Qualified Zone Academy Bond (QZAB) Program

Statutory Reference

Internal Revenue Code, §54E, as added by the Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (Public Law 110-343) and as amended by the American Recovery and Reinvestment Act (ARRA) of 2009 (Public Law 111-5)

History/Relevant Background Information

The QZAB program was created when the US Congress enacted a bill called the Tax Payer Relief Act of 1997 that added §1397E to the Internal Revenue Code, allowing school districts and charter schools to borrow money at no or nominal interest cost. The Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (Public Law 110-343) added new §54E, which provided revised program provisions for QZABs in lieu of the existing provisions under §1397E, effective for obligations issued after October 3, 2008.

QZABs are bonds (or some other eligible borrowing instrument) that are intended to be used by school districts and charter schools to save money on school renovation projects. The bond program is meant to create resources to help better educate children and better prepare them for their futures (i.e., college or the workforce). The first year the QZAB program was available was 1998.

Description of Program

The QZAB program is a federal program. It is designed to provide tax credits to bond holders that are approximately equal to the interest that states and communities would ordinarily pay the holders of taxable bonds. As an alternative to the tax credits, a recent modification to federal law (found in Public Law 111-147) allows a refundable tax credit to issuers of specified tax credit bonds. The QZAB program does not grant funding. No monetary payments or awards are issued from the state to a school district or a charter school. This program allows the state to grant program authorization to a limited number of qualifying school districts and charter schools. This authorization allows the school districts and charter schools to issue QZABs that benefit qualifying individual campuses.

For a school district or charter school to gain QZAB designation, it must meet the program's proof of eligibility, provide an assurance of private business contribution, and submit the school district's or charter school's program intent. Additional requirements may have to be met after receipt of an allocation to comply with federal tax law regarding the allocation. For more information on those possible additional requirements, interested school districts and charter schools are asked to contact their local bond counsel. An application must be filed and the designation must be approved before the school district or charter school issues its QZAB debt.

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The QZAB program allows school districts and charter schools to obtain interest-free financing for the purpose of establishing “qualified zone academies.” Qualified zone academies are schools that meet location or poverty eligibility requirements, or programs within such schools, whose curricula are designed through school/business partnerships. For school districts a “bond” may be in the form of a bond, a lease purchase, a time warrant, or maintenance tax notes; for charter schools a “bond” may only be in the form of a revenue bond. The program provides an incentive in the form of either federal tax credits to lenders who purchase bonds from issuing school districts and charter schools or a refundable tax credit to issuers of specified tax credit bonds.

QZAB ACTIVITY SUMMARY		
Allocation Year	Number of Districts / Charters Awarded	Yearly Total
2006	5	$13,459,946
2007	3	$14,320,000
2008	2	$15,555,000
2009	2	$14,595,000
2010	1	$8,000,000
2011	0	$0

Contacts for More Information

Gary B. Marek, Director of School Facilities, (512) 463-9190 or gary.marek@tea.state.tx.us