

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1325 (Chairman, Appropriations Committee) (By Request –
 Departmental – Interagency Committee on School Construction)

Appropriations

Budget and Taxation

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

This bill authorizes the Board of Public Works to issue \$9,364,000 in interest-free Qualified Zone Academy Bonds (QZABs) and grant the proceeds to the Interagency Committee on School Construction to be used for the State’s aging school program.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: Bond revenues and expenditures would increase by up to \$9,364,000 from the issuance of QZABs. The State must repay the principal on the bonds within 15 years after the date of issuance.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Bond Rev.	\$9.4	\$0	\$0	\$0	\$0
Bond Exp.	9.4	0	0	0	0
Net Effect	\$0	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local school revenues would increase by up to \$9,364,000 from the distribution of QZAB proceeds.

Small Business Effect: The Interagency Committee on School Construction has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. The attached assessment does not reflect amendments to the bill.

Analysis

Current Law: The U.S. Congress established QZABs as a mechanism for states to provide funding to local school systems for repair and renovation of public schools. To date, Maryland's allocation under the federal program has totaled \$27.1 million from three prior-year bills that authorized the sale of the bonds.

The State's aging schools program provides funding to local systems for smaller renovations and repair projects. Mandated funding for the program is \$10.4 million annually, and intent language in the fiscal 2005 State capital budget required an additional \$1.7 million in funding for the program in fiscal 2006. The additional amount phases out by fiscal 2009, but the \$10.4 million requirement does not terminate. The fiscal 2006 distribution of the funding is shown in **Exhibit 1**.

Exhibit 1 Distribution of Funding for Aging Schools Program Proposed Fiscal 2006 Budget

Allegany	\$308,000	Harford	\$369,000
Anne Arundel	859,000	Howard	149,000
Baltimore City	2,356,000	Kent	65,000
Baltimore	2,576,000	Montgomery	1,023,000
Calvert	65,000	Prince George's	2,053,000
Caroline	85,000	Queen Anne's	85,000
Carroll	347,000	St. Mary's	85,000
Cecil	307,000	Somerset	65,000
Charles	85,000	Talbot	133,000
Dorchester	65,000	Washington	229,000
Frederick	310,000	Wicomico	312,000
Garrett	65,000	Worcester	65,000

Background: The federal government created QZABs in the Tax Reform Act of 1997 as a new type of debt instrument. 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. The program has been extended several times since then, each time allocating a total of \$400 million to be divided among the states and U.S. territories.

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. The distribution of the first three QZAB authorizations is shown in **Exhibit 2**. The allocation for each local school system is based on its percentage of the State's pre-1960 public school square footage and its percentage of Maryland public school students eligible for free and reduced price meals.

Exhibit 2
Distribution of QZAB Funding
1998 to 2003

<u>School System</u>	<u>1998-1999</u>	<u>2000-2001</u>	<u>2002-2003</u>	<u>Total*</u>
Allegany	\$253,000	\$151,000	\$234,000	\$638,000
Anne Arundel	504,000	444,000	488,000	1,436,000
Baltimore City	2,691,000	2,517,000	2,536,000	7,744,000
Baltimore	1,598,000	1,693,000	1,580,000	4,871,000
Calvert	56,000	0	0	56,000
Caroline	68,000	75,000	66,000	209,000
Carroll	218,000	0	215,000	433,000
Cecil	194,000	102,000	188,000	484,000
Charles	105,000	86,000	110,000	301,000
Dorchester	54,000	39,000	50,000	143,000
Frederick	122,000	117,000	117,000	356,000
Garrett	69,000	52,000	61,000	182,000
Harford	335,000	335,000	343,000	1,013,000
Howard	90,000	81,000	89,000	260,000
Kent	33,000	37,000	32,000	102,000
Montgomery	1,191,000	633,000	1,173,000	2,997,000
Prince George's	1,548,000	1,446,000	1,621,000	4,615,000
Queen Anne's	0	0	0	0
St. Mary's	112,000	109,000	113,000	334,000
Somerset	36,000	31,000	35,000	102,000
Talbot	72,000	70,000	69,000	211,000
Washington	202,000	282,000	207,000	691,000
Wicomico	229,000	147,000	229,000	605,000
Worcester	48,000	41,000	44,000	133,000
Total	\$9,828,000	\$8,488,000	\$9,600,000	\$27,916,000

* Includes \$481,216 in reallocations and \$293,784 in interest earnings.

State and Local Fiscal Effect: Bond revenues and expenditures would increase by up to \$9,364,000 from the issuance of QZABs, and the funding would be distributed to local school systems for eligible school construction projects. The State must repay the principal on the bonds within 15 years after the date of issuance but 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: With the exception of variations in the amount of bond revenues authorized, this bill is identical to the three previous bills that authorized Qualified Zone Academy Bonds: SB 894 of 2000, SB 288 of 2001, and SB 7 of 2003. All the previous bills were enacted.

Cross File: None.

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

Fiscal Note History: First Reader - March 17, 2005
mll/rhh Revised - House Third Reader - March 30, 2005

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