

Department of Legislative Services  
Maryland General Assembly  
2005 Session

FISCAL AND POLICY NOTE

House Bill 89  
Appropriations

(Delegates Leopold and Rudolph)

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State Debt - Public School Construction - Maturity of General Obligation Bonds  
- 30 Years

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This constitutional amendment enables the State to issue general obligation bonds for public school construction projects with a maturity date of up to 30 years.

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**Fiscal Summary**

**State Effect:** Annual debt service costs on bonds with a 30-year maturity will be lower than bonds with a 15-year maturity, assuming an equivalent amount of bond issuance; however, school construction projects will cost more since the amortization of general obligation bonds will be over a longer time period.

**Local Effect:** State funding for local school construction projects could be accelerated resulting in additional projects being funded throughout the State.

**Small Business Effect:** Meaningful.

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**Analysis**

**Current Law:** The State constitution requires tax-supported debt to be retired within 15 years.

**Background:** Paying off general obligation bonds within 15 years has been mentioned by bond rating services as a sound financial policy. According to Moody's Investors Service, "this policy increases debt service as a percentage of revenues, but also rapidly

replenishes the state's debt capacity and helps restrain growth in the outstanding balances.”

The Capital Debt Affordability Committee has set a guideline that limits State debt to within 3.2% of personal income and debt service within 8% of revenues. Based on an October 2004 report from Moody's Investors Service, Maryland's debt per capita was ranked 14 in the nation at \$1,077. For debt as a percentage of personal income, Maryland ranked 21, at 3%. Maryland is one of only seven states that receives an “AAA” bond rating (the highest possible) from all three rating agencies.

Chapters 306 and 307 of 2004, also referred to as the Public School Facilities Act of 2004, established a State goal to fully fund school construction projects by fiscal 2013 to meet all minimum required standards for new construction as of July 2004. The Act was a response to the November 2003 survey results of the Task Force to Study Public School Facilities. The task force concluded that many Maryland public schools were deficient in some capacity and that the cost to bring schools up to the 2003 standard would be \$3.85 billion. **Appendix 1** shows the total cost of bringing schools up to standard by local school system in 2004 dollars. Through the State/local shared cost formula, the State would provide \$2 billion of the \$3.85 billion over the next eight fiscal years, with the remaining share funded by local governments.

The State has currently committed to \$800 million (\$100 million annually) in the Department of Budget and Management's Capital Improvement Program, leaving a \$1.2 billion shortfall. Increasing the debt authorization by \$150 million annually for eight years would allow the State to meet the goal in fiscal 2013.

The State's proposed fiscal 2006 capital budget includes \$157.6 million for public school construction projects, of which \$155.2 million is general obligation bonds and \$2.4 million is special funds.

**State Fiscal Effect:** While the annual debt service cost for general obligation bonds with a 30-year maturity is lower than those with a 15-year maturity, the total debt service cost will be higher since the bonds will have a longer schedule of amortization. This increase could restrict the number of school construction projects that may be approved in future years. **Exhibit 1** shows the annual and total debt service cost for a \$100 million bond authorization with a 15-year maturity and 30-year maturity. The estimated annual debt service cost is \$2.7 million lower on bonds with a 30-year maturity, but the total debt payment over the 30-year period is \$52.1 million higher.

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**Exhibit 1**  
**Estimated Debt Service Cost on \$100 Million Bond Issuance**  
**(\$ in Millions)**

	<b><u>Interest Rate</u></b>	<b><u>Annual Debt Service</u></b>	<b><u>Total Debt Payments</u></b>
15-year Maturity	4.02%	\$8.9	\$133.3
30-year Maturity	4.64%	\$6.2	\$185.4
<b>Difference</b>		<b>\$2.7</b>	<b>(\$52.1)</b>

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While the State could meet its school construction funding goal by increasing the debt authorization, and it would be affordable under the State's debt affordability criteria, increasing the debt authorization by \$1.2 billion would increase debt service costs above the amount planned for the out-year budgets and could limit the State's ability to issue debt for other programs, such as transportation.

Pursuant to this legislation, the State could increase the debt authorization for school construction projects without necessarily increasing annual debt service costs thereby enabling the State to fund more school construction projects sooner. This would benefit local school systems and educational programs throughout the State.

**Local Fiscal Effect:** The Maryland Constitution requires that proposed amendments to the constitution be publicized either: (1) in at least two newspapers in each county, if available, and in at least three newspapers in Baltimore City once a week for four weeks immediately preceding the general election; or (2) by order of the Governor in a manner provided by law. State law requires local boards of elections to publicize proposed amendments to the constitution either in newspapers or on specimen ballots; local boards of elections are responsible for the costs associated with these requirements. It is anticipated that the fiscal 2007 budgets of local election boards will contain funding for notifying qualified voters about proposed constitutional amendments for the 2006 general election in newspapers or on specimen ballots.

**Small Business Effect:** Increased State funding for public school construction projects will have a positive impact on architectural, engineering, construction, and service firms throughout Maryland. As of calendar 2003, there were 17,400 construction firms in Maryland employing 167,500 individuals. Construction workers earned a total of \$7.1

billion in wages which average to approximately \$813 per week. The construction industry accounts for approximately 7% of total employment in Maryland. In addition, there are 5,750 licensed architects and 13,500 professional engineers in Maryland.

**Additional Comments:** The Public School Construction Program currently has a policy of not funding a building or any portion thereof that has an age of less than 16 years. This policy is based on the State's current 15-year bond maturity requirement. According to the Public School Construction Program, an increase in the length of bond repayment would suggest revisiting this policy to possibly increase the age of a building beyond which it would become eligible for State funding.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Public School Construction Program, Department of Budget and Management, Department of Legislative Services

**Fiscal Note History:** First Reader - January 31, 2005  
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**Appendix 1**  
**Cost Estimates to Bring Facilities Up to Current**  
**Standards for New Construction\***

<b><u>School System</u></b>	<b><u>Estimated Cost</u></b>
Allegany	\$71,426,000
Anne Arundel	336,458,000
Baltimore City	570,599,000
Baltimore County	408,845,000
Calvert	102,911,000
Caroline	5,435,000
Carroll	135,297,000
Cecil	46,873,000
Charles	178,419,000
Dorchester	33,816,000
Frederick	203,625,000
Garrett	20,142,000
Harford	204,666,000
Howard	168,727,000
Kent	1,180,000
Montgomery	279,307,000
Prince George's	778,225,000
Queen Anne's	9,666,000
St. Mary's	52,530,000
Somerset	9,030,000
Talbot	18,989,000
Washington	93,827,000
Wicomico	69,993,000
Worcester	<u>54,122,000</u>
<b>Total State and Local Cost</b>	<b>\$3,854,108,000</b>

\*Costs reported by local school systems in July 2004 dollars.

Source: Public School Construction Program

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