

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 7 (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 \$9,043,000 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.

The bill takes effect June 1, 2003.

Fiscal Summary

State Effect: State revenues could increase by up to \$9,043,000 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 \$9,043,000 in funding for school improvement and maintenance of public school buildings.

Small 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 federal program has totaled \$18.1 million. Chapter 322 of 2000 and Chapter 139 of 2001 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 2004.

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 2004.

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 had approximately 500 schools that qualified based on these criteria in fiscal 2001. Additional schools may qualify for funding under the proposed \$9,043,000 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. All the funds from the State's existing Qualified Zone Academy Bonds have been allocated to local school systems. **Exhibit 1** shows the allocation for the aging school program for fiscal 2004 and the previously authorized Qualified Zone Academy Bonds. The Qualified Zone Academy Bonds funded 190 projects in 21 local school systems.

Exhibit 1
Aging School Program

<u>School System</u>	<u>General Funds</u>	<u>QZAB</u>
Allegany	\$355,000	\$404,000
Anne Arundel	570,000	948,000
Baltimore City	1,635,000	5,209,000
Baltimore	2,940,000	3,291,000
Calvert	65,000	0*
Caroline	85,000	141,000
Carroll	385,000	0
Cecil	355,000	296,000
Charles	65,000	191,000
Dorchester	65,000	93,000
Frederick	85,000	239,000
Garrett	85,000	121,000
Harford	400,000	670,000
Howard	65,000	171,000
Kent	65,000	70,000
Montgomery	1,170,000	1,824,000
Prince George's	970,000	2,994,000
Queen Anne's	85,000	0
St. Mary's	85,000	221,000
Somerset	65,000	67,000
Talbot	155,000	142,000
Washington	200,000	485,000
Wicomico	355,000	376,000
Worcester	65,000	89,000
Total	\$10,370,000	\$18,098,000

*Calvert County was scheduled to receive \$56,000 in funds; however, the county's projects became ineligible for funding. The funds will be re-allocated.

State Fiscal Effect: State revenues could increase by up to \$9,043,000 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, authorizing \$9.8 million in Qualified Zone Academy Bonds, was enacted. SB 288 of 2001, authorizing \$8.3 million in Qualified Zone Academy Bonds, was enacted.

Cross File: None.

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

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