

Department of Legislative Services  
 Maryland General Assembly  
 2007 Session

FISCAL AND POLICY NOTE  
 Revised

Senate Bill 986

(Senator DeGrange, *et al.*)

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 \$11,126,000 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. From this amount, \$5,500,000 must be distributed in accordance with the statutory aging schools program.

The bill takes effect June 1, 2007.

**Fiscal Summary**

**State Effect:** General fund expenditures would decrease by \$5.5 million in FY 2008 due to the substitution of QZAB funds for general funds proposed for the aging schools program. The general fund reduction is contingent on the enactment of this bill. Bond revenues and expenditures would increase by up to \$11.1 million from the issuance of QZABs. Annuity bond fund and general fund expenditures would increase by an estimated \$491,000 annually for 15 years beginning in FY 2009 in order to pay off the principal on the QZABs in 15 years.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Bond Rev.	\$11.1	\$0	\$0	\$0	\$0
GF Expenditure	(5.5)	0	0	0	0
GF/SF Exp.	0	.5	.5	.5	.5
Bond Exp.	11.1	0	0	0	0
Net Effect	\$5.5	(\$.5)	(\$.5)	(\$.5)	(\$.5)

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

**Local Effect:** Local school revenues would increase by up to \$5.6 million from the distribution of QZAB proceeds.

**Small Business Effect:** Minimal.

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## 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 \$35.5 million from four prior-year bills that authorized the sale of the bonds.

The State's aging schools program provides funds to local school systems for improvements, repairs, and deferred maintenance of public school buildings and building systems that are more than 15 years old. Grant amounts for each school system are specified in statute and increase annually with inflation.

**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, most recently under the Tax Relief and Health Care Act passed in December 2006.

A school is eligible to receive funding from the issuance of QZABs 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 allocation of QZAB funds is based on each school system's percentage of the State's pre-1960 public school square footage and the number of Maryland public school students eligible for free and reduced price meals in each system.

The aging schools program was initially established by the Baltimore City-State partnership legislation, which provided \$4.4 million for the program and specific allocations for local school systems. The following year, the School Accountability Funding for Excellence legislation increased the annual funding level by \$6.0 million to \$10.4 million, the same as the current statutory funding level. In both Acts, the aging schools program was scheduled to terminate after fiscal 2002; however, the date was later altered to give the Task Force to Study Public School Facilities time to consider maintaining or changing the program.

In response to task force recommendations, bills were enacted in 2003 and 2004 to eliminate the sunset date on the aging schools program and reallocate program funds to more closely reflect the statewide distribution of older school buildings. The statutory allocations are based on each county's share of statewide pre-1970 square footage. In

addition, the 2004 capital budget bill (Chapter 432) included General Assembly intent language to add fiscal 2006, 2007, and 2008 “hold harmless” funding to the statutory grant levels in order to lessen the impact of the reallocation recommended by the task force and enacted in Chapters 306 and 307 of 2004. Chapter 252 of 2006 added an annual inflationary adjustment to the aging school program beginning in fiscal 2008. The fiscal 2008 State budget includes \$12.5 million for the program, as illustrated in **Exhibit 1**, with \$5.5 million of the total covered by QZAB funds.

**Exhibit 1**  
**Fiscal 2008 Funding for Aging Schools Program**

<u>School System</u>	<u>Statutory Allocation</u>	<u>4.32% CPI Adjustment</u>	<u>Chapter 432</u>		<u>Total</u>
			<u>Hold Harmless</u>	<u>Discretionary Enhancement</u>	
Allegany	\$166,000	\$7,171	\$47,000	\$18,041	\$238,212
Anne Arundel	859,000	37,109	0	93,355	989,464
Baltimore City	2,356,000	101,779	0	256,047	2,713,826
Baltimore	1,484,000	64,109	364,000	161,279	2,073,388
Calvert	65,000	2,808	0	7,064	74,872
Caroline	85,000	3,672	0	9,238	97,910
Carroll	233,000	10,066	38,000	25,322	306,388
Cecil	163,000	7,042	48,000	17,715	235,757
Charles	85,000	3,672	0	9,238	97,910
Dorchester	65,000	2,808	0	7,064	74,872
Frederick	310,000	13,392	0	33,690	357,082
Garrett	65,000	2,808	0	7,064	74,872
Harford	369,000	15,941	0	40,103	425,044
Howard	149,000	6,437	0	16,193	171,630
Kent	65,000	2,808	0	7,064	74,872
Montgomery	1,023,000	44,194	0	111,178	1,178,372
Prince George's	2,053,000	88,690	0	223,118	2,364,808
Queen Anne's	85,000	3,672	0	9,238	97,910
St. Mary's	85,000	3,672	0	9,238	97,910
Somerset	65,000	2,808	0	7,064	74,872
Talbot	65,000	2,808	23,000	7,064	97,872
Washington	229,000	9,893	0	24,887	263,780
Wicomico	181,000	7,819	44,000	19,671	252,490
Worcester	65,000	2,808	0	7,064	74,872
<b>Total</b>	<b>\$10,370,000</b>	<b>\$447,986</b>	<b>\$564,000</b>	<b>\$1,127,000</b>	<b>\$12,508,986</b>

Eligible aging schools program expenditures include asbestos and lead paint abatement; upgrade of fire protection systems and equipment; painting; plumbing; roofing; upgrade of heating, ventilation, and air conditioning systems; site redevelopment; wiring schools for technology; and renovation projects related to education programs and services. Projects must cost at least \$10,000 to be funded through the program. The Maryland State Department of Education and the Public School Construction Program (PSCP) review aging schools project requests submitted by local school systems, approve eligible projects, and determine if additional review of any construction documents will be required. PSCP advises that the base \$10.4 million allocation for the program generally funded 160 to 180 local projects per year.

**State Fiscal Effect:** A \$5.5 million general fund reduction for fiscal 2008 in the State operating budget bill (Chapter 487 of 2007) is contingent on the enactment of this legislation. The reduction would be taken from the aging schools program, and \$5.5 million in QZAB proceeds would replace the reduced general funds.

Bond revenues and expenditures would increase by up to \$11.1 million in fiscal 2008 from the issuance of QZABs, and the funding would be distributed to local school systems for eligible school renovation and repair projects. The State would be required to repay the principal on the bonds within 15 years after the date of issuance. The State's loan repayment would not equal the face value of bonds because the State would place funds into an interest-bearing account that it would add to annually with the intent of paying off the full \$11.1 million at the end of the 15-year period. Assuming a 5% annual interest rate, the State would have to appropriate approximately \$491,000 per year over 15 years beginning in fiscal 2009 to pay back the \$11.1 million at the end of the time period. These payments would be made from the annuity bond fund, which is used to pay the State's debt service on bonds. When the annuity bond fund is unable to fully fund the debt service on bonds issued by the State, general funds are used to pay the remaining amount. The State's fiscal 2008 public debt budget includes \$43.5 million in general funds to supplement \$649.2 million in annuity bond funds.

**Local Fiscal Effect:** Local school revenues for public school renovation and repair would increase by up to \$5.6 million in fiscal 2008. The \$11.1 million in QZAB funds would be offset by a reduction in general funds of \$5.5 million for the aging schools program. There is no local match for QZABs, although local school systems do have to generate private entity matches equal to 10% of their QZAB distributions.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Public School Construction Program, Department of Legislative Services

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