

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 490

(Senator King, *et al.*)

Budget and Taxation

Appropriations

Capital Grant Program for Local School Systems With Significant Enrollment Growth or Relocatable Classrooms

This bill establishes the Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms, and it requires the Governor to include \$20.0 million annually in the *Capital Improvement Program* (CIP) to fund the program beginning in fiscal 2016.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: The FY 2016 capital budget includes \$20.0 million in general obligation (GO) bonds for this program, contingent on enactment of this bill or its cross file. General fund pay-as-you-go (PAYGO) expenditures increase by \$20.0 million annually beginning in FY 2017. However, to the extent GO bonds are used to fund the program in future years instead, there is no effect on total State GO spending for capital projects, which is established annually by the Governor and General Assembly. Even so, adding \$20.0 million in GO bond revenues and expenditures annually to the Public School Construction Program (PSCP) for the program established by the bill would reduce funding available for other capital projects in the capital budget. PSCP can administer the program with existing budgeted resources. **This bill establishes a mandated appropriation beginning in FY 2017.**

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Bond Rev.	\$20.0	\$0	\$0	\$0	\$0
PAYGO GF exp	\$0	\$20.0	\$20.0	\$20.0	\$20.0
Bond Exp.	\$20.0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$20.0)	(\$20.0)	(\$20.0)	(\$20.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local school systems in Anne Arundel, Baltimore, Howard, Montgomery, and Prince George’s counties are eligible to share \$20.0 million in additional State funding for school construction in FY 2016; to the extent these counties receive funding, they must provide matching funds in accordance with each county’s required local cost share amount under PSCP. Dorchester County is projected to become eligible for funding beginning in FY 2017. Other systems become eligible and ineligible for funding in the out-years based on the bill’s criteria.

Small Business Effect: Minimal.

Analysis

Bill Summary: “Significant enrollment growth” is defined as having full-time equivalent enrollment growth that exceeds 150% of the statewide average over the past five years. “Significant number of relocatable classrooms” means an average of at least 300 relocatable classrooms over the past five years.

The purpose of the program is to provide grants for public school construction in eligible local school systems that are supplemental to and not intended to take the place of funding that would otherwise be appropriated for public school construction in those systems. The program is administered by the Interagency Committee on School Construction (IAC). Grants under the program must be matched by local funds equal to the required PSCP local cost share and must be approved by the Board of Public Works. IAC must develop procedures for eligible local school systems to apply for the grants and criteria for determining grant awards, including a requirement that a local school board provide matching funds, and developing a process to allocate funds proportionate to each system’s share to total enrollment under the program.

Current Law: For a description of State support for public school construction funding, please see the **Appendix – State Funding for Public School Construction Projects**.

Chapter 647 of 2013 designated State and local funding sources to support a \$1.1 billion public school construction and revitalization initiative for Baltimore City, administered by the Maryland Stadium Authority (MSA). Chapter 647 requires the State to contribute \$20.0 million annually to the initiative for up to 30 years using revenues from the State Lottery. It also required MSA, IAC, Baltimore City, and the Baltimore City Board of School Commissioners to enter into a memorandum of understanding that establishes the program’s parameters and processes.

Background: The fiscal 2016 capital budget includes \$280.0 million for public school construction. As noted earlier, it also includes \$20.0 million in GO bond funds for the program established by this bill, contingent on the enactment of the bill or its cross file.

The Governor's CIP includes \$250.0 million in GO bond funds in each of fiscal 2017 through 2020 for public school construction.

Exhibit 1 provides the projected five-year average enrollment growth rates for each county, based on actual and projected enrollment figures. For fiscal 2016, the average statewide enrollment growth rate is 3.01%, with 150% of that figure being 4.52%. For fiscal 2016, four local school systems (Anne Arundel, Baltimore, Howard, and Montgomery counties) will have surpassed that figure, making them eligible to participate in the program. In addition, in fiscal 2017, Dorchester County is projected to become eligible to participate. Other school systems are projected to become eligible in the out-years, and some systems are projected to no longer be eligible for funding.

