

Department of Legislative Services  
Maryland General Assembly  
2004 Session

FISCAL AND POLICY NOTE

House Bill 1405 (Delegate Haynes, *et al.*)  
Ways and Means and Appropriations

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Education - Baltimore City Board of School Commissioners - Budget and Audit  
Requirements

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This bill requires the Baltimore City Board of School Commissioners to submit quarterly financial statements to the State Superintendent of Schools. If a financial statement reveals that the board has expenditures and debits that exceed its revenues by 1.5% or more, the State superintendent may require the board to submit a corrective action cost containment plan and monthly reports showing actions taken to close the deficit. If the board fails to comply with these requirements, the State Superintendent is authorized to withhold up to 10% of the next installment of State funding due to the Baltimore City Public School System (BCPSS) until the board is in compliance with the requirements.

The bill takes effect July 1, 2004.

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Fiscal Summary

**State Effect:** The Maryland State Department of Education could review quarterly or monthly reports with existing personnel.

**Local Effect:** BCPSS expenditures could decrease in FY 2005 to ensure compliance with the limits imposed by the bill. Existing BCPSS personnel could prepare and submit quarterly or monthly reports.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** Each local board of education is required to prepare an annual budget detailing projected revenues from different sources and estimated expenditures within specific categories. Budgets proposed by the Baltimore City Board of School Commissioners are submitted to the Mayor and City Council, and the Mayor must indicate which parts of the budget are reduced or denied and the reasons for the reductions. On or before November 1 and March 1 of each year, the Baltimore City Board of School Commissioners must submit to the Mayor and City Council a report detailing all expenditures within the major categories of its annual budget. The report must also note any actions taken by the board that would commit the board to spend more than was approved in its annual budget.

Each local board of education must provide for an annual audit of its financial transactions and accounts made by a certified public accountant who is licensed by the State Board of Public Accountancy and approved by the State Superintendent of Schools. The results must be reported within three months of the close of each fiscal year and are a matter of public record.

**Background:** Although budget problems for BCPSS were acknowledged at least as early as June 2003, the depth of the problems became increasingly apparent in fall 2003 when BCPSS announced that it would be forced to lay off approximately 800 employees. The employees, most of whom were part of BCPSS central administration, were laid off in November and December 2003.

To further address a deficit that was estimated at \$58 million by the beginning of 2004, teachers unions were asked in early February to approve 6.8% pay cuts or eight-day furloughs. Both options were rejected despite threats of 1,200 layoffs if one of the proposed cost containment measures was not accepted. A week later, an option for 3.5% pay cuts, coupled with an \$8 million loan from Baltimore City, was again rejected by the Baltimore Teachers Union.

The \$8 million loan from the city was soon met with loan pledges of \$8 million from the Abell Foundation and \$42 million from the State. The State loan was contingent on the submission of a plan to close the school's deficit and ensure future fiscal accountability. A plan was submitted by the Board of School Commissioners on February 20, but was rejected by the Governor due to its perceived failure to provide adequate fiscal 2004 and 2005 cost containment measures and failure to demonstrate sufficient fiscal accountability. Discussions of a State loan continued, but Baltimore City eventually decided to provide BCPSS a \$42 million loan rather than submit to the demands that the

State would have imposed with its funding. The \$42 million will be drawn from Baltimore City's rainy day fund and will be repaid in fiscal 2005 and 2006.

The Baltimore City-State Partnership was established in 1997 to improve BCPSS through increased State oversight and the infusion of \$230 million in additional State operating aid. Student performance outcomes since the partnership began have been mostly positive, but the recent budget problems have raised questions about the effectiveness of the management structure that was established. **Exhibit 1** shows the increases in State aid that have been provided to BCPSS since the beginning of the partnership and the estimated increases for fiscal 2005 to 2008. A portion of the annual increases for fiscal 2005 to 2008 are for teachers' retirement payments, which are paid by the State but do not go directly to the school system.

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**Exhibit 1**  
**State Operating Aid Provided to the Baltimore City Public School System**  
**Fiscal 1997 to 2008**

	<u>State Aid</u> <u>(\$ in millions)</u>	<u>Increase</u>	<u>Per Pupil</u> <u>State Aid</u>	<u>Increase</u>
<i>Actual</i>				
FY 1997	\$437.3		\$4,205	
FY 1998*	480.4	9.8%	4,664	10.9%
FY 1999	531.8	10.7%	5,192	11.3%
FY 2000	540.0	1.5%	5,434	4.7%
FY 2001	559.7	3.6%	5,807	6.9%
FY 2002	584.3	4.4%	6,188	6.6%
FY 2003	609.7	4.4%	6,566	6.1%
FY 2004	625.2	2.5%	6,893	5.0%
<i>Estimated</i>				
FY 2005	\$684.1	9.4%	\$7,718	12.0%
FY 2006	747.1	9.2%	8,598	11.4%
FY 2007	809.1	8.3%	9,541	11.0%
FY 2008	888.8	9.9%	10,694	12.1%

\* First year of partnership aid.

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**Local Fiscal Effect:** BCPSS currently has a reported deficit of \$58 million, and according to some reports, the deficit carried over into fiscal 2005 could be as high as \$70 million without further action in fiscal 2004. The extent of the structural deficit (*i.e.*,

the difference between ongoing expenditures and ongoing revenues) is unknown at this time but is considerably less than the \$58 million deficit that has accumulated over a number of fiscal years.

The increase in direct State aid from fiscal 2004 to 2005 is estimated at approximately \$55 million. With the loan from Baltimore City in fiscal 2004 and reductions in spending, BCPSS expenditures could stay within 1.5% of revenues in fiscal 2005. The fiscal 2004 BCPSS budget includes revenues of approximately \$975 million. Assuming slightly higher revenues in fiscal 2005, BCPSS expenditures would have to stay within \$15 million of revenues to avoid the potential for more rigorous reporting requirements.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 16, 2004  
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