

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 556
Appropriations

(Prince George's County Delegation)

Education - Prince George's County Board of Education - Bonding Authority
PG 424-10

This bill gives the Prince George's County Board of Education (PGCBE) authority to issue up to \$100 million in tax-exempt bonds to fund school construction projects and related costs, subject to the approval of county voters in a November 2010 referendum.

The bill takes effect July 1, 2010, only for the purpose of providing for the local referendum. If approved by a majority of the voters of Prince George's County, the bill takes effect 30 days following the election.

Fiscal Summary

State Effect: None. The bill pertains only to Prince George's County.

Local Effect: If the measure is approved by the voters of Prince George's County, PGCBE debt service payments increase by \$4 million to \$10 million annually to the extent the full bond authorization is issued and outstanding. Potential increase in county debt capacity for nonschool related capital projects. The Prince George's County Board of Elections can hold a referendum on the bill with existing budgeted resources.

Small Business Effect: None.

Analysis

Bill Summary: If approved by the voters of Prince George's County, the bill also authorizes PGCBE to acquire, construct, and renovate facilities in the county, enter into contracts, and generally perform all acts necessary to carry out the bill's provisions.

Prior to PGBCE issuing bonds, the Prince George's County Council must pass a resolution approving the bond sale; approval by the State is not required. The council's resolution must describe the projects to be financed by the bonds, the maximum principal amount of the bonds, the source of payment of the bonds, and other information.

Maturity dates for the bonds issued under the bill may not exceed 15 years from the date of issue. The bonds must state on their face that they are a debt only of PGCBE and do not create or constitute any indebtedness or obligation of the State, of the governing body of Prince George's County, or any other political subdivision.

Upon issuance of any bonds, the State Comptroller must withhold from any installment of State aid due to PGCBE and deposit into a sinking fund an amount equal to the principal and interest due on the bonds. Those funds must be held until the bonds are no longer outstanding, or used to pay debt service on the bonds on the county's behalf.

The bill's provisions are severable.

Current Law:

Local School System Bonding Authority

Of the 24 local school systems in the State, only 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 Baltimore City Public Schools (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.

In all other counties, debt issued for the purpose of financing school construction projects is issued by the county government on behalf of the school system. Local school systems, including PGCBE and the Baltimore City Board of School Commissioners, do not have independent taxing authority to raise revenue to pay debt service.

School Construction Financing

On the recommendation of the State Superintendent of Schools, the State Board of Education must establish standards and guidelines for planning and constructing school building projects. The State pays at least 50% of eligible costs of school construction and renovation projects, based on a funding formula that takes into account numerous factors including each local school system's wealth and ability to pay. Ineligible costs include most planning and design costs, which are borne by local school systems. Chapters 306 and 307 of 2004 (The Public School Facilities Act) require that the cost-share formulas be recalculated every three years. The first recalculation occurred in 2007. For fiscal 2010 through 2112, the State share of eligible school construction costs for Prince George's County is 73%.

Subject to the final approval of the Board of Public Works (BPW), the Interagency Committee on School Construction (IAC) manages State review and approval of public school construction projects. Each year, local systems develop and submit to IAC a facilities master plan that includes an analysis of future school facility needs based on the current condition of school buildings and projected enrollment. Subsequently, each local school system submits a five-year *Capital Improvement Plan* to IAC that includes projects for which it seeks planning approval, projects for which it seeks funding approval, and projects that the local system has forward funded.

Based on its assessment of the relative merit of all the project proposals it receives that are eligible for State funding, and subject to the projected level of school construction funds available, IAC determines the projects to recommend to BPW for State funding. By December 31 of each year, IAC recommends to BPW projects comprising 75% of the preliminary school construction allocation projected to be available. Local school districts may then appeal the IAC recommendations directly to BPW. By March 1 of each year, beginning in 2008, IAC recommends to BPW and the General Assembly projects comprising 90% of the allocation for school construction submitted in the Governor's capital budget. Following the legislative session, IAC recommends projects to BPW after May 1 comprising the remaining school construction funds included in the enacted capital budget.

Background: The county reports that it has \$495.8 million in outstanding debt for public school construction projects. The county historically pays between 3% and 4% interest on tax-exempt general obligation debt that it issues. PGCBE has requested \$55.4 million in State school construction funding in fiscal 2011 and BPW approved \$19.2 million in January 2010. In fiscal 2012 through 2016, PGCBE is requesting a total of \$458.8 million for school construction.

Local Fiscal Effect: If approved by the voters of Prince George's County, debt service payments for debt issued by the board will increase and will be paid from State aid for the school system. This may necessitate either cuts in other operating expenses or additional revenue from the county. The bill may shift \$100 million of debt capacity from the county to the school system, allowing the county to use that capacity for other capital improvement projects unrelated to schools. Debt service payments on the full \$100 million authorized by the bill at 4% interest with a maturity of 15 years is an estimated \$4 million for the first two years (interest only), and then approximately \$10 million for each of the next 13 years (interest and principal).

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Prince George's County, Department of Budget and Management, Department of General Services, Public School Construction Program, Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2010
ncs/rhh

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