

105TH CONGRESS  
2D SESSION

# H. R. 3652

To amend the Internal Revenue Code of 1986 to provide a source of interest-free capital, in addition to that recommended in the President's budget proposal, for the construction and renovation of public schools in States experiencing large increases in public school enrollment.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 1, 1998

Mr. ETHERIDGE (for himself, Mr. PRICE of North Carolina, Mr. RANGEL, Mr. MCINTYRE, Mr. FROST, Mr. LEWIS of Georgia, Mr. NEAL of Massachusetts, Mr. DOOLEY of California, Mr. MCGOVERN, Mrs. THURMAN, Mr. FAZIO of California, Mr. PALLONE, Mr. HEFNER, Mrs. MEEK of Florida, Ms. SANCHEZ, Mr. MATSUI, Mrs. CLAYTON, Ms. CARSON, Mrs. TAUSCHER, Mr. WATT of North Carolina, Mr. BROWN of California, Mr. DELAHUNT, Ms. PELOSI, Mr. STENHOLM, and Mr. MORAN of Virginia) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide a source of interest-free capital, in addition to that recommended in the President's budget proposal, for the construction and renovation of public schools in States experiencing large increases in public school enrollment.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “School Construction  
3 Act of 1998”.

4 **SEC. 2. INCENTIVES FOR PUBLIC SCHOOL CONSTRUCTION.**

5 (a) IN GENERAL.—Part IV of subchapter A of chap-  
6 ter 1 of the Internal Revenue Code of 1986 (relating to  
7 credits against tax) is amended by inserting after subpart  
8 G the following new subpart:

9 **“Subpart H—Credit to Holders of Qualified Public**  
10 **School Construction Bonds.**

“Sec. 54. Credit to holders of qualified public school construction  
bonds.

“Sec. 54A. Qualified public school construction bonds.

11 **“SEC. 54. CREDIT TO HOLDERS OF QUALIFIED PUBLIC**  
12 **SCHOOL CONSTRUCTION BONDS.**

13 “(a) ALLOWANCE OF CREDIT.—In the case of a tax-  
14 payer who holds a qualified public school construction  
15 bond on the credit allowance date of such bond which oc-  
16 curs during the taxable year, there shall be allowed as a  
17 credit against the tax imposed by this chapter for such  
18 taxable year the amount determined under subsection (b).

19 “(b) AMOUNT OF CREDIT.—

20 “(1) IN GENERAL.—The amount of the credit  
21 determined under this subsection with respect to any  
22 qualified public school construction bond is the  
23 amount equal to the product of—

1           “(A) the credit rate determined by the Sec-  
 2           retary under paragraph (2) for the month in  
 3           which such bond was issued, multiplied by

4           “(B) the face amount of the bond held by  
 5           the taxpayer on the credit allowance date.

6           “(2) DETERMINATION.—During each calendar  
 7           month, the Secretary shall determine a credit rate  
 8           which shall apply to bonds issued during the follow-  
 9           ing calendar month. The credit rate for any month  
 10          is the percentage which the Secretary estimates will  
 11          on average permit the issuance of qualified public  
 12          school construction bonds without discount and with-  
 13          out interest cost to the issuer.

14          “(c) LIMITATION BASED ON AMOUNT OF TAX.—

15                 “(1) IN GENERAL.—The credit allowed under  
 16                 subsection (a) for any taxable year shall not exceed  
 17                 the excess of—

18                         “(A) the sum of the regular tax liability  
 19                         (as defined in section 26(b)) plus the tax im-  
 20                         posed by section 55, over

21                         “(B) the sum of the credits allowable  
 22                         under this part (other than subpart C thereof,  
 23                         relating to refundable credits).

24           “(2) CARRYOVER OF UNUSED CREDIT.—If the  
 25           credit allowable under subsection (a) exceeds the

1 limitation imposed by paragraph (1) for such taxable  
2 year, such excess shall be carried to the succeeding  
3 taxable year and added to the credit allowable under  
4 subsection (a) for such taxable year.