Exhibit 1
Projected Five-year Student Enrollment Changes by School System
Fiscal 2011-2016 through Fiscal 2015-2020

	FY 11-16	FY 12-17	FY 13-18	FY 14-19	FY 15-20
Allegany	-4.13%	-1.56%	-0.25%	0.89%	0.71%
Anne Arundel	5.99%	6.17%	6.56%	6.41%	6.14%
Baltimore City	2.05%	1.46%	2.00%	3.13%	2.77%
Baltimore	6.42%	7.14%	7.69%	7.75%	7.50%
Calvert	-6.21%	-5.62%	-4.78%	-3.97%	-4.15%
Caroline	1.32%	2.89%	3.30%	4.66%	5.13%
Carroll	-6.98%	-6.67%	-6.91%	-5.79%	-5.67%
Cecil	-4.38%	-2.42%	-1.52%	0.90%	0.48%
Charles	-1.87%	-1.47%	-0.42%	2.07%	3.97%
Dorchester	3.69%	6.23%	7.36%	9.15%	10.39%
Frederick	1.51%	2.28%	2.26%	2.56%	2.27%
Garrett	-11.30%	-10.38%	-8.68%	-7.85%	-5.67%
Harford	-2.54%	-2.45%	-1.73%	-0.50%	-0.72%
Howard	5.72%	6.67%	6.88%	7.88%	8.02%
Kent	-4.37%	-2.21%	-2.99%	0.54%	1.25%
Montgomery	8.66%	8.50%	7.63%	6.92%	5.97%
Prince George's	1.21%	1.79%	4.00%	5.15%	4.57%
Queen Anne's	0.01%	0.78%	2.78%	4.04%	4.62%
St. Mary's	3.56%	4.89%	5.50%	8.45%	8.91%
Somerset	0.88%	0.57%	3.70%	2.61%	5.82%
Talbot	2.29%	5.05%	5.36%	6.69%	6.39%
Washington	1.76%	1.09%	1.47%	1.57%	1.83%
Wicomico	0.80%	2.04%	2.55%	3.12%	3.58%
Worcester	-0.05%	-0.72%	1.28%	1.72%	2.26%
State Average	3.01%	3.43%	3.99%	4.60%	4.39%
150% of State average	4.52%	5.14%	5.99%	6.91%	6.58%

Source: Maryland State Department of Education; Department of Legislative Services

Exhibit 2 provides the number of relocatable classrooms in each county; it shows that only two counties, Prince George’s and Montgomery, meet the 300 classroom threshold established by the bill. Montgomery County already qualifies for the program based on enrollment growth, so only Prince George’s County becomes eligible under this provision, resulting in five counties being eligible for funding in fiscal 2016 and six (including Dorchester) in fiscal 2017. Charles County has the next highest average number of relocatable classrooms (260), but its number has been declining for the last two years, so it is not expected to qualify for funding under the program in the near future.

Exhibit 2
Number of Relocatable Classrooms by School System
Fiscal 2010-2014

	Fiscal Year					Five-year Average
	2010	2011	2012	2013	2014	
Allegany	2	2	2	2	2	2
Anne Arundel	242	218	169	167	184	196
Baltimore City	207	205	192	168	197	194
Baltimore	241	232	226	222	228	230
Calvert	100	91	83	78	74	85
Caroline	21	22	22	23	24	22
Carroll	125	125	99	90	98	107
Cecil	57	57	55	55	55	56
Charles	265	265	265	258	247	260
Dorchester	12	12	12	12	12	12
Frederick	157	156	168	167	187	167
Garrett	0	0	2	2	2	1
Harford	78	78	54	43	52	61
Howard	206	205	190	190	190	196
Kent	4	4	4	0	0	2
Montgomery	545	340	377	432	480	435
Prince George’s	483	436	436	510	549	483
Queen Anne’s	39	39	34	41	18	34
St. Mary’s	118	126	133	128	127	126
Somerset	15	15	3	3	3	8
Talbot	2	2	2	1	0	1
Washington	78	75	69	68	63	71
Wicomico	71	73	73	66	66	70
Worcester	56	52	52	50	52	52

Source: Maryland State Department of Education

State Fiscal Effect: Although the bill specifies that \$20.0 million in State funds must be provided in the PSCP CIP, it does not specify the source of those funds. Historically, CIP funding has come almost entirely from GO bond funding, which is allocated through the capital budget. PAYGO (general fund) funding has been included only occasionally and usually in comparatively small amounts and is allocated through the operating budget. The General Assembly included \$20.0 million of funding for the program in the fiscal 2016 capital budget. However, because the General Assembly may only mandate an appropriation in the operating budget, this analysis assumes PAYGO funding is required in future years. Thus, general fund expenditures increase by \$20.0 million each year beginning in fiscal 2017.

