

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 773 (Senator McFadden)

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, construction, or improvement of any public school facility in Baltimore City. The bill requires passage of a resolution of approval by the Mayor and City Council of Baltimore before the school board can issue bonds. 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 \$25 million, as of the date that the bonds are issued. In addition, the board must include in its annual report the sources of income and debt service payments on any bonds issued by the board and anticipated sources and amounts of the debt service payments. The bill creates a "sinking fund" into which the State Comptroller would deposit withheld State education aid in an amount equal to the debt service outstanding and unpaid on the bonds.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: None.

Local Effect: Assuming a \$25 million bond issuance, Baltimore City school expenditures could increase by \$2.4 million annually for debt service.

Small Business Effect: Potential meaningful impact on construction contractors and building repair companies, many of which are small businesses.

Analysis

Current Law: The State provides funds for school construction through the Public School

Construction Program. The program was established in 1971 and is administered by the Interagency Committee on Public School Construction (IAC). The State Superintendent of Schools is the chair of the IAC, which also includes the Secretary of the Department of General Services and the Director of the Office of Planning.

The current program provides State funding for eligible and justified school construction projects approved by the Board of Public Works. Expenditures that are ineligible for State funding include site acquisition, architectural and engineering fees, utility connections, regional or central administrative offices, and permits. Recent changes to the public school construction regulations that will affect projects in the fiscal 2001 Capital Improvement Program have expanded eligible costs to include several types of furniture that had previously been ineligible.

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. With two exceptions, there are seven levels of State sharing based on the average State shares of the minimum foundation for fiscal 1992 through 1994. No county receives less than a 50% share from the State.

Background: As part of a summer study during the 1999 interim, the Department of Legislative Services surveyed the practices in seven states in an effort to identify whether any of those states' school districts were authorized to issue debt without the authority to levy taxes or fees. The seven states were: Virginia, Georgia, Texas, New Jersey, California, North Carolina, and Connecticut. The school districts in Georgia, Texas, and New Jersey have the ability to raise revenues to finance public school construction. Like Maryland, the school districts in Virginia, North Carolina, Connecticut, and California do not.

No school districts within the states surveyed are authorized to issue debt without the ability to levy taxes. None of the officials from the states surveyed knew of any school district in the country that was authorized to issue debt without the ability to raise revenue to service that debt.

Local Fiscal Effect: Pursuant to this bill, the New 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. 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.

Additional Comments: In general, the State pays for 75% of eligible costs in Baltimore City. However, under provisions of the 1997 consent decree, 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 for fiscal 1998 through 2002.

In the last ten years (1991-2000), Baltimore City has received over \$100 million in State school construction funding, as shown in **Exhibit 1**. The city received \$25 million in public school construction funding for fiscal 2000, 9.7% of the State total and 97.7% of their requested amount. In addition, Baltimore City can issue bonds for school construction that are backed by the full faith and credit of the city government.

Exhibit 1
State Funding for School Construction in Baltimore City
(\$ in Millions)

<u>Fiscal Year</u>	<u>Baltimore City Allocation</u>	<u>Percent of State Total</u>	<u>Percent of Request Funded</u>	<u>Baltimore City Funding*</u>
1991	\$5.2	6.5%	92.9%	n/a
1992	5.6	8.6%	97.7%	\$4.0
1993	5.0	6.3%	104.5%	6.0
1994	7.4	8.5%	64.2%	6.0
1995	8.3	7.6%	108.4%	5.7
1996	7.3	6.2%	83.8%	8.0
1997	9.0	6.4%	64.7%	10.0
1998	10.4	6.9%	61.0%	11.2
1999	17.5	7.6%	70.2%	12.8
2000	25.0	9.7%	97.8%	18.8
Total	\$100.7	7.6%	97.7%	\$82.5

*As reported by the school system

The Baltimore City Public School System (BCPS) submitted to the IAC a fiscal 2001-2006 Capital Improvement Program dated October 15, 1999. According to the Summary of Current and Future Project Requests, the city's expected requests for State funding over the next six years average \$16.5 million per year. The five-year request is summarized in **Exhibit 2**.

A capital needs study of BCPS conducted by 3D International in 1997 identified over \$600 million in systemwide school renovation and construction needs. BCPS is currently engaged in a comprehensive facility utilization study to assess the usage and efficiency of all BPCS facilities, as required by the 1997 Baltimore City School legislation (Chapter 105, Acts of 1997). The board has mandated the establishment of a ten-year plan for facilities which incorporates, among other factors, the projected 20% to 30% decline in student enrollment over the next ten years. The utilization study will be conducted by an outside contractor beginning in December 1999 with a completion date of May 2000. The board anticipates using the study's results to provide an accurate picture of BCPS' facility needs and prioritization of projects which will impact future decisions on school construction, facility improvement, consolidation, and identifying excess facilities.

Exhibit 2
BCPS Six-Year Capital Improvement
Program
(\$ in Millions)

<u>Fiscal Year</u>	<u>Expected Request For State Funding</u>
2001	\$39.9
2002	12.9
2003	17.9
2004	20.0
2005	16.3
2006	11.4
Total	\$98.8
Average	\$16.5

Additional Information

Prior Introductions: Similar bills were introduced in the 1999 session as SB 795 and HB 1217. The House Appropriation Committee did not report out HB 1217 and the Senate

Budget and Taxation Committee referred SB 795 to summer study.

Cross File: HB 745 (Delegate Marriott) - Appropriations.

Information Source(s): Department of Legislative Services, Baltimore City Government

Fiscal Note History: First Reader - March 1, 2000

cm/jr Revised - Senate Third Reader - March 29, 2000

Analysis by: Hiram L. Burch, Jr.

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 946-5510

(301) 970-5510