5 “(d) DEFINITIONS.—For purposes of this subpart—

6 “(1) CREDIT ALLOWANCE DATE.—The term  
7 ‘credit allowance date’ means, with respect to any  
8 issue, the last day of the 1-year period beginning on  
9 the date of issuance of such issue and the last day  
10 of each successive 1-year period thereafter.

11 “(2) BOND.—The term ‘bond’ includes any ob-  
12 ligation.

13 “(3) STATE.—The term ‘State’ includes the  
14 District of Columbia and any possession of the  
15 United States.

16 “(4) PUBLIC SCHOOL FACILITY.—The term  
17 ‘public school facility’ shall not include any stadium  
18 or other facility primarily used for athletic contests  
19 or exhibitions or other events for which admission is  
20 charged to the general public.

21 “(e) CREDIT INCLUDED IN GROSS INCOME.—Gross  
22 income includes the amount of the credit allowed to the  
23 taxpayer under this section and the amount so included  
24 shall be treated as interest income.

1       “(f) BONDS HELD BY REGULATED INVESTMENT  
2 COMPANIES.—If any qualified public school construction  
3 bond is held by a regulated investment company, the credit  
4 determined under subsection (a) shall be allowed to share-  
5 holders of such company under procedures prescribed by  
6 the Secretary.

7       **“SEC. 54A. QUALIFIED PUBLIC SCHOOL CONSTRUCTION**  
8                   **BONDS.**

9       “(a) QUALIFIED PUBLIC SCHOOL CONSTRUCTION  
10 BOND.—For purposes of this subpart—

11               “(1) IN GENERAL.—The term ‘qualified public  
12 school construction bond’ means any bond issued as  
13 part of an issue if—

14                   “(A) 95 percent or more of the proceeds of  
15 such issue are to be used for the construction,  
16 rehabilitation, or repair of a public school facil-  
17 ity,

18                   “(B) the bond is issued by a State or local  
19 government within the jurisdiction of which  
20 such school is located,

21                   “(C) the issuer designates such bond for  
22 purposes of this section, and

23                   “(D) the term of each bond which is part  
24 of such issue does not exceed 15 years.

1           “(2) TEMPORARY PERIOD EXCEPTION.—A bond  
 2           shall not be treated as failing to meet the require-  
 3           ment of paragraph (1)(A) solely by reason of the  
 4           fact that the proceeds of the issue of which such  
 5           bond is a part are invested for a reasonable tem-  
 6           porary period (but not more than 36 months) until  
 7           such proceeds are needed for the purpose for which  
 8           such issue was issued. Any earnings on such pro-  
 9           ceeds during such period shall be treated as proceeds  
 10          of the issue for purposes of applying paragraph  
 11          (1)(A).

12          “(b) LIMITATION ON AMOUNT OF BONDS DES-  
 13          IGNATED.—The maximum aggregate face amount of  
 14          bonds issued during any calendar year which may be des-  
 15          ignated under subsection (a) by any issuer shall not exceed  
 16          the limitation amount allocated under subsection (d) for  
 17          such calendar year to such issuer.

18          “(c) NATIONAL LIMITATION ON AMOUNT OF BONDS  
 19          DESIGNATED.—There is a national qualified school con-  
 20          struction bond limitation for each calendar year. Such lim-  
 21          itation is—

22                 “(1) \$3,600,000,000 for 1999,

23                 “(2) \$3,600,000,000 for 2000, and

24                 “(3) except as provided in subsection (e), zero  
 25          after 2000.

1 “(d) ALLOCATION OF LIMITATION AMONG STATES.—

2 “(1) IN GENERAL.—The Secretary shall allo-  
3 cate the national qualified school construction bond  
4 limitation for any calendar year among the States  
5 with projected enrollment increases. The amount al-  
6 located to a State under the preceding sentence shall  
7 be allocated by the State education agency to issuers  
8 within such State and such allocations may be made  
9 only if there is an approved State application.

10 “(2) ALLOCATION FORMULA.—

11 “(A) IN GENERAL.—The national qualified  
12 school construction bond limitation shall be al-  
13 located among the States with projected enroll-  
14 ment increases in proportion to their respective  
15 shares of the national projected enrollment in-  
16 crease.

