SB 123

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 123 (Senator Astle, *et al.*)
Education, Health, and Environmental Affairs

Education - Public Charter School Facility Revolving Loan Fund

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This bill establishes the Public Charter School Facility Revolving Loan Fund to lend money to approved applicants for public charter school facilities. It requires the Governor to provide $400,000 in the *Capital Improvement Program* of the Public School Construction Program (PSCP) for the fund. In the case of defaulted loans, the State Board of Education may require the county governing body or county school board in the county in which the public charter school is located to repay the fund. The State board must adopt regulations to implement the bill.

Fiscal Summary

State Effect: Special fund revenues increase each year beginning in FY 2013 due to a redirection of $400,000 in general obligation (GO) bond revenues and expenditures from PSCP to reflect the capitalization of the loan fund. Special fund expenditures by the loan fund total $200,000 in FY 2013, $400,000 in FY 2014, and then by increasing amounts each year thereafter to expend the loan fund's balance. Special fund revenues increase slightly in FY 2014 to reflect the first round of loan repayments made by loan recipients, and then by increasing amounts in subsequent years as loan repayments increase. The Maryland State Department of Education (MSDE) can carry out the bill's requirements with existing resources. **This bill establishes a mandated appropriation beginning in FY 2013.**

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
SF Revenue	$0	$400,000	$426,000	$469,600	$516,500
SF Expenditure	$0	$200,000	$400,000	$426,000	$569,600
Net Effect	$0	$200,000	$26,000	$43,600	($53,100)

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

Local Effect: Public charter schools may be able to borrow funds for facilities from the Public Charter School Facility Revolving Loan Fund, thereby freeing up funds for operational expenses. Local governing bodies or school boards may be required to repay defaulted loans on behalf of charter schools in their jurisdiction; it is assumed that MSDE will require that loans to charter schools be cosigned by a local governing body or school board.

Small Business Effect: Minimal.

Analysis

Bill Summary: The Public Charter School Facility Revolving Loan Fund is a special, nonlapsing fund and consists of money appropriated in the State budget and so designated in the *Capital Improvement Program* of PSCP.

On application by a public charter school applicant and approval by the State Board of Education or its designee, the applicant may obtain a loan from the fund for the construction, purchase, renovation, and maintenance of a public charter school facility.

In any fiscal year, a single loan to a public charter school may not exceed $100,000, and aggregate loans to a public charter school may not exceed $150,000. Over a period of five fiscal years, aggregate loans to a public charter school may not exceed $500,000.

When making a determination whether to approve a public charter school facility loan from the fund, the State board or the board's designee must consider the following factors:

- the soundness of the financial business plan of the applicant;
- the availability of other sources of funding to the public charter school;
- the geographic distribution of loans from the fund;
- whether a loan from the fund will improve the likelihood that the public charter school will receive other private or public funding;
- innovative plans the public charter school has to use money received from the fund to enhance or leverage other funding opportunities, including loan guarantees or other types of credit enhancements; and
- the financial needs of the public charter school.

By September 1 of each year, the State board must report to each local board the balance outstanding on any loan from the fund to a public charter school in the jurisdiction. Beginning with the first fiscal year following the fiscal year in which a public charter school received a loan from the fund, the public charter school must remit to the State board the required annual repayment amount agreed on by the State board and the public charter school, and all money collected by the State board must be credited to the fund. A loan from the fund, together with interest in the amount required by the State board, must be repaid in equal annual installments over the period, at most 15 years, agreed to by the public charter school and the State board.

Current Law: A local board must disburse to a public charter school an amount of county, State, and federal money for elementary, middle, and secondary students that is commensurate with the amount disbursed to other public schools in the local jurisdiction; however, no capital costs are included in the per pupil amount.

The State board or the local board may give surplus educational materials, supplies, furniture, and other equipment to a public charter school.

The primary public chartering authorities for charter schools are the local boards of education; the secondary chartering authority is the State Board of Education acting in its appeal review capacity or as the public chartering authority for a restructured school.

PSCP provides up to 50% of the funding for eligible costs related to the construction and renovation of public school facilities in the State, including major projects, systemic renovations, the movement and installation of State-owned relocatable classrooms, and other related capital projects. Funding for the program is established each year in the State's capital budget by the Governor and General Assembly, with revenues coming entirely or largely from the sale of GO bonds.

