

QZABs: zero-interest bonds for American schools

Guy Banicki
Illinois State University

Mary Ann Manos
Illinois State University

Abstract

The practice of federal incentives and financial support for upgrading and renovation of existing school facilities with low or no bond interest cost begins with the Taxpayer Relief Act of 1997. The first year of the Taxpayer Relief Act saw not one school district in the nation interested in zero-interest bonds (Qualified Zone School Academy Bonds). Few financial institutions understood the legislation. From that slow starting point, other zero-interest initiatives were replicated and extended in the America Reinvestment and Recovery Act of 2009. These incentives have increased QZAB interest and applications. Qualifications for schools are based on existing enterprise zones, as well as student low income rates. The zero-interest bond funding was first used in California by two school districts that formed a cooperative to build and equip a technology center for career prep (academy). Today, the federal funding has remained steady although not level, characterized by state departments of education tasked as awarding agencies, many commercial lenders involved in coast-to-coast promotion of QZABs, and an extension of zero-interest bond opportunities to charter schools. A dearth of research in the use of QZABs, mandated the investigator's reliance on primary governmental guidance documents for this descriptive research paper.

Purpose of the Research

This research paper is meant to provide descriptive information and synthesize governmental guidance for public school administrators, to better inform their decision-making when considered federal funding resources. It will serve as initial information that may become the basis for further action research in the state of Illinois. This paper is focused on basic information to encourage school boards to discuss the feasibility of QZABs for future use in their home districts.

Overview of QZABs

Qualified Zone Schools Academy Bonds were first developed as federal tax support for the upgrading of decrepit school buildings located in enterprise zones, forge partnerships between school and career professional programs; encourage local business to contribute matching funds of 10% towards school upgrades, center on an individual school (as opposed to an entire district), and encourage collaboration between districts in the expansion of technology and career prep programs (Progressive Policy Institute, 2002)

The program title describes the focus of the funding. The title “Qualified Zone” was first designated toward schools in enterprise zones – that is property tax-poor districts or those schools that do not benefit from area commercial enterprise due to deferred property taxes. The “Academy” term refers to the qualifications of enhancing the academic curriculum, increasing student graduation and employment rates, or better preparing students for college and the workforce (USDE, 2000). It also refers to the pre-requisite partnership that would provide 10% of the requested bond from a business partnership that was pledged to the applying school. Finally, QZABs are focused on offering federal income tax credit to financial institutions that issue such bonds. QZABs allow for tax credits so school districts save approximately 50% of the total cost the bond repayment (USDE, 2000). Clearly, the opportunity for low or no-interest bonding is simply too great a financial vehicle to pass up for school districts interested in upgrading school facilities, at nearly half the usual cost.

Prerequisites for QZABs

Qualifications for funding are based on surrounding enterprise zones as well as school low income rates. The legislation requirements are as follows;

- 1) The individual school must be located in an enterprise zone or enterprise community
- 2) There is a reasonable expectation that at least 35% of the school’s students will be eligible for the free or reduced-price lunch program (according to Title I guidelines).
- 3) The school is required to receive donations (from private entities worth at least 10% of the value of the money borrowed (USDE, 2000).
- 4) Include at least a 10% match from business or commercial enterprise
- 5) The ARRA encourages charter schools to apply (Duncan, 2009)
- 6) Bonds mature at 20 years maximum, spent-out in 5 years (USDT, 2009)
- 7) Have an education program designed in cooperation with business
- 8) Subject their students to the same standards and assessments as other students in the LEA
- 9) Have an educational plan approved by the LEA (Duncan, 2009).

Proposed school projects should represent the following;

1. Not be new school construction
2. School renovation
3. School repair – health and safety
4. Equipment – as well as infrastructure
5. Technology upgrades
6. Developed challenging curriculum
7. Train teachers
8. Environmental concerns
9. Energy efficiency

Business Connections

From the meager start in 1997, many national business entities have opened their financial resources to help schools provide the 10% of the face value of the bond in match funding. Starting in 1999, two districts built a successful collaboration in Clovis and Fresno, California, the first to receive QZAB funding in that state. Business partners continue to offer technology support and equipment to the resulting state-of-the-art, Center for Advanced Research and Technology, started in California in 1999 as a ground breaking QZAB effort. Other districts in California have worked with business partners to design and open academies on hotel/hospitality careers, a professional teaching academy, and a health education academy. In Illinois, Chicago Public schools opened the first public military academy in 1998, the Chicago Military Academy at Bronzeville, and the South Side College Preparatory Academy with business partners such as IBM, Unisys, Dell, EMC, Educational Technology Solutions, Ameritech, and Beggs-Heidt. Businesses may count mentoring hours and training opportunities as a part of the 10% match. This researcher found one national entity that offers the 10% match to all schools willing to apply for QZABs. The National Education Foundation provided the 10% match for 95% of the QZABs issued in 2009 (Classlink, 2010). The same entity offers “technology academy” packages for 9 sample academies via a purchased site license (Peters, 2008).

