

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE
Revised

Senate Bill 687

(Senator Hoffman, *et al.*)

Budget and Taxation and
 Education, Health, and Environmental Affairs

Ways and Means and
 Appropriations

Primary and Secondary Education - Baltimore City-State Partnership

This bill requires the State to continue its financial support for the Baltimore City-State Partnership and the Baltimore City Remedy Plan if Senate Bill 856 is not enacted. The bill also makes adjustments to the responsibilities of the New Baltimore City Board of School Commissioners, the Baltimore City Public School System (BCPSS), and Baltimore City and increases BCPSS's bonding authority. In addition, the word "New" is removed from the name of the New Baltimore City Board of School Commissioners.

The bill is effective June 1, 2002.

Fiscal Summary

State Effect: Assuming enactment of Senate Bill 856, general fund expenditures would increase by an estimated \$387,000 in FY 2006 and by \$193,000 in FY 2007 to fund an evaluation of the Partnership. No effect on revenues.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	0	387,000	193,000
Net Effect	\$0	\$0	\$0	(\$387,000)	(\$193,000)

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

Local Effect: Baltimore City school expenditures would increase by \$387,000 in FY 2006 and \$193,000 in FY 2007. Bond revenues for the Baltimore City Board of School Commissioners would increase by \$25 million in FY 2003 and 2004. Annual debt service expenditures for the board would increase by \$2.4 million in FY 2003 and by \$4.8 million annually in subsequent fiscal years.

Small Business Effect: None.

Analysis

Bill Summary: The bill declares that it is the intent of the General Assembly that the fiscal 2003 State budget include \$50.0 million for the Baltimore City-State Partnership and \$51.8 million for the BCPSS Remedy Plan if the requirements of Senate Bill 856 as applicable to Baltimore City are not funded. If the bill's requirements as applicable to Baltimore City are not funded in fiscal 2004 through 2008, the annual State budgets for each of these years must include \$50 million for the Partnership and \$55 million for the Remedy Plan. The bill also increases from \$25 million to \$75 million the maximum aggregate principal amount of bonds that the Baltimore City Board of School Commissioners may issue.

The bill requires the Chief Executive Officer (CEO) of BCPSS to submit a new five-year comprehensive plan to the city board by June 1, 2002. The plan must provide for the improvement of student achievement and school system management and must incorporate the key recommendations of the 1992 Towers Perrin/Cresap Management Study report, the 1994 and 1995 MGT of America reports, and the 2001 Westat final evaluation of the City-State Partnership. The board must approve the plan and forward it to the State Board of Education and the State Superintendent of Schools no later than July 30, 2002. Implementation of the plan must begin by August 30, 2002, and the plan must be updated annually. The Maryland State Department of Education (MSDE) and the city board must jointly fund a comprehensive review and evaluation of the Partnership and BCPSS reform initiatives to be completed by December 1, 2006.

The bill requires MSDE to design, with the consultation of BCPSS, a principal development initiative for principals in training in Baltimore City. Funds appropriated by the State for the Baltimore City-State Partnership may be used to support the initiative.

The bill declares that it is the intent of the General Assembly that the CEO, Chief Academic Officer, Chief Operating Officer, and Special Education Officer for BCPSS as well as the State Superintendent of Schools and Assistant State Superintendent for Special Education meet at least quarterly with the Special Master for *Vaughn G., et al v. Mayor and City Council, et al.* After six meetings, the meeting schedule may be altered by the CEO and the State Superintendent. Justification for altering the schedule must be provided to the General Assembly. Executive level representatives from BCPSS, MSDE, and the Interagency Committee on Public School Construction must also develop a

mechanism to communicate quarterly on issues relating to facility planning in BCPSS. The State Superintendent may modify the communication schedule after six meetings, provided that justification is given to the General Assembly.

The bill requires Baltimore City to transfer the real property assets associated with operations of BCPSS to the city board by June 30, 2009. BCPSS must submit a written plan for the property transfer to MSDE by June 30, 2002. State funds for the construction of new schools in Baltimore City may only be approved on sites owned by the Baltimore City Board of School Commissioners. Baltimore City must continue to work with BCPSS to eliminate environmental hazards within public school buildings. A memorandum of understanding between the city and BCPSS must be developed to ensure that the city continues to support hazard elimination after the transfer of property has occurred.

Finally, the bill continues the existing appointment process for members of the Baltimore City Board of School Commissioners. The State Board of Education must continue to submit a list of qualified candidates to the Governor and the Mayor of Baltimore City, who jointly appoint individuals from the list to the city board.

