



SENATE BILL 468: QZAB Use Modification.

2017-2018 General Assembly

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| Committee: | | Date: | September 5, 2017 |
| Introduced by: | | Prepared by: | Kara McCraw Staff Attorney |
| Analysis of: | S.L. 2017-187 | | |

OVERVIEW: *S.L. 2017-187 makes modifications to the conditions for the award of Qualified Zone Academy Bonds (QZABs) by providing that the conditions established by the State Board of Education (SBE) for the uses of a QZAB allocation must be for one of the purposes permitted by federal law, and that the QZAB funds must be prioritized so that those funds are first used in Tier 1 counties determined to have greater economic distress and for schools where 75% or more of the school's students are eligible to receive free or reduced lunch under the federal lunch program.*

Effective July 1, 2017, the act also authorizes award of grant funds from the Needs Based Public School Capital Fund for projects when a pre-development agreement for an operational lease was entered into on or before June 30, 2017.

Except as otherwise provided, this act became effective July 25, 2017, and applies to bond proceeds used on or after that date.

CURRENT LAW: In 1997, Congress created QZABs to help school districts with low-income populations save on interest costs associated with borrowing funds for specified purposes as provided in 26 U.S.C 54E. These include (i) the rehabilitation or repair of a public school facility in which the academy is established; (ii) providing equipment for use at such academy; (iii) developing course materials for education to be provided at such academy; and (iv) training teachers and other school personnel in such an academy. QZABs are tax credit bonds; they are not interest-bearing bonds. Instead, a taxpayer holding a tax credit bond is allowed a credit against federal income tax equivalent to the interest that the bond would otherwise pay.¹ There is an annual cap allocated among the states based on their respective populations of individual's below the poverty line. North Carolina's QZAB allocation for 2017, as of 4/13/17, is \$26.58 million.

The State Board of Education (SBE) is designated as the State agency in North Carolina for administering the QZAB program. The SBE must define the areas and schools eligible under federal law to participate; design an application process to solicit proposals; determine the eligibility of an applicant; award the State's allocation of funds; establish the conditions of the use of the funds; and confirm that the terms of any QZAB bonds issued are consistent with federal law. G.S. 115C-489.6(a) specifically limits the purposes for which QZABs may be awarded to the rehabilitation or repairing of the public school facility, including (i) wiring and other infrastructure improvements related to technology and (ii) equipment related to the rehabilitation or repair.

BILL ANALYSIS: S.L. 2017-187 provides that the conditions established by the SBE for the uses of a QZAB allocation must be for the purposes listed in 26 U.S.C. 54E (listed above) and prioritized so that the QZAB funds are first used in counties determined to have greater economic distress under G.S. 143B-437.08 (Tier 1 counties) and for schools where 75% or more of the school's students are eligible to receive free or reduced

¹ The bondholder must include the amount of the credit in gross income and treat it as interest income. The credit effectively replaces the interest that would be paid on an exempt bond, allowing the issuer to borrow interest-free.

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lunch under the federal lunch program. The SBE must establish an application process and require any information needed to allow the SBE to accomplish the prioritization and efficient use of the bond proceeds.

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