September 30, 2003

The Honorable Charles Grassley  
Chairman  
Senate Committee on Finance  
Washington, D.C. 20510

Dear Chairman Grassley:

We are writing to request that the Senate Finance Committee adopt the Conrad amendment to expand and improve the Qualified Zone Academy Bond (QZAB) program.

Schools throughout the country are facing increased financial difficulties due to the need for new construction and modernization of aging educational institutions. The Qualified Zone Academy Bond program is providing some federal support for state and local community efforts to rebuild and modernize America’s schools. Rebuild America’s Schools Coalition estimates that states and local communities are facing a school facility crisis that approaches $300 billion.

Contained within the Taxpayer Relief Act of 1997 is a provision authorizing QZABs, which provide federal tax credits to bond holders. In 2001, President Bush signed the Job Creation and Worker Assistance Act of 2002, which included a two-year extension of QZAB funds.

The QZAB program provides states with a successful way to maximize local and state funds. Schools in Iowa are successfully using QZABs to repair and modernize classrooms. Over seventeen school districts in Iowa are utilizing the QZAB program for projects to repair and renovate roofing, ventilation, mechanical and fire & safety and electrical upgrades, restrooms, and equipment. If Congress does not take action to reauthorize the QZAB program beyond 2003, school districts will be deprived of the only federal investment in school construction.

The Conrad amendment offers improvements to the QZAB program so school districts will be given the resources desperately needed to provide students with an adequate learning environment. The provisions include the following:

- **Strip the tax credit from the bond principal & broaden the investor base:** Allowing the stripping of the QZAB tax credit from the principal would facilitate the development of a national secondary market, where banks that originated the loans could sell them to a centralized entity that could bundle them together into pools and reoffer them in the capital markets. This is similar to how the residential mortgage market operates. Stripping the tax credit from the principal will make the program more valuable for schools by making it more attractive to investors.
• **Allow original construction:** Currently, the QZAB program is used successfully by school districts to renovate and repair existing school facilities and to develop innovative curriculum. By allowing new construction, in limited circumstances, local school districts will have greater flexibility to meet renovation and repair needs without an added cost to the QZAB program.

• **Reallocation of expiring QZAB allocations:** The demand in most states for QZAB allocations far exceeds the state’s allocation. At the same time, there are a small number of states that do not fully utilize their QZAB allocations, which expire if they are not used within two years. Allowing expiring QZAB allocations to be redistributed to states with high demand will enable more school districts to use the program without penalizing states not fully utilizing the allocation.

• **State reporting of QZAB allocation use:** Require the Internal Revenue Service to maintain a central reporting database to make tracking QZAB allocations possible and provide up-to-date, accurate information about local debt issuance.

Rebuild America’s Schools also requests an increase in the QZAB allocation. The demand in many states for QZABs far exceeds the availability of funds. Increasing the annual allocation will provide critically needed federal assistance to state and local efforts to modernize schools and develop academic programs.

We strongly encourage the committee to extend the QZAB program through 2005. QZABs provide vital funds to America’s educational system. Failing to reauthorize and enhance QZABs will only exacerbate funding challenges for school maintenance and repairs, as facilities continue to decline and as local school communities respond to the challenges of the No Child Left Behind Act. We appreciate the committee’s consideration of these proposals and look forward to working together on these issues to ensure that communities have the appropriate resources to educate America’s youth in a safe environment that fosters successful learning.

Sincerely,

Robert P. Canavan, Chair
American Federation of Teachers
American Institute of Architects
Council of the Great City Schools
National Association of Elementary School Principals
National Association of Federally Impacted Schools
National Association of Secondary School Principals
National Education Association
National PTA
National School Boards Association
New York City Department of Education
Organizations Concerned About Rural Education
United Methodist Church, General Board of Church and Society