Background: According to the National Alliance for Public Charter Schools, public charter schools in 13 states and the District of Columbia receive some manner of state facilities aid, which can include discretionary grants, loans, per pupil allocations, and other support such as access to vacant school buildings. California has a charter school revolving fund that allows charter schools to receive loans for as much as $250,000; schools can use these loans for any start-up costs, including facilities. Utah has a charter school revolving fund that provides loans to charter schools for the costs of constructing, renovating, and purchasing charter school facilities.

States with statutory requirements to provide per pupil aid to assist charter schools with their facility costs are eligible for the federal State Facilities Incentive Grant program. The program provides federal funds to match nonfederal dollars used by a state to fund charter school facilities on a per pupil basis. Grants are for five years and states pay an increasing share of the costs of the program.

In Maryland, charter schools must use the per pupil amounts they receive for operational expenses and funds from other sources to pay for capital expenses. There are approximately 44 public charter schools in the State, distributed as follows: 34 in Baltimore City; 5 in Prince George's County; 2 in Anne Arundel County; and 1 each in Baltimore, Frederick, and St. Mary's counties.

The Governor's fiscal 2012 *Capital Improvement Program* includes $250 million for public school construction annually in fiscal 2012 through 2016. The fiscal 2012 capital budget authorizes $240.3 million in GO bonds and $9.7 million in recycled funds (previously allocated but unspent) for public school construction.

State Fiscal Effect: The bill does not specify whether the $400,000 allocation from PSCP to the loan fund is a one-time or ongoing distribution. The Department of Legislative Services (DLS) notes that if it is a one-time distribution, the loan fund will not have sufficient resources to provide loans on an ongoing basis if it makes loans totaling $400,000 in the first year, because repayments of principal and interest spread out over the required 15-year period will not be sufficient to sustain ongoing lending of the magnitude implied by the bill's loan limits. Therefore, for the purpose of this analysis, it is assumed that the bill requires annual redistributions of $400,000 from PSCP to the loan fund. However, DLS notes that there is no provision to decrease the level of funding from PSCP over time as the loan fund becomes self-sufficient. Thus, the bill will reduce funds available for PSCP by $400,000 annually.

Given the bill's October 1, 2011 effective date, GO bond revenue for PSCP decreases by $400,000 annually beginning in fiscal 2013. Special fund revenues for the loan fund increase by a corresponding $400,000 in fiscal 2013 as the fund is capitalized. DLS assumes that MSDE spends part of fiscal 2013 developing procedures and promulgating regulations governing the loan application process and will also need time to review and assess applications for funding. Therefore, DLS assumes that MSDE will be able to award loans totaling only half of the initial allocation, or $200,000, in fiscal 2013. Loan fund expenditures are then projected to increase to $400,000 in fiscal 2014 and by slightly higher levels each year thereafter as the fund seeks to lend out the remainder of its balance plus the proceeds it earns from loan repayments. The bill requires that loan payments begin a year after a loan is made, so special fund revenues for the loan fund beyond the capitalization amount do not begin until fiscal 2014 to reflect the deposit of principal and interest payments into the fund. To the extent the distribution of loans differs from DLS assumptions, special fund revenues and expenditures would be higher or lower in any given year. **Exhibit 1** shows the annual fund balances for the Public Charter School Revolving Loan Fund under the DLS assumptions used for this analysis.

Exhibit 1
Public Charter Schools Revolving Loan Fund

	FY 2013	FY 2014	FY 2015	FY 2016
Beginning Balance	$0	$200,000	$226,000	$269,600
PSCP Allocation	400,000	400,000	400,000	400,000
Loans Made	(200,000)	(400,000)	(426,000)	(569,600)
Debt Service Payments Received	0	26,000	69,600	116,480
Fund Balance	**$200,000**	**$226,000**	**$269,600**	**$216,480**

Source: Department of Legislative Services

For the purpose of this analysis, DLS assumes that loans made by the fund would be amortized over 15 years and carry an annual interest rate of 4.0%.

Additional Information

Prior Introductions: HB 610 of 2010 and its cross file, SB 366 of 2010, are designated as prior introductions, but they are substantively different.

Cross File: HB 231 (Delegate Costa) - Appropriations.

Information Source(s): Public School Construction Program, Maryland State Department of Education, Department of Budget and Management, Department of General Services, National Alliance for Public Charter Schools, Department of Legislative Services

Fiscal Note History: First Reader - February 7, 2011
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