

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 722
 Appropriations

(Delegate Hixson, *et al.*)

Budget and Taxation

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

This bill increases from \$20.0 million to \$40.0 million, beginning in fiscal 2017, the amount the Governor is required to include in the annual *Capital Improvement Program* (CIP) for the Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms. The bill also extends – from October 1 to January 15 – the deadline for annual reports to be submitted by specified entities on the progress of replacements, renovations, and maintenance of Baltimore City public school facilities.

The bill takes effect June 1, 2016.

Fiscal Summary

State Effect: No effect in FY 2016. The FY 2017 State capital budget includes full funding of \$40.0 million in general obligation (GO) bonds for this program. To the extent GO bonds continue to be used to fund the program in future years, there is no effect on *total* State GO bond spending for capital projects, which is established annually by the Governor and General Assembly. Alternatively, the CIP could include pay-as-you-go (PAYGO) for the program. Regardless of the fund source, adding \$20.0 million annually to the Public School Construction Program (PSCP) for this program may reduce funding available for other capital projects in the capital budget. PSCP can continue to administer the program with existing budgeted resources.

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

Small Business Effect: Minimal.

Analysis

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 355 of 2015 established the Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms, with a required appropriation of \$20.0 million in the CIP. The General Assembly designated \$20.0 million in GO bonds for the program in the fiscal 2016 capital budget. The Governor included the required \$20.0 million in GO bonds for the program in the proposed fiscal 2017 capital budget; the General Assembly added \$20.0 million more, bringing the total for the program (as required by this bill) to \$40.0 million in the fiscal 2017 State capital budget. The CIP is the State's five-year plan for capital funding, which includes GO bonds; revenue bonds; and general, special, and federal PAYGO funds. PAYGO funds are capital improvement funds that are appropriated in the operating budget.

“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 (BPW). 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 under the program proportionate to each system's share of total enrollment.

By October 1 of each year, the Maryland Stadium Authority, Baltimore City, the Baltimore City Board of School Commissioners, and IAC must report to the Governor, BPW, and the fiscal committees of the General Assembly on the progress of replacements, renovations, and maintenance of Baltimore City public school facilities, including actions taken during the previous fiscal year and those planned for the current fiscal year.

Background: The fiscal 2017 capital budget, as introduced, included \$280.0 million for public school construction, which included \$20.0 million for this program. As noted earlier, the fiscal 2017 State capital budget passed the General Assembly with the *additional* \$20.0 million in GO bond funds required by this bill for the Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms. The Governor's CIP includes \$20.0 million in supplemental GO bond funds for this program each year from fiscal 2018 through 2021.

PSCP advises that, beginning in fiscal 2017, the determination of program eligibility based on enrollment growth will use enrollment figures that have a two-year lag. Local school systems submit their school construction funding requests for the coming fiscal year in October of the previous fiscal year, but enrollment figures are not available until January at the earliest. As a result, PSCP is not able to provide reliable estimates of program funding for the coming fiscal year so that school systems can include sufficient funding requests to utilize the \$40.0 million in the fiscal year in which it is authorized. For example, the calculation of program eligibility based on student enrollment growth for fiscal 2017 will be based on the five-year average enrollment growth for 2010-2014 because enrollment figures for 2015 were not available until January 2016 (and final enrollment figures will be reported in June 2016).

Exhibit 1 shows student enrollment counts for 2010 through 2014, which form the basis for the determination of which school systems are eligible for program funding in fiscal 2017 based on enrollment growth. For fiscal 2017, the average five-year statewide enrollment growth rate is 2.57%, with 150% of that figure being 3.86%. Five local school systems (Anne Arundel, Baltimore, Dorchester, Howard, and Montgomery counties) have surpassed that figure, making them eligible to participate in the program. Other school systems may become eligible in the out-years, and some systems that currently receive funds may no longer be eligible for funding in future years. For instance, enrollment figures for 2011-2015 (not shown) indicate that Dorchester County will no longer be eligible for funding in fiscal 2018.

