Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 170 (Senator McFadden)
Budget and Taxation Appropriations

Baltimore City - Education - Public School Facilities and Construction Bond Authority

The bill raises the maximum maturity for bonds issued by the Baltimore City Board of School Commissioners from 15 to 30 years. It also requires the board to report to appropriate committees of the General Assembly by December 1, 2011, on a long-term plan for the alignment of public school facilities with projected enrollments and educational programs within the Baltimore City Public Schools (BCPS).

The bill takes effect June 1, 2011.

Fiscal Summary

State Effect: None. The bill affects only the Baltimore City Board of School Commissioners.

Local Effect: To the extent that the Baltimore City Board of School Commissioners issues debt with maturity dates that exceed 15 years, its annual debt service payments likely decrease, but the total interest paid over the life of the bonded debt likely increases. The board can provide the required report with existing resources.

Small Business Effect: None.

Analysis

Current Law: The Baltimore City Board of School Commissioners may issue bonds to finance or refinance all or any part of the costs of school construction projects. The mayor and city council must approve the board's issuance of new debt, but debt issued by the board is solely the board's obligation and does not constitute any indebtedness or obligation of the State, the mayor, or the city council. The aggregate principal amount of bonds outstanding for BCPS cannot exceed $100.0 million as of the date that bonds are issued; however, Chapter 243 of 2010 exempted the full value of Qualified School Construction Bonds (QSCBs) issued by the board from the $100.0 million cap. The maturity of bonds issued by the board cannot exceed 15 years.

Upon the issuance of bonds by BCPS, the State Comptroller must withhold from State aid to BCPS funds in the amount needed to pay the debt service on the bonds. The funds are withheld in installments and used to pay the debt service until the bonds are no longer outstanding.

Background: QSCBs are new tax-credit bonds created by the American Recovery and Reinvestment Act of 2009 that provide the holders with a federal tax credit roughly equal to 100% of the value of the interest they would receive from a taxable bond issued by the same entity. Therefore, the issuer of the bond does not have to pay interest to the bond purchasers, reducing the cost of the debt for the issuer. BCPS was authorized to issue a total of $111.6 million in QSCBs. It sold $50.8 million worth of QSCBs in 2009 and $60.8 million in 2011, leaving only $1,000 of unsold QSCB allocations.

As of January 2011, BCPS's total school construction debt outstanding was $156.9 million, including $111.6 million in QSCBs. Therefore, after excluding the value of its QSCB debt as allowed under Chapter 243, BCPS has used $45.3 million of its $100.0 million statutory debt authority. BCPS received $872.1 million in direct State education aid (excluding teacher retirement) in fiscal 2011. Debt service payments are $8.1 million in fiscal 2011 and are expected to decrease to $8.0 million in fiscal 2012.

Local Fiscal Effect: The Department of Legislative Services (DLS) notes that increasing the maturity of the bonds from 15 to 30 years will increase interest paid over the life of the bonds, making the debt more expensive over the long term. The Baltimore City Board of School Commissioners can complete the mandated study with existing resources.

Additional Information

Prior Introductions: None.

Cross File: HB 230 (Delegate Tarrant, *et al.*) **-** Appropriations.

Information Source(s): Baltimore City, Department of General Services, Public School Construction Program, Department of Legislative Services

Fiscal Note History: First Reader - February 7, 2011
ncs/rhh Revised - Enrolled Bill/Clarification - April 28, 2011

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