

**Department of Legislative Services**  
Maryland General Assembly  
2012 Session

**FISCAL AND POLICY NOTE**

House Bill 612  
Appropriations

(Delegate Anderson)

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**Baltimore City - Education - Public School Facilities and Construction Bond  
Authority**

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The bill raises the cap on outstanding debt that the Baltimore City Board of School Commissioners may issue for capital projects related to school facilities from \$100.0 million to \$250.0 million.

The bill takes effect June 1, 2012.

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**Fiscal Summary**

**State Effect:** None. To the extent that the increased local debt capacity results in Baltimore City Public Schools (BCPS) submitting more proposed school construction projects for review by the Interagency Committee on School Construction (IAC), IAC can handle the increased workload with existing resources. No effect on revenues.

**Local Effect:** Debt service payments by the Baltimore City Board of School Commissioners increase to the extent that it issues debt in excess of the current \$100.0 million limit. Actual increases in debt service payments depend on the size and timing of new debt issued.

**Small Business Effect:** Potential meaningful for small construction-related businesses.

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**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; however, Chapter 243 of 2010 exempted the full value of Qualified School Construction Bonds (QSCBs) issued by the board from the \$100.0 million cap. Chapter 583 of 2011 increased the maximum maturity of bonds issued by the board from 15 to 30 years.

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 new tax-credit bonds created by the American Recovery and Reinvestment Act of 2009 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. In 2009 and 2010 combined, BCPS was authorized to issue \$116.2 million in QSCBs, and currently has \$60.8 million in outstanding QSCB debt.

BCPS is receiving \$879.4 million in direct State education aid (excluding teacher retirement) in fiscal 2012, and the Governor's proposed fiscal 2013 budget increases direct aid for BCPS to \$883.9 million. BCPS currently has \$151.8 million in outstanding debt, including the QSCBs exempted from the debt ceiling. Debt service payments are \$15.9 million in fiscal 2012 and are expected to increase by approximately \$882,000 in fiscal 2013. Excluding the QSCBs from the outstanding debt leaves BCPS with approximately \$9.0 million in debt capacity.

**State and Local Fiscal Effect:** BCPS advises that it has neither the intent nor the fiscal capacity to add \$150.0 million to its outstanding debt in the short term. Rather, it is pursuing opportunities for alternative financing to pay for future capital projects, some of which may involve principal-only debt service, and seeks the expanded authority to accommodate future projects. Its most recent bond sale yielded an interest rate of 4.5%.

To the extent the additional debt capacity provides revenues to pay Baltimore City's local match for public school construction projects, BCPS may request additional State-funded projects. This does not affect total State funding for school construction but may affect the allocation of State funds. IAC advises it can handle the additional project review with existing resources. Baltimore City's local share for eligible public school construction projects is 7% in fiscal 2012 through 2015.

*For illustrative purposes only*, if BCPS sold \$150.0 million in 30-year bonds with an interest rate of 4.5% in a single year, debt service payments would total approximately \$9.2 million annually for 30 years. If the bonds were financed over 15 years instead of 30, the annual payments would be \$14.0 million. To the extent it uses a portion the expanded capacity in a given year, its debt service costs increase proportionately.

**Small Business Effect:** To the extent that the increased debt capacity provided to the Baltimore City Board of School Commissioners results in increased construction activity, small construction-related firms may benefit from greater contracting opportunities.

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### **Additional Information**

**Prior Introductions:** HB 230 of 2011, as introduced, included the expanded debt capacity provision contained in this bill. HB 230 was enacted as Chapter 538 of 2011, but the expanded debt capacity provision was not included in the final version of the bill.

**Cross File:** SB 242 (Senator Jones-Rodwell, *et al.*) - Budget and Taxation.

**Information Source(s):** Baltimore City, Department of General Services, Public School Construction Program, Department of Legislative Services

**Fiscal Note History:** First Reader - February 26, 2012  
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