Zone Academy" is defined under the QZAB law as any public school (or academic program within a public school) which is established by and operated under the supervision of the public school to provide education or training below the post-secondary level. The Qualified Zone Academy program must also meet the following eligibility criteria:

1. The Qualified Zone Academy program must be 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 in the Qualified Zone Academy program must be subject to the same academic standards and assessments as other students educated by the public school;
3. The comprehensive education plan of the Qualified Zone Academy program must be approved by the public school; and
4. The public school must be located in an empowerment zone or enterprise community (including any such zone or community designated after the date of the enactment of this section) or there is a reasonable expectation (as of the issuance of the QZAB) that at least 35 percent of the students participating in the Qualified Zone Academy program will be eligible for free or reduced-cost lunches under the National School Lunch Act.

At least 95% of the proceeds of the QZAB must be used within a Qualified Zone Academy to rehabilitate, equip or furnish school facilities.

The tax credit rate and maximum allowable maturity of a QZAB are set on the date the QZAB is sold. The tax credit rate and maximum allowable term are set daily by the federal government and can be found at www.treasurydirect.gov.

The amount of QZABs which may be issued by public schools is limited by the federal government. In Michigan, the Department of Education administers the QZAB program and requires public schools to make application to receive an allocation of the Michigan QZAB authorization. A public school may apply for more than one project, so long as each project meets eligibility requirements, however the allocation for each site is capped at \$2 million and the allocation for each public school is capped at \$5 million. More information regarding the QZAB program and the application can be found under the "Grants" section of the Michigan Department of Education's website www.michigan.gov/mde.

Important Note : Under Michigan law, a QZAB is treated as a non-voted resolution bond (i.e., limited tax bond) and is thus subject to the limitations contained in the Revised School Code on the amount of these types of bonds a school district may issue. Generally, under the Revised School Code, a school district's non-voted debt is limited to an amount which does not exceed five percent (5%) of the SEV of the taxable property within the school district. An exception to this limitation is provided for energy conservation improvement bonds

If you have any questions regarding the QZAB Program please contact your Clark Hill Education Law attorney.