Funding Available for Schools

The program is operated by the U.S. Department of the Treasury. With an annual federal allocation of more than \$400 million (ISBE, 2009), the program is ready for new ideas and new academies. The allotments for 2009 and 2010 have been funded at to \$1.4 billion (Duncan, 2009). The estimated total available as of January 1 2012, (USDT, 2009) for Illinois was \$67,150,000. Illinois’ yearly allotment hovers close to \$14 million (ISBE, 2012). In reality, much less was made available; \$14,932,000 was the Illinois total. In May of 2011, 5 Illinois school districts were granted QZAB funding (Koch, 2011).

District	Amount requested	2011 Allocation
Edwards County CUSD 1	\$1,000,000	\$708,907
Decatur SD 61	\$6,600,00	\$4,678,789
Shelbyville CUSD 4	\$2,213,400	\$1,569,096
Aurora East USD 131	\$1,250,000	\$886,134
Galesburg CUSD 205	\$10,000,000	\$7,089,074
Total		\$14,932,000

The State Board of Education awarded these amounts in the May 25, 2011 open meeting. Secretary of Education, Arne Duncan, has some discretionary leeway with QZAB funding. The Secretary may set aside \$200 million (half of the yearly allocation) for the Department of the Interior for assistance to schools operated or supported by the Bureau of Indian Education. Additionally, the Secretary may set aside funding for certain large LEAs (Duncan, 2009).

QZAB Application process

One universally acknowledged element mentioned as a positive aspect of the program is the ease in completing the application process and the implementation requirements (Classlink, 2012).

Superintendent, Tom Bradley, Clovis Schools (California), states, “We found the QZAB program to be one of the most user friendly federal programs for the following reasons;

1. Decisions regarding the use of funds are made at the local levels,
2. Federal and state requirements are minimal - easy application process
3. No additional federal appropriations are required and significant savings are realized by the local schools district.” (USDE, 2000).

A Virginia bond attorney, Arthur Anderson, States, “Clients were pleasantly surprised by the flexibility and cost savings afforded by QZABs.” A bond counsel is required to complete the process, as this program is not grant (Allison, 2009).

Further conditions for charter schools are;

- The 98% or more of funding must be used for the qualified purpose
- The bond is issued by a state or local government within the jurisdiction of which the QZAB academy is located
- The issuer must designate the bond for purposes of the provision
- The issuer certifies it has written assurances that the private business/nonprofit contribution requirement will be met with respect of the school (USDE, 2005).

The bond is repaid thru cash flow in general operations budget. The bond issuer is repaid thru a direct reimbursement by the U.S Treasury or an annual federal income tax credit equal to the bond principal amount times 110% (Bureau of National Affairs, 2008).

Conclusions and Suggestions for Further Research

So much is left unstudied about QZABs, that research data is almost non-existent. This federal program seems to be a positive element for the funding of public school facility improvement. Many Illinois school buildings were built in the 1930 WPA period and need deep repairs to remain a safe and clean place for children to learn. Illinois has many old schools. Certainly the opportunity to fund bare-bones improvements cannot be over looked. The final hurdle is getting a bond referendum passed in the LEA.

Bearing the stamp of the Obama administration's emphasis on charter schools and specialty secondary schools (academy) the federal funding model seems to be moving away from the local neighborhood schools and onto specialty education offerings. Career-prep high schools need more study to ascertain if they actually do prepare secondary students for modern careers, better than the junior college system. Certainly the benefits of hand-in-hand partnerships with business members can only open more opportunity doors for our high school students. The various schooling options for kids will be considered as a plus for parents. Again, the final hurdle is getting enough of them to pass bond referenda in the LEA. The dollars make sense in this program, but consistent federal funding is always somewhat uncertain.

Further research suggestions could include, but not limited to, the following;

- Interviews with school administrators/business partners involved with the QZAB programs
- Achievement data for students in the QZAB funded academic programs
- Graduation data for students in the QZAB funded academic programs
- Analysis of interest cost savings for participating districts
- Redundancy of high school and junior college program in aligned careers
- Business partnerships and their duration for the QZAB academy.

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