Exhibit 1
Student Enrollment by School System
School Year 2010-2011 through School Year 2014-2015

<u>County</u>	<u>9/30/2010</u>	<u>9/30/2011</u>	<u>9/30/2012</u>	<u>9/30/2013</u>	<u>9/30/2014</u>	Five-year Growth 2010-2014
Allegany	8,515	8,414	8,408	8,314	8,333	-2.14%
Anne Arundel	73,655	74,305	75,446	76,181	77,280	4.92%
Baltimore City	78,618	78,871	79,268	79,352	79,503	1.13%
Baltimore	100,329	101,282	103,016	104,358	105,904	5.56%
Calvert	16,375	16,136	15,886	15,823	15,594	-4.77%
Caroline	5,174	5,221	5,220	5,235	5,293	2.31%
Carroll	27,061	26,786	26,318	25,949	25,505	-5.75%
Cecil	15,347	15,236	15,007	15,100	14,936	-2.68%
Charles	25,955	25,870	25,717	25,524	25,413	-2.09%
Dorchester	4,372	4,391	4,447	4,505	4,575	4.64%
Frederick	39,163	39,316	39,357	39,472	39,655	1.26%
Garrett	4,084	3,943	3,918	3,786	3,710	-9.16%
Harford	37,590	37,426	37,085	37,055	36,740	-2.26%
Howard	49,946	50,482	50,953	51,630	52,475	5.06%
Kent	2,035	2,041	2,009	1,995	1,970	-3.19%
Montgomery	140,402	142,671	144,869	147,462	150,097	6.91%
Prince George's	119,806	117,995	117,789	119,281	121,619	1.51%
Queen Anne's	7,489	7,508	7,504	7,472	7,478	-0.15%
St. Mary's	16,442	16,732	16,687	16,890	16,959	3.15%
Somerset	2,701	2,677	2,725	2,727	2,726	0.94%
Talbot	4,257	4,273	4,277	4,299	4,371	2.67%
Washington	21,643	21,725	21,888	21,939	21,760	0.54%
Wicomico	13,832	13,911	13,962	13,930	14,074	1.75%
Worcester	6,317	6,241	6,243	6,249	6,261	-0.88%
Total State	821,106	823,452	827,999	834,524	842,229	2.57%
150% of Statewide Average						3.86%

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 under the program. As Montgomery County already qualifies for the program, Prince George’s County qualifies under the relocatable classroom standard in fiscal 2017. Charles County has the next highest average number of relocatable classrooms (257), but its number has been declining for the last three 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 2011-2015

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Five-year Average</u>
Allegany	2	2	2	2	2	2
Anne Arundel	218	169	167	169	173	179
Baltimore City	205	192	168	166	162	179
Baltimore	232	226	222	265	271	243
Calvert County	91	83	78	74	51	75
Caroline	22	22	23	29	25	24
Carroll	125	99	90	86	67	93
Cecil	57	55	55	55	55	55
Charles	265	265	258	249	248	257
Dorchester	12	12	12	16	16	14
Frederick	156	168	167	187	179	171
Garrett	0	2	2	2	10	3
Harford	78	54	43	46	42	53
Howard	205	190	190	199	198	196
Kent	4	4	0	4	4	3
Montgomery	340	377	432	480	457	417
Prince George’s	436	436	510	552	519	491
Queen Anne’s	39	34	41	47	23	37
St. Mary’s	126	133	128	127	117	126
Somerset	15	3	3	3	7	6
Talbot	2	2	1	0	2	1
Washington	75	69	68	62	62	67
Wicomico	73	73	66	67	74	71
Worcester	52	52	50	52	52	52
Total	2,830	2,722	2,776	2,939	2,816	2,817

Source: Maryland State Department of Education

State Fiscal Effect: Although the bill specifies that \$40.0 million in State funds 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. General fund PAYGO funding has been limited in recent years, although it has been a larger source of CIP funding in the past. As GO bond funds have been used in each of the program’s first two years, and the CIP projects continued use of GO bond funds to pay for the program (at the \$20.0 million level), it is assumed that GO bonds will continue to be used to fund the program.

The additional \$20.0 million in funding for PSCP keeps total funding consistent with 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 shows the actual allocation of the \$20.0 million among eligible counties for fiscal 2016 and the estimated allocation of \$40.0 million among eligible counties for fiscal 2017 and 2018. The distributions likely change in the out-years with the deletion of systems that are no longer eligible (*e.g.*, Dorchester County in fiscal 2018), the addition of eligible systems, and annual enrollment figures for each system.