Current Law: The New Baltimore City Board of School Commissioners has the authority and is responsible for all functions of BCPSS. The board is made up of nine voting members jointly appointed by the Mayor of Baltimore City and the Governor from a list of qualified individuals submitted by the State Board of Education. If no action is taken by the General Assembly during the 2002 legislative session, the mayor and Governor will continue to jointly appoint board members, but appointments will not be from a list submitted by the State Board of Education.

Mandated fiscal 2003 funding for BCPSS includes \$50 million for the Baltimore City-State Partnership and \$20.5 million for the BCPSS Remedy Plan. This funding sunsets after fiscal 2003. Additional mandated State funding for BCPSS totals approximately \$430 million in fiscal 2003, and a portion of this funding also sunsets after fiscal 2003. The aggregate principal amount of bonds issued by the city board may not exceed \$25 million.

A comprehensive master plan for BCPSS was initially developed and implemented prior to the 1997-1998 school year based on key recommendations from the 1992 Towers Perrin/Cresap Management Study report and the 1994 and 1995 MGT of America reports. Chapter 105 of 1997 mandated an interim review of BCPSS reforms by February 1, 2000 and a final comprehensive report by December 1, 2001. Both of these studies have been completed.

Background: In 1997, following a consent decree approved by the Baltimore City Circuit Court regarding BCPSS, the General Assembly passed legislation (Chapter 105 of 1997) establishing the Baltimore City-State Partnership. At the time, BCPSS was struggling with the poor academic performance of its students and questions about the system's administration and accountability. The Partnership was created to improve the system through increased State oversight and the infusion of \$230 million in additional State operating aid from fiscal 1998 to 2002. SB 719 of 2001 (Chapter 420) extended the fiscal 2002 sunset on Partnership funding through fiscal 2003.

The consent decree that formed the basis for the Partnership permitted BCPSS to request additional funding from the State in fiscal 2001 and 2002 and required the State to make "best efforts" to satisfy the request. BCPSS submitted a \$49.7 million "Remedy Plan" to the State for fiscal 2001 and received approximately \$34 million. The fiscal 2002 State budget includes a fiscal 2001 deficiency appropriation for BCPSS of \$5.5 million as well as \$55.3 million (\$20.5 million in direct support and \$34.8 million through other programs) towards the system's \$102 million fiscal 2002 Remedy Plan. The school system's fiscal 2003 Remedy Plan requests \$363 million in additional funds.

Chapter 105 of 1997 required a final comprehensive evaluation of the school system by December 1, 2001. This evaluation was conducted by Westat and was presented to the General Assembly on January 17, 2002. Westat concluded that the Partnership has worked well to improve student achievement and system management and recommended that the Partnership continue. In addition, Westat recommended that BCPSS make a greater effort to engage teachers in the school reform movement. At the same hearing in which Westat reviewed its findings, BCPSS asked that "New" be removed from the city board's title and that the General Assembly continue to provide support to the school system as the system continues its reform efforts.

If enacted, Senate Bill 856 would implement new funding formulas to distribute State education aid and would increase State funding for education by an estimated \$1.3 billion by fiscal 2008. Overall, the bill would: (1) have the State provide a greater share of education funding; (2) wealth equalize a greater proportion of State aid; and (3) provide a greater proportion of State aid based on the special needs of students in local school systems. Under the bill, Baltimore City would receive an additional \$19 million over current law in fiscal 2003 and an additional \$259 million over current law in fiscal 2008. The bill would also give local boards of education increased flexibility to use funds to best accommodate the students in their school systems. Each local school system would be required to develop a master plan for the coordinated use of education funding to ensure that the educational needs of all student populations are being addressed in a comprehensive manner.

State Expenditures: The categories of State aid that made up the \$55.3 million for the BCPSS Remedy Plan in fiscal 2002 are shown in **Exhibit 1** with the fiscal 2003 State appropriations to BCPSS for the programs. As seen in the exhibit, State funding for the Governor’s Teacher Salary Challenge and the Governor’s Early Education Initiative are reduced in fiscal 2003. Assuming the same categories of aid that were used for the fiscal 2002 Remedy Plan would be used to fulfill the bill’s \$51.8 million funding requirement, no additional fiscal 2003 State aid would be required.

