

Qualified Zone Academy Bonds

- Attached is a 2014 presentation on Qualified Zone Academy Bonds (“QZABs”) jointly presented by the Virginia Department of Education and the Virginia Public School Authority.
- The Tax Cuts and Jobs Act of 2017 repealed the authority to issue QZABs after December 31, 2017. Previously issued QZABs were not affected.

2014 QUALIFIED ZONE ACADEMY BONDS (QZAB) PROGRAM

Presented by:

**Virginia Department of Education
Virginia Public School Authority**



June 12, 2014

Agenda

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- Introduction of Participants
 - ▣ Virginia Department of Education (VA DOE)
 - ▣ Virginia Public School Authority (VPSA)
 - ▣ McGuireWoods
 - ▣ PFM

- 2014 QZAB Program Overview

- Roles – VA DOE, VPSA, Local Issuers

- Time Frame – Financing Schedule

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Introduction of Participants

Participants

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- Virginia Department of Education (VA DOE)
 - ▣ Kent Dickey
 - ▣ Chris Sorensen
 - ▣ Christina Snellings
- Virginia Public School Authority (VPSA)
 - ▣ Evie Whitley
 - ▣ Deidre Jett
 - ▣ Melissa Palmer
- McGuireWoods – Bond Counsel for VPSA
 - ▣ Arthur Anderson
- PFM – Financial Advisor for VPSA
 - ▣ Kevin Rotty
 - ▣ JoAnne Carter

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QZAB Program Overview

What is a QZAB?

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- QZAB Basics
 - ▣ Borrowers get funds at a very low or 0% interest rate
 - ▣ Investors receive a federal tax credit in lieu of all or a portion of the interest on the bonds
- QZAB Proceeds May Be Used For
 - ▣ Renovating school buildings
 - ▣ Purchasing equipment
 - ▣ **Not** for new construction
- See the VA DOE website for more information
 - ▣ http://www.doe.virginia.gov/school_finance/qualzone_acad_bonds/index.shtml
- Also see the US DOE website
 - ▣ <http://www2.ed.gov/programs/qualifiedzone/index.html>

Examples of Past QZAB Projects

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- ❑ Lighting Upgrades
- ❑ Asbestos Removal
- ❑ Plumbing Replacement
- ❑ Playground Equipment Replacement
- ❑ Window Replacement
- ❑ Security System Upgrades
- ❑ Lab Renovation
- ❑ Kitchen Equipment Upgrades
- ❑ School Safety Upgrades including Security Cameras, Fire Sprinklers, Security Doors

QZAB Program Requirements

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- 10% Private Contribution
 - Match Equals 10% of the Amount Borrowed
- Time Limits on Expenditure of Proceeds
- Schools Must Have at Least 35% of Students Eligible for Free or Reduced-cost Lunches
- Davis-Bacon Act Compliance

10% Private Match

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- Past Examples of Qualified Private Contributions
 - ▣ Internships
 - ▣ Scholarships
 - ▣ Mentoring
 - ▣ In-kind Contributions
 - ▣ Cash (if used to purchase qualified items)
- Matching Amount
 - ▣ Measured on a present value basis
 - ▣ Can be received over time

10% Private Match Contributor

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- Qualify as Private Contributors
 - ▣ Private, For-Profit Firm
 - ▣ Private, Not-For-Profit Firm
 - ▣ Community Group
 - ▣ Parents
- Do not Qualify as Private Contributors
 - ▣ State or Local Governments
 - ▣ Employees of the School Division

QZAB Time Limits

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- Reasonable expectation to spend **10%** of proceeds within **6 months** after the issue date

- Must spend **all** proceeds within **3 years**

- If all proceeds not spent in 3 years
 - ▣ Must redeem a portion of QZABs, or
 - ▣ Request a spending period extension from the IRS

VPSA Financing Structure

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- VPSA will issue up to \$14,400,000 in QZABs and use the proceeds to
 - ▣ Purchase up to \$14,400,000 of general obligation school bonds
 - Issued by the selected localities
 - Proceeds used for qualifying capital projects
 - ▣ Pay a portion of the issuance cost of the VPSA QZABs.

- VPSA QZABs will be payable from and secured by
 - ▣ Principal and interest (if any) payments on the general obligation school bonds,
 - ▣ The State Aid Intercept Provision, and
 - ▣ A State General Fund Sum Sufficient Appropriation.

VPSA Financing Structure - Continued

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- VPSA will seek to issue its QZABs as single maturity (bullet maturity) zero-interest bonds with a maturity date not later than the maximum term established by the United States Department of Treasury (currently 21 years).
- However, the QZAB purchaser may require a supplemental interest coupon and/or serial maturities.
- In the bullet maturity structure, VPSA will collect annual principal payments on the local school bonds and invest the payments for the benefit of the participating localities until the final maturity date of the QZABs.
- Due to limitations on the use of QZAB proceeds to pay issuance costs, the localities will have to pay their local issuance costs from other available funds.

How Will My District Benefit?

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- Lower Cost of borrowing
 - ▣ 0% interest
 - ▣ Or, very low interest rate (supplemental coupon)
- Value of the 10% Match
- Current Maximum Term of 21 Years
- Locality/District may benefit from investment earnings in the Sinking Fund
- 2014 QZAB Program not affected by sequestration

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Roles

Who Administers the Program?

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- VA DOE
 - ▣ Follows Federal Guidelines
 - ▣ Coordinates Allocation of Volume Cap made by Secretary of Education with Local School Districts
- VPSA
 - ▣ Arranges the Bond Sale
 - ▣ Prepares Financing, Tax, and Closing Documents
 - ▣ Coordinates Payment of Debt Service

Local School District's Role

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Now that the Virginia Secretary of Education has sent the allocation award letters, divisions should:

- ❑ Identify Eligible Projects
- ❑ Coordinate with Locality's Governing Body
- ❑ Send an intent-to-participate letter to VA DOE
- ❑ Seek advice from Local Bond Counsel/Financial Advisor
- ❑ Inform VPSA of any Special Debt Service Requirements
- ❑ Schools Submit Application Package to VA DOE

Application Package

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- Submit pre-printed, standard application form provided VA DOE
- Provide Written Proof of 10% Match Commitments
- Provide Signed and Sealed Resolutions from the School Board and Local Governing Body
- Complete Printed Application

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Timeframe

Timeframe - Financing Schedule*

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- July – applications submitted to VA DOE
- First Week of September - Local Finalized Decision to Participate
- Late October - Bonds Sold
- Mid–November – Bonds Close and Funds Available**

*A preliminary calendar will be circulated the third week of June.

**The CY 2012 Allocation expires December 31, 2014.

Contacts

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□ VA DOE

■ Chris Sorensen
(804) 225-2025

chris.sorensen@doe.virginia.gov

Tina Snellings

(804) 225-2025

christina.snellings@doe.virginia.gov

□ VPSA

■ Deidre Jett
(804) 225-4928

deidre.jett@trs.virginia.gov

Melissa Palmer

(804) 225-4926

melissa.palmer@trs.virginia.gov

□ Information on QZAB can be found on the IRS Website

□ [http://www.irs.gov/pub/irs-tege/tc and stcb q-a. 09-07-10 1.5.pdf](http://www.irs.gov/pub/irs-tege/tc_and_stcb_q-a_09-07-10_1.5.pdf)

Questions

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