17 “(B) PROJECTED ENROLLMENT IN-  
18 CREASE.—The amount of projected enrollment  
19 increase for the United States or any State is  
20 the amount of the increase (as projected by the  
21 Secretary of Education using data as of Janu-  
22 ary 1, 1998) in enrollment in public elementary  
23 and secondary schools in the United States or  
24 in such State (as the case may be) during the  
25 10-year period beginning with 1997.

1           “(3) APPROVED STATE APPLICATION.—For  
2           purposes of paragraph (1), the term ‘approved State  
3           application’ means an application which is approved  
4           by the Secretary of Education and which includes—

5                   “(A) the results of a recent publicly-avail-  
6                   able survey (undertaken by the State with the  
7                   involvement of local education officials, mem-  
8                   bers of the public, and experts in school con-  
9                   struction and management) of such State’s  
10                  needs for public school facilities, including de-  
11                  scriptions of—

12                           “(i) health and safety problems at  
13                           such facilities,

14                           “(ii) the capacity of public schools in  
15                           the State to house projected enrollments,  
16                           and

17                           “(iii) the extent to which the public  
18                           schools in the State offer the physical in-  
19                           frastructure needed to provide a high-qual-  
20                           ity education to all students, and

21                           “(B) a description of how the State will al-  
22                           locate to local educational agencies, or other-  
23                           wise use, its allocation under this subsection to  
24                           address the needs identified under subpara-



1 graph (A), including a description of how it  
2 will—

3 “(i) give priority to localities experi-  
4 encing the largest increases in enrollment,

5 “(ii) use its allocation under this sub-  
6 section to assist localities that lack the fis-  
7 cal capacity to issue bonds on their own,  
8 and

9 “(iii) ensure that its allocation under  
10 this subsection is used only to supplement,  
11 and not supplant, the amount of school  
12 construction, rehabilitation, and repair in  
13 the State that would have occurred in the  
14 absence of such allocation.

15 Any allocation under paragraph (1) by a State edu-  
16 cation agency shall be binding if such agency reason-  
17 ably determined that the allocation was in accord-  
18 ance with the plan approved under this paragraph.

19 “(e) CARRYOVER OF UNUSED LIMITATION.—If for  
20 any calendar year—

21 “(1) the amount allocated under subsection (d)  
22 to any State, exceeds

23 “(2) the amount of bonds issued during such  
24 year which are designated under subsection (a) pur-  
25 suant to such allocation,

1 the limitation amount under such subsection for such  
 2 State for the following calendar year shall be increased  
 3 by the amount of such excess. The subsection shall not  
 4 apply if such following calendar year is after 2002.”

5 (b) REPORTING.—Subsection (d) of section 6049 of  
 6 such Code (relating to returns regarding payments of in-  
 7 terest) is amended by adding at the end the following new  
 8 paragraph:

9 “(8) REPORTING OF CREDIT ON QUALIFIED  
 10 PUBLIC SCHOOL CONSTRUCTION BONDS.—

11 “(A) IN GENERAL.—For purposes of sub-  
 12 section (a), the term ‘interest’ includes amounts  
 13 includible in gross income under section 54(e)  
 14 and such amounts shall be treated as paid on  
 15 the credit allowance date (as defined in section  
 16 54(d)(1)).

17 “(B) REPORTING TO CORPORATIONS,  
 18 ETC.—Except as otherwise provided in regula-  
 19 tions, in the case of any interest described in  
 20 subparagraph (A) of this paragraph, subsection  
 21 (b)(4) of this section shall be applied without  
 22 regard to subparagraphs (A), (H), (I), (J), (K),  
 23 and (L)(i).

24 “(C) REGULATORY AUTHORITY.—The Sec-  
 25 retary may prescribe such regulations as are

1           necessary or appropriate to carry out the pur-  
2           poses of this paragraph, including regulations  
3           which require more frequent or more detailed  
4           reporting.”

5           (c) CLERICAL AMENDMENT.—The table of subparts  
6 for part IV of subchapter A of chapter 1 of such Code  
7 is amended by adding at the end the following new item:

                  “Subpart H. Credit to holders of qualified public school construc-  
                  tion bonds.”.

8           (d) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to obligations issued after Decem-  
10 ber 31, 1998.

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