

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

Senate Bill 288 (Senator Miller)

Budget and Taxation

Appropriations

Creation of a State Debt - Aging School Program - Qualified Zone Academy Bonds

This bill authorizes the Board of Public Works to issue \$8,270,000 in interest-free Qualified Zone Academy Bonds and grant the proceeds to the Interagency Committee on School Construction to be used for the aging school program.

This bill takes effect June 1, 2001.

Fiscal Summary

State Effect: State revenues could increase by up to \$8.27 million from the issuance of the Qualified Zone Academy Bonds. The State must repay the principal on the bonds within 15 years after the date of issuance.

Local Effect: Local school systems would receive up to \$8.27 million in funding for school improvement and maintenance of public school buildings.

Business Effect: None.

Analysis

Current Law: The U.S. Congress established the Qualified Zone Academy Bonds as a mechanism for states to provide funding to local school systems for repairs at older school buildings. Maryland's allocation under the first two years of a four-year federal program totaled \$9.8 million. Chapter 322 of 2000 provided for the issuance of these bonds. In addition, Section 5-206 of the Education Article requires the Governor to

include at least \$10.37 million in the State budget for the aging school program. This funding is mandated through fiscal 2002.

Background: The aging school program was established in 1997 to provide State funding to local school systems for improvements, repairs, and deferred maintenance of public school buildings that are more than 15 years old. These repairs are generally not covered by the capital school construction program and are necessary to maintain older public schools. State funding for the program will total \$10.37 million in fiscal 2002, not including revenues from the issuance of the Qualified Zone Academy Bonds.

The federal government created the Qualified Zone Academy Bonds in the Tax Reform Act of 1997 as a new type of debt instrument to help finance certain types of education expenditures. Financial institutions, insurance companies, and investment houses are the only entities allowed to purchase the bonds, which provide for a federal tax credit instead of interest earnings.

Eligibility and Uses of Qualified Zone Academy Bonds

A school is eligible to receive funding from the issuance of Qualified Zone Academy Bonds if it is located in an enterprise or empowerment zone, or at least 35% of the school's students qualify for free and reduced price meals. Maryland has approximately 565 schools that qualify based on these criteria in fiscal 2001. Additional schools may qualify for funding under the proposed \$8.2 million bond authorization since the schools' eligibility will be updated to reflect current free and reduced price meals enrollment.

Proceeds from the Qualified Zone Academy Bonds will be used for renovations or repairs to existing public schools. Eligible projects include asbestos and lead paint abatement, fire protection systems and equipment, painting, plumbing, roofing, heating, ventilation and air conditioning systems, site redevelopment, wiring schools for technology, pre-kindergarten facilities, and renovation projects related to education programs and services.

The Interagency Committee on School Construction allocates funding based on the amount of adjusted pre-1960 square footage of school buildings and the total free and reduced price meal count in each local school system. **Exhibit 1** shows the allocation for the aging school program for fiscal 2001. The State has not issued the Qualified Zone Academy Bonds that were authorized at the 2000 session. The Interagency Committee on School Construction is in the process of receiving applications from local school systems for the use of the funds. If this legislation is enacted, the amount of Qualified Zone Academy Bonds that the State will be able to issue will total \$18.1 million.

Exhibit 1
Aging School Program – FY 2001 Allocation

<u>School System</u>	<u>General Funds</u>	<u>QZAB</u>	<u>Total</u>
Allegany	\$355,000	\$253,000	\$608,000
Anne Arundel	570,000	504,000	1,074,000
Baltimore City	1,635,000	2,691,000	4,326,000
Baltimore	2,940,000	1,598,000	4,538,000
Calvert	65,000	56,000	121,000
Caroline	85,000	68,000	153,000
Carroll	385,000	218,000	603,000
Cecil	355,000	194,000	549,000
Charles	65,000	105,000	170,000
Dorchester	65,000	54,000	119,000
Frederick	85,000	122,000	207,000
Garrett	85,000	69,000	154,000
Harford	400,000	335,000	735,000
Howard	65,000	90,000	155,000
Kent	65,000	33,000	98,000
Montgomery	1,170,000	1,191,000	2,361,000
Prince George's	970,000	1,548,000	2,518,000
Queen Anne's	85,000	0	85,000
St. Mary's	85,000	112,000	197,000
Somerset	65,000	36,000	101,000
Talbot	155,000	72,000	227,000
Washington	200,000	202,000	402,000
Wicomico	355,000	229,000	584,000
Worcester	65,000	48,000	113,000
Total	\$10,370,000	\$9,828,000	\$20,198,000

State Fiscal Effect: State revenues could increase by up to \$8.27 million from the issuance of the Qualified Zone Academy Bonds. The State must repay the principal on the bonds within 15 years after the date of issuance. The bondholders receive federal tax credits instead of interest payments. The State is not required to make any payments on the principal until the bonds are redeemed. The State's loan repayment does not have to equal the face value of bonds since the State could establish and deposit funds in a special interest bearing account for the purpose of paying off the bonds at the end of 15 years.

Due to the fund's potential interest earnings, the State will be able to pay off the bonds' principal at less than full face value.

Additional Information

Prior Introductions: SB 894 of 2000, authorized \$9.8 million in Qualified Zone Academy Bonds, was enacted.

Cross File: None.

Information Source(s): Department of Legislative Services, Interagency Committee on School Construction

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