Exhibit 1
State Expenditures Toward BCPSS Remedy Plan
Fiscal 2002 and 2003

<u>Program</u>	<u>FY 2002</u>	<u>FY 2003</u>
Governor’s Teacher Salary Challenge	\$18,328,905	\$15,128,267
Academic Intervention Program	3,633,784	3,633,784
Technology in Maryland Schools Program	3,150,000	3,150,000
Accelerated Wiring -- Training	603,900	603,900
Maryland Technology Academy	240,000	240,000
Governor’s Early Education Initiative	4,945,055	4,655,603
City Partnership for Remedy Plan	20,465,079	20,465,079
Summer/After School Programs -- At Risk	2,500,000	2,500,000
Teacher Certification/Quality Initiatives	468,980	468,980
Mass Transit Administration Discount	<u>1,000,000</u>	<u>1,000,000</u>
Total	\$55,335,703	\$51,845,613

Mandated State aid of \$50 million for the Partnership and \$20.5 million for the Remedy Plan sunsets following fiscal 2003 as does funding for the Governor’s Teacher Salary Challenge Program. This bill would mandate that \$50 million in funding for the City-State Partnership and \$55 million in funding for the BCPSS Remedy Plan continue after fiscal 2003 if Senate Bill 856 is not enacted. Assuming Senate Bill 856 is signed by the Governor, this provision would be obsolete. If the bill is not signed, State aid to BCPSS would increase by \$3.2 million annually from fiscal 2004 to 2008.

In addition to the State aid, the State would be required to pay one-half of the cost of a comprehensive partnership evaluation that would be completed by December 2006. The study that was recently completed by Westat cost approximately \$1 million. Assuming

3% annual inflation, the cost of a similar study will be approximately \$1.16 million by fiscal 2007. The State's share of the cost would be \$580,000 and would be paid in fiscal 2006 and 2007. Assuming two-thirds of the costs are paid in fiscal 2006 and one-third are paid in fiscal 2007, general fund expenditures would increase by \$387,000 in fiscal 2006 and by \$193,000 in fiscal 2007.

It is assumed that State funding for the Partnership would be used to fund the principal development initiatives that MSDE would be required to design with BCPSS. The proposed fiscal 2003 State budget includes \$70.5 million for Baltimore City through the Partnership.

Local Fiscal Effect: The bill impacts BCPSS operating expenses, borrowing authority, and assets. The effects within each of these categories are discussed separately below.

BCPSS Operating Expenses

Assuming Senate Bill 856 is signed by the Governor, this bill does not provide additional State aid to BCPSS. If Senate Bill 856 is not enacted, State aid for BCPSS operating expenses would increase by \$3.2 million per year from fiscal 2004 to fiscal 2008.

BCPSS is required to provide one-half of the cost of the comprehensive evaluation of the Partnership to be completed by December 2006. The full cost is estimated at \$1.16 million, and the share funded by BCPSS is estimated at \$580,000. It is assumed that two-thirds of this cost (\$387,000) would be funded in fiscal 2006 and one-third (\$193,000) would be funded in fiscal 2007.

BCPSS would also be required to aid MSDE with the design of a principal development initiative. It is assumed that BCPSS would use a portion of State funding for the Baltimore City-State Partnership, totaling \$70.5 million in fiscal 2003, to fund the initiative.

Increased Bond Authority

The New Baltimore City Board of School Commissioners advises that the increased bond authority of \$50 million would be exercised over two fiscal years, 2003 and 2004. Therefore, board revenues for each of the two fiscal years would increase by \$25 million. Debt service payments on the bonds would total approximately \$2.4 million in fiscal 2003 and \$4.8 million in subsequent fiscal years. This estimate is based on a 5.1% annual interest rate over 15 years, which is the financing plan the school system employs.

The current \$25 million bond authority of the board has been used to provide Internet wiring (\$16.1 million) and other major renovations to Baltimore City public schools (\$8.9 million). If additional borrowing authority is approved, the board advises that the funds would support its Strategic Facility Plan. The plan includes renovations that will enable high school reform initiatives to proceed and renovations that will facilitate the conversion of school buildings to accommodate students in pre-kindergarten through grade eight.

Bonds issued by the board use a State intercept. The State pays the debt service and subtracts the payments from the State education aid that is owed to the board.

Transfer of Assets from Baltimore City to the Baltimore City Public School System

The value of the assets that Baltimore City would be required to transfer to BCPSS is estimated at \$790 million. After accounting for depreciation, the value is reduced to \$474 million. The value of the property would not be affected by the transfer, but the financial position of Baltimore City could weaken due to the loss of assets related to school operations.

Baltimore City is already required to aid BCPSS with the removal of environmental hazards from public schools. This provision of the bill, therefore, would have no fiscal impact on Baltimore City or BCPSS.

Additional Information

Prior Introductions: None.

Cross File: HB 853 (Delegate Rawlings, *et al.*) - Ways and Means and Appropriations.

Information Source(s): Maryland State Department of Education, Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - February 26, 2002
ncs/hlb Revised - Updated Information - March 15, 2002
Revised - Senate Third Reader - April 1, 2002
Revised - Enrolled Bill - May 2, 2002

Analysis by: Mark W. Collins

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510