

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 125
Appropriations

(Delegate Anderson, *et al.*)

Baltimore City Public School System - Exclusion from Amount of Bonds
Outstanding

This bill exempts the full value of Qualified School Construction Bonds (QSCBs) issued by the Baltimore City Public Schools (BCPS) from the \$100.0 million statutory cap on outstanding debt that BCPS may issue.

The bill takes effect June 1, 2010.

Fiscal Summary

State Effect: None. The bill affects only BCPS finances.

Local Effect: Expenditures by BCPS increase by approximately \$7.7 million annually for 15 years, beginning in FY 2011 for debt service on the QSCBs issued under the bill.

Small Business Effect: None.

Analysis

Current Law: The Baltimore City Board of School Commissioners may issue bonds to finance or refinance all or any part of the costs of school construction projects. The mayor and city council must approve the board's issuance of new debt, but debt issued by the board is solely the board's obligation and does not constitute any indebtedness or obligation of the State, the mayor, or the city council. The aggregate principal amount of bonds outstanding for BCPS cannot exceed \$100.0 million as of the date that bonds are issued.

Upon the issuance of bonds by BCPS, the State Comptroller must withhold from State aid to BCPS funds in the amount needed to pay the debt service on the bonds. The funds are withheld in installments and used to pay the debt service until the bonds are no longer outstanding.

Background: QSCBs are tax-credit bonds that provide the holders with a federal tax credit roughly equal to 100% of the value of the interest they would receive from a taxable bond issued by the same entity. Therefore, the issuer of the bond does not have to pay interest to the bond purchasers, reducing the cost of the debt for the issuer.

The American Recovery and Reinvestment Act of 2009 (ARRA, the federal stimulus bill) authorized states and large local education agencies to issue up to \$22.0 billion over two years in QSCBs for the construction, rehabilitation, or repair of school facilities, or to purchase land on which to build school facilities. Forty percent of the authorization was given directly to the 100 school districts with the highest number of school-age children living below the poverty level, including BCPS. The remaining 60% of the allocation was provided to the states in proportion to the distribution of federal elementary and secondary education aid. Maryland received authorization to issue \$50.4 million in QSCBs in 2009 and the same amount in 2010. The State issued \$50.3 million in QSCBs in December 2009 and the Governor's proposed fiscal 2011 capital budget allocates the QSCBs toward the \$250 million proposed for public school construction.

Apart from Maryland's authorization, ARRA authorizes BCPS to issue up to \$58.1 million in QSCB bonds in 2009 and the same amount in 2010. Unused portions of an annual QSCB allocation carry over to the following year. BCPS has used all but \$7.3 million of its 2009 authorization, which took BCPS up to the current \$100.0 million bonding cap. The National Clearinghouse for Educational Facilities reports that, as of December 2009, only \$2.5 billion of the total \$11.0 billion authorization for 2009 had been issued by investors.

Local Fiscal Effect: The bill exempts all QSCB issuances from the school system's debt limit, including both the \$50.8 million in QSCBs sold in 2009 and the projected \$65.4 million issuance authorized by this bill, for a total exemption of \$116.2 million. As QSCBs are tax-credit bonds for which BCPS does not owe any interest, debt service payments on QSCBs consist only of principal payments. Although principal is not paid to investors until bonds reach maturity, it is assumed that BCPS will set aside (or the Comptroller will withhold) equal amounts of principal payments in each of 15 years (\$7.7 million) until the bonds reach maturity.

Therefore, debt service payments for BCPS increase by \$7.7 million annually for 15 years beginning in fiscal 2011. Like all other school systems in Maryland, BCPS has no independent revenue authority. To the extent that additional funding for debt service

is not included in the school system's budget, funding for other areas may need to be reduced.

Additional Information

Prior Introductions: None.

Cross File: SB 179 (Senator McFadden) - Budget and Taxation.

Information Source(s): Baltimore City, Public School Construction Program, National Clearinghouse for Educational Facilities, Internal Revenue Service, Department of Legislative Services

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mlm/rhh

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