Exhibit 3
Fiscal 2016-2018 Allocation of Program Funding

	FY 2016	FY 2017	FY 2018
	<u>Actual Funding</u>	<u>Estimated Funding</u>	<u>Estimated Funding</u>
Anne Arundel	\$3,019,046	\$6,038,092	\$6,079,467
Baltimore	4,137,291	8,274,582	8,342,379
Dorchester	178,719	357,438	0
Howard	2,049,986	4,099,972	4,169,924
Montgomery	5,863,740	11,727,480	11,835,045
Prince George’s	4,751,218	9,502,436	9,573,185
Total	\$20,000,000	\$40,000,000	\$40,000,000

Source: Public School Construction Program; Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: SB 271 (Senator King, *et al.*) - Budget and Taxation.

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

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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 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 2008 through 2016, by county.

The Governor's proposed fiscal 2017 budget includes \$280.0 million in general obligation bonds for PSCP and an additional \$20.0 million in general obligation bonds for a supplemental grant program for school systems that have high enrollment growth or a large number of relocatable classrooms, as established by statute. The fiscal 2017 *Capital Improvement Program* includes \$250.0 million annually for PSCP in fiscal 2018 through 2021 and \$20.0 million annually for the supplemental grant program.

Exhibit 2
State Public School Construction Funding
Fiscal 2008-2016
(\$ in Thousands)

<u>County</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>	<u>FY 2016</u>
Allegany	\$412	\$0	\$0	842	\$727	\$1,999	\$2,496	\$6,597	10,837
Anne Arundel	27,827	27,420	25,020	26,200	32,400	33,349	34,870	36,200	39,419
Baltimore City	52,665	41,000	27,733	28,559	41,000	46,102	39,478	35,329	36,788
Baltimore	52,250	40,985	28,000	29,000	39,000	47,394	52,068	34,561	42,177
Calvert	12,644	7,824	8,181	8,450	7,317	7,129	5,577	2,653	1,500
Caroline	2,426	8,100	6,000	3,767	235	756	7,788	0	2,902
Carroll	8,219	11,741	10,520	8,444	9,079	15,211	4,874	3,915	6,415
Cecil	9,533	2,674	1,538	1,744	2,830	1,915	1,268	8,194	4,723
Charles	13,170	11,704	8,898	8,335	9,180	12,480	9,426	8,200	12,817
Dorchester	6,137	10,400	6,469	5,436	3,639	979	1,590	768	179
Frederick	18,728	14,759	16,226	14,000	16,532	19,254	20,163	15,901	21,000
Garrett	6,243	3,020	666	0	382	319	134	0	0
Harford	16,238	14,751	16,253	13,835	17,040	16,573	13,214	12,791	9,309
Howard	23,206	18,265	18,262	18,290	26,936	32,811	25,931	20,772	27,820
Kent	1,335	0	388	0	104	123	95	817	615
Montgomery	52,297	53,312	28,350	30,183	42,000	43,794	38,592	39,950	45,708
Prince George's	52,250	41,000	28,200	29,500	40,348	42,192	39,371	38,539	41,729
Queen Anne's	3,925	4,951	3,947	5,750	5,374	649	4,371	5,112	0
St. Mary's	9,806	7,266	4,028	6,600	3,354	3,172	7,472	11,876	7,015
Somerset	5,153	0	6,000	6,000	3,371	289	3,811	2,752	2,222
Talbot	2,038	0	436	344	135	35	634	0	308
Washington	8,970	9,368	7,965	7,970	8,571	9,117	8,494	7,467	8,404
Wicomico	8,143	12,960	13,170	9,975	1,864	11,290	13,327	10,991	7,440
Worcester	8,213	5,483	403	0	165	166	4,882	0	72
MD School for the Blind						2,800	6,063	14,733	8,616
Statewide				500		100	500	660	175
Total	\$401,828	\$346,983	\$266,653	\$263,724	\$311,583	\$349,997	\$347,277	\$318,778	\$338,190
Amount Over \$250M	\$151,828	\$96,983	\$16,653	\$13,724	\$61,583	\$99,997	\$97,277	\$68,778	\$88,190

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. Fiscal 2016 includes \$20 million allocated for counties with significant enrollment growth and relocatable classrooms.
Source: Public School Construction Program, Department of Legislative Services