Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 366 (Senator Astle, *et al.*)
Education, Health, and Environmental Affairs

Education - Public Charter School Facility Revolving Loan Fund

This bill establishes the Public Charter School Facility Revolving Loan Fund to lend money to approved applicants for public charter school facilities. The State Board of Education must adopt regulations to implement the bill.

Fiscal Summary

State Effect: General fund expenditures to establish the Public Charter School Facility Revolving Loan Fund increase as provided in the State budget; special fund revenues increase in an amount equal to general fund expenditures. Special fund expenditures increase to provide loans to charter schools for facilities and special fund revenue increases as charter schools repay the principal and interest for the loan. Each successive year less general funds will be needed to support the revolving fund until it becomes self-sufficient.

Local Effect: Public charter schools may be able to borrow funds for facilities from the Public Charter School Facility Revolving Loan Fund, thereby freeing up funds for operational expenses.

Small Business Effect: Minimal.

Analysis

Bill Summary: The fund is a special, nonlapsing fund and consists of money distributed to the State in accordance with the federal No Child Left Behind Revolving Loan Funds and other funds as appropriated in the State budget. All money collected by the State board under this bill must be credited to the fund.

On application by a public charter school applicant and approval by the State Board of Education or its designee, the applicant may obtain a loan from the fund for the construction, purchase, renovation, and maintenance of a public charter school facility.

In any fiscal year, a single loan to a public charter school may not exceed $100,000, and aggregate loans to a public charter school may not exceed $150,000. Over a period of five fiscal years, aggregate loans to a public charter school may not exceed $500,000.

When making a determination whether to approve a public charter school facility loan from the fund, the State board or the board's designee must consider the following factors:

- the soundness of the financial business plan of the applicant;
- the availability of other sources of funding to the public charter school;
- the geographic distribution of loans from the fund;
- whether a loan from the fund will improve the likelihood that the public charter school will receive other private or public funding;
- innovative plans the public charter school has to use money received from the fund to enhance or leverage other funding opportunities, including loan guarantees or other types of credit enhancements; and
- the financial needs of the public charter school.

By September 1 of each year, the State board must report to each local board the balance outstanding on any loan from the fund to a public charter school in the jurisdiction. Beginning with the first fiscal year following the fiscal year in which public charter school received a loan from the fund, the public charter school must remit to the State board the required annual repayment amount agreed on by the State board and the public charter school. A loan from the fund, together with interest in the amount required by the State board, must be repaid in equal annual installments over the period, at most 15 years, agreed to by the public charter school and the State board.

Current Law: A local board must disburse to a public charter school an amount of county, State, and federal money for elementary, middle, and secondary students that is commensurate with the amount disbursed to other public schools in the local jurisdiction; however, no capital costs are included in the per pupil amount.

The State board or the local board may give surplus educational materials, supplies, furniture, and other equipment to a public charter school.

The primary public chartering authorities for charter schools are the local boards of education; the secondary chartering authority is the State Board of Education acting in its appeal review capacity or as the public chartering authority for a restructured school.

Background: Public charter schools in 13 states and the District of Columbia receive some manner of state facilities aid ranging from permission to utilize a vacant school district facility in Alaska to a per-pupil facilities allotment based on a five-year average of the available capital funds in the District of Columbia. California has a charter school revolving fund that allows charter schools to receive loans for as much as $250,000; schools can use these loans for any start-up costs, including facilities. Utah has a charter school revolving fund that provides loans to charter schools for the costs of constructing, renovating, and purchasing charter school facilities.

States with per-pupil aid programs to assist charter schools with their facility costs are eligible for the federal State Facilities Incentive Grant program. The program provides federal funds to match nonfederal dollars used by a state to fund charter school facilities on a per-pupil basis. Grants are for five years and states pay an increasing share of the costs of the program.

In Maryland, charter schools must use the per-pupil amounts they receive for operational expenses and funds from other sources to pay for capital expenses. There are approximately 42 public charter schools in the State, distributed as follows: 33 in Baltimore City; 4 in Prince George's County; 2 in Anne Arundel County; and 1 each in Baltimore, Frederick, and St. Mary's counties.

State Fiscal Effect: State general fund expenditures to capitalize the fund for the Public Charter School Facility Revolving Loan Fund will be determined by the annual budget process and cannot be reliably estimated. *For illustrative purposes only*, to establish a fund in which approximately 10% of current charter schools (four schools) are able to receive the maximum annual loan of $100,000 each year, general fund expenditures increase by $400,000 in fiscal 2011. Thus, special fund revenues and expenditures increase accordingly. Due to repayments from charter schools being credited to the fund, less general funds will be needed in each successive year. The information and assumptions used to develop this illustration are stated below.

- There are 42 public charter schools in the State. It is assumed that approximately 10% or 4 charter schools will receive grants each year. It is also assumed that all four of those loans will be for the maximum annual amount of $100,000. Therefore, the fund will need to have at least $400,000 in revenue each year.

- It is assumed that all revenues for the fund come from general funds and principal and interest from charter schools repaying their loans.

- It is assumed that charter schools will pay back their $100,000 loan over 15 years and that the annual interest rate will be 5%. Since charter schools are required to pay back their loan in equal annual installments, it is assumed that each charter school will pay $9,634 into the fund each year beginning with the year after funds are received. Therefore, the fund will receive $38,536 in loan repayment revenues from the four charter schools in the first repayment year.

- It is assumed that any special fund revenue due to repayment will be used to replace general fund revenue, so that in fiscal 2012, the $400,000 in special fund expenditures will comprise $38,536 in special fund revenue and the remaining $361,463 will continue to be general funds used to capitalize the special fund. If this pattern continues, the revolving fund will become self-sufficient in year 12.

Additional Comments: MSDE may reserve up to 10% of the No Child Left Behind funds to establish a revolving loan fund to provide start-up funds for the initial operation of a charter school until the charter school begins to receive ongoing operational support from State or local financing sources. However, MSDE reports that, according to verbal guidance from the federal program office, funds from the federal No Child Left Behind grant referenced in the bill may not be used for facilities. Thus, this estimate assumes those federal funds are not used to capitalize the fund.

Additional Information

Prior Introductions: None.

Cross File: HB 610 (Delegate Love, *et al.*) - Ways and Means.

Information Source(s): Department of Budget and Management, Maryland State Department of Education, Department of General Services, Public School Construction Program, Garrett and Howard counties, U.S. Department of Education, National Alliance for Public Charter Schools, Department of Legislative Services

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Analysis by: Caroline L. Boice

Direct Inquiries to:
(410) 946-5510
(301) 970-5510