Alternatively, if the Governor could satisfy the mandate by funding the new program entirely with GO bond revenues, any increase in GO funding for PSCP would not affect overall capital spending, which is established annually through the capital budget process and subject to limits recommended by the Capital Debt Affordability Committee. To the extent that additional GO bonds are allocated to PSCP for the new program, other State capital projects receive less funding and/or are delayed.

The additional \$20.0 million in funding for PSCP keeps total funding at or below recent levels. Therefore, it is not anticipated that PSCP or any of the other constituent agency members of IAC require additional staffing to implement the new program.

Local Fiscal Effect: Exhibit 3 provides the projected allocation of the \$20.0 million among eligible counties for fiscal 2016, based on their proportionate share of fiscal 2016 enrollment. Enrollment figures used to calculate fiscal 2016 State aid reflect the preliminary September 30, 2014 enrollment counts of each school system as reported by the Maryland State Department of Education. The distributions will change in the out-years with the addition of other eligible school systems, the deletion of systems that are no longer eligible, and updated enrollment figures for each system.

Exhibit 3
Estimated Allocation of Program Funding
Fiscal 2016

	<u>Preliminary</u> <u>FY 2016 Enrollment</u>	<u>% Total</u>	<u>Funding Share</u>
Anne Arundel	77,280	15.2%	\$3,046,268
Baltimore	105,904	20.9%	4,174,585
Howard	52,475	10.3%	2,068,490
Montgomery	150,097	29.6%	5,916,610
Prince George's	121,619	24.0%	4,794,048
Total	507,375	100.0%	\$20,000,000

Note: Numbers may not sum to total due to rounding.

Source: Maryland State Department of Education; Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: HB 923 (Delegate Hixson, *et al.*) - Appropriations.

Information Source(s): Department of Budget and Management, Maryland State Department of Education, Department of General Services, Public School Construction Program, Montgomery County, Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2015
md/rhh Revised - Senate Third Reader - April 7, 2015
Revised - Updated Budget Information/Other - May 7, 2015

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Appendix – State Funding for Public School Construction Projects

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 local 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. The master plan must be approved by the local school board. Subsequently, each local school system submits a capital improvement plan to IAC that includes projects for which it seeks planning and/or funding approval for the upcoming fiscal year, which may include projects that the local system has forward funded. In addition to approval from the local school board, the request for the upcoming fiscal year must be approved by the county's governing body. Typically, the submission letter to IAC contains signatures of both the school board president and either the county executive and county council president or chair of the board of county commissioners.

Based on its assessment of the relative merit of all the project proposals it receives, and subject to the projected level of school construction funds available, IAC makes recommendations for which projects to fund to BPW. By December 31 of each year, IAC must recommend to BPW projects comprising 75% of the preliminary school construction allocation projected to be available by the Governor for the upcoming fiscal year. Local school boards may then appeal the IAC recommendations directly to BPW. By March 1 of each year, IAC must recommend 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 comprising the remaining school construction funds included in the enacted capital budget for BPW approval, no earlier than May 1.

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. The Public School Facilities Act (Chapters 306 and 307 of 2004) requires that the cost-share formula be recalculated every three years. The first recalculation occurred in 2007, the second recalculation occurred in 2010, and the third, begun in 2013, was completed in 2014. **Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2015, which was determined by the 2010 recalculation, and for fiscal 2016 through 2018, as determined by the 2014 recalculation. Reductions in the State shares for Allegany, Cecil, and St. Mary's counties are phased in over two years because of the magnitude of the reductions.

Exhibit 1
State Share of Eligible School Construction Costs
Fiscal 2015-2018

<u>County</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Allegany	93%	88%	83%	83%
Anne Arundel	50%	50%	50%	50%
Baltimore City	93%	93%	93%	93%
Baltimore	50%	52%	52%	52%
Calvert	56%	53%	53%	53%
Caroline	78%	80%	80%	80%
Carroll	58%	59%	59%	59%
Cecil	69%	64%	63%	63%
Charles	63%	61%	61%	61%
Dorchester	69%	76%	76%	76%
Frederick	60%	64%	64%	64%
Garrett	50%	50%	50%	50%
Harford	63%	63%	63%	63%
Howard	60%	55%	55%	55%
Kent	50%	50%	50%	50%
Montgomery	50%	50%	50%	50%
Prince George's	62%	63%	63%	63%
Queen Anne's	50%	50%	50%	50%
St. Mary's	64%	59%	58%	58%
Somerset	82%	100%	100%	100%
Talbot	50%	50%	50%	50%
Washington	71%	71%	71%	71%
Wicomico	96%	97%	97%	97%
Worcester	50%	50%	50%	50%
Maryland School for the Blind	93%	93%	93%	93%

