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• The Tax Cuts and Jobs Act of 2017 repealed the authority to issue QZABs after December 31, 2017.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
Agenda

- 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

- 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
QZAB Program Overview
What is a QZAB?

- **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**

- **Also see the US DOE website**
Examples of Past QZAB Projects

- 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

- 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

- 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

- 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

- 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

- 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 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?

- 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
Roles
Who Administers the Program?

- **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
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

- 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
Timeframe
Timeframe - Financing Schedule*

- 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.

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☐ Information on QZAB can be found on the IRS Website

Questions