

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 795 (Senator McFadden. *et al.*)

Budget and Taxation

Education - New Baltimore City Board of School Commissioners - Bonding
Authority

This bill enables the New Baltimore City Board of School Commissioners to issue bonds to finance or refinance the acquisition, development, or improvement of any public school facility in Baltimore City. The bonds' maturity dates cannot exceed the useful life of the public school facility for which the bonds are issued or 15 years, whichever is less. The aggregate principal amount of bonds outstanding may not exceed, as of the date that the bonds are issued, \$25 million annually or \$25 million for an issuance of bonds.

The commissioners must report to the Board of Public Works and the General Assembly by September 1 on the sources of income and payments of debt service for school issued bonds during the previous year. By December 1 of each year, the commissioners must report to the General Assembly on the anticipated sources and amounts of payments of debt service for the next fiscal year.

This bill takes effect July 1, 1999.

Fiscal Summary

State Effect: Indeterminate impact on State finances. Bonds issued by the board of school commissioners would *not* be backed by the full faith and credit of the State.

Local Effect: Indeterminate increase in Baltimore City school expenditures. Potential increase in bond revenue for the Baltimore City School System. Bonds issued by the board of school commissioners would *not* be backed by the full faith and credit of the Baltimore City government.

Small Business Effect: Potential meaningful impact on construction contractors and

building repair companies, many of which are small businesses.

Fiscal Analysis

Background: Under current law, the State provides funds for school construction through the public school construction program. The State share of a school system's eligible construction costs relates to the wealth of the jurisdiction, with less wealthy jurisdictions receiving a greater share of State support. The State pays for 75% of eligible costs in Baltimore City. However due to legislation enacted in 1997, for fiscal 1998 through fiscal 2002, the State must pay for 90% of the eligible costs for the first \$10 million allocated by the State and 75% on any State funds in excess of \$10 million.

In the last ten years (1991-2000), Baltimore City has received around \$95 million in State school construction funding. The city will receive at least \$20 million in public school construction funding for fiscal 2000. Another \$62.3 million in State school construction funding has not been allocated. The city has requested \$25.6 million and may receive additional funding. In addition, Baltimore City can issue bonds for school construction purposes outside of the State program. These bonds would be backed by the full faith and credit of the city government.

State Effect: The bill specifies that the State consents to the use of any lands owned by it for the use of the Baltimore City Board of School Commissioners that may be suitable and necessary for the construction or operation of any of the public school facilities authorized by the provisions of the bill. In addition, the State covenants that it will not revoke this consent during the term of the bonds issued under the bill. This authority would have an indeterminate negative impact on State finances.

Local Effect: Pursuant to this bill, the Baltimore City Board of School Commissioners may issue up to \$25 million in bonds for school capital projects. The bonds' maturity dates cannot exceed 15 years. Assuming the board of school commissioners issues the maximum amount of bonds and receives an A credit rating (Baltimore City's current rating), debt service payments could total approximately \$2.4 million a year. This estimate reflects a 5% annual interest rate and a 15-year maturity date. The following table shows the debt service payments for fiscal 2000 through 2004, if the board of school commissioners issues \$25 million in bonds each year. Since the school system does not have an independent revenue source, a credit rating agency may not offer the school system the same rating as the city government. This would increase the school system's annual debt service payments.

FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
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\$2.4 million	\$4.8 million	\$7.2 million	\$9.6 million	\$12 million
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Since the Baltimore City Public School System is fiscally dependent on the city government for funding and since the school system does not have taxing authority, the school system is limited in its ability to raise its own revenue. The Baltimore City Public School System receives 60% of its revenue from the State, 29% from the city, and 11% from the federal government. Most federal funds, however, are for specific categorical programs and cannot be used for debt service expenses. Unless the Baltimore City government provides additional funds to cover debt service expenses or the school system raises funds from private or federal sources, existing school operating funds, as shown below, would have to be used to cover debt service payments.

Baltimore City Public School operating expenditures totaled \$675 million in fiscal 1997. Of this amount 52% went for instruction, 19% for special education, 11% for plant operation and maintenance, and 5% for administration. The city's per pupil operating expenditure totaled \$6,520 in fiscal 1997, \$168 less than the statewide average. The following chart shows the allocation of school operating expenditures by function for fiscal 1997, the latest year in which audited data is available.

Function	FY 1997 Expenditures	Percent of Total
Administration	\$35.6 million	5.3%
Instruction	\$349.4 million	51.7%
Special Education	\$127.1 million	18.8%
Pupil/Health Services	\$5.7 million	0.9%
Student Transportation	\$26.3 million	3.9%
Plant Operation/Maintenance	\$77.2 million	11.4%
State Paid Retirement	\$54.1 million	8%
Total	\$675.4 million	100%

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

Fiscal Note History:

First Reader - March 27, 1999 19

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