Source: Public School Construction Program

Chapters 306 and 307 also established the State's intent to provide \$2.0 billion of funding for school construction by fiscal 2013, an average of \$250.0 million each year for eight years. As a result, Public School Construction Program (PSCP) funding increased from \$125.9 million in fiscal 2005 to \$253.8 in fiscal 2006, and has remained above the \$250.0 million target each year since, which resulted in significant increases in school construction assistance to local school boards. As a result, the State achieved the \$2.0 billion goal ahead of schedule. **Exhibit 2** shows annual State public school construction funding from fiscal 2007 through 2015, by county.

The Governor's proposed fiscal 2016 budget includes \$250.0 million in general obligation bonds and \$30.0 million in pay-as-you-go general funds for PSCP. The fiscal 2016 *Capital Improvement Program* includes \$250.0 million annually for the program in fiscal 2017 through 2020.

Exhibit 2
State Public School Construction Funding
Fiscal 2007-2015
(\$ in Thousands)

<u>County</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY2015</u>
Allegany	\$18,650	\$412	\$0	\$0	842	\$727	\$1,999	\$2,496	\$6,597
Anne Arundel	22,675	27,827	27,420	25,020	26,200	32,400	33,349	34,870	36,200
Baltimore City	39,436	52,665	41,000	27,733	28,559	41,000	46,102	39,478	35,329
Baltimore	35,053	52,250	40,985	28,000	29,000	39,000	47,394	52,068	34,561
Calvert	2,723	12,644	7,824	8,181	8,450	7,317	7,129	5,577	2,653
Caroline	2,935	2,426	8,100	6,000	3,767	235	756	7,788	0
Carroll	8,282	8,219	11,741	10,520	8,444	9,079	15,211	4,874	3,915
Cecil	8,271	9,533	2,674	1,538	1,744	2,830	1,915	1,268	8,194
Charles	10,200	13,170	11,704	8,898	8,335	9,180	12,480	9,426	8,200
Dorchester	872	6,137	10,400	6,469	5,436	3,639	979	1,590	768
Frederick	17,942	18,728	14,759	16,226	14,000	16,532	19,254	20,163	15,901
Garrett	1,235	6,243	3,020	666	0	382	319	134	0
Harford	11,096	16,238	14,751	16,253	13,835	17,040	16,573	13,214	12,791
Howard	17,808	23,206	18,265	18,262	18,290	26,936	32,811	25,931	20,772
Kent	3,479	1,335	0	388	0	104	123	95	817
Montgomery	40,040	52,297	53,312	28,350	30,183	42,000	43,794	38,592	39,950
Prince George's	37,425	52,250	41,000	28,200	29,500	40,348	42,192	39,371	38,539
Queen Anne's	3,000	3,925	4,951	3,947	5,750	5,374	649	4,371	5,112
St. Mary's	5,495	9,806	7,266	4,028	6,600	3,354	3,172	7,472	11,876
Somerset	12,022	5,153	0	6,000	6,000	3,371	289	3,811	2,752
Talbot	2,405	2,038	0	436	344	135	35	634	0
Washington	4,478	8,970	9,368	7,965	7,970	8,571	9,117	8,494	7,467
Wicomico	4,178	8,143	12,960	13,170	9,975	1,864	11,290	13,327	10,991
Worcester	6,872	8,213	5,483	403	0	165	166	4,882	0
MD School for the Blind							2,800	6,063	14,733
Bond Premium	6,100								
Statewide					500		100	500	660
Total	\$322,672	\$401,828	\$346,983	\$266,653	\$263,724	\$311,583	\$349,997	\$347,277	\$318,778
Amount Over \$250M	\$72,672	\$151,828	\$96,983	\$16,653	\$13,724	\$61,583	\$99,997	\$97,277	\$68,778

Note: Includes new general obligation bonds, pay-as-you-go funds, and reallocated funds that were previously authorized. Counties receiving \$0 did not request any eligible projects to be funded in that year.

Source: Department of Legislative Services