

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1055 (Senator Hough)
Budget and Taxation

Frederick County - Public School Construction - State Funding

This bill requires the State to provide additional funds to the Frederick County Board of Education if the final bid for construction of a public school that is accepted by the board in fiscal 2015 or later (1) exceeds the combined State and local allocation for the project and (2) legislation was enacted in the fiscal year immediately preceding the fiscal year in which the project was bid that imposes a new financial mandate applicable to the fiscal year in which the project was bid. The amount of extra funding provided by the State must equal the difference between the final bid and the combined State and local allocation for the project at the time of final bid award. The bill also expresses the intent of the General Assembly that the Governor transfer any funds that are restricted in the budget bill for the Frederick County Board of Education for the purposes of this bill.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: No effect on total State expenditures for public school construction through the Public School Construction Program (PSCP), as total program funding is established annually through the capital budget process. PSCP payments to Frederick County increase by \$17.0 million in FY 2017 for Frederick High School, and potentially by more in the out-years. Those payments result in fewer funds being available for approved public school construction projects in Frederick or other counties, likely resulting in delayed completion of some projects.

Local Effect: Local expenditures for construction of Frederick High School decrease by \$17.0 million in FY 2017 due to the increased revenues resulting from PSCP payments to the board.

Small Business Effect: None.

Analysis

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

Chapters 281 and 282 of 2014 lowered the share of total school construction project costs that must be paid by the State for the prevailing wage to apply to a project from 50% to 25%. The law was enacted in fiscal 2014 and applies to school construction contracts executed after July 1, 2014, *i.e.*, fiscal 2015 and thereafter. As a result, most school construction projects in Frederick County are now required to pay prevailing wages; whereas before, most were not.

Background: In May 2013, the Frederick County Board of Education received planning approval from the Board of Public Works (BPW) to replace Frederick High School and to build a new elementary school (later named Sugarloaf Elementary School). In May 2014, the board received planning approval for Butterfly Ridge Elementary School. In January 2015, Frederick High School received BPW approval for initial State funding totaling \$12.2 million in fiscal 2016; this represented a portion of the State's total share of the project, \$41.3 million, based on the estimated project cost at the time. The first phase of the project was bid immediately, and the final bid was awarded in April 2015 (fiscal 2015).

In January 2016, BPW approved initial funding of \$2.0 million each for Sugarloaf and Butterfly Ridge. The State's total share for those two projects is \$15.2 million and \$18.1 million, respectively. Neither of these projects has gone to bid yet.

The determination of total State funding for all three projects occurred *after* the enactment of Chapters 281 and 282, so payment of prevailing wage was factored into the calculation of total project cost. According to PSCP, any subsequent increase in project cost can be attributable to any of a number of factors, including market effects, inaccurate project estimates, and poor construction documents. Since July 2011, PSCP's statewide funding per square foot for new school construction without site development has increased by 41%, with the largest one-year jump occurring from July 2015 (\$233 per square foot) to July 2016 (\$282 per square foot).

Based on figures provided by the board, the total cost of each of the three school construction projects has increased substantially since the planning phase of each project. **Exhibit 1** summarizes the changes. Although Frederick County has not put Sugarloaf or Butterfly Ridge out to bid, it expects the final bids to be substantially higher than the total project cost used by the State to calculate its funding share. As the State share of total

project cost is fixed based on the total project cost at the time of the initial funding award, any increase in the cost of the project is borne by the counties under current law.

Exhibit 1
Selected School Construction Costs in Frederick County
(Total Project \$ in Millions)

	Planning		State Funding Award		Final Bid
	<u>Total Project</u>	<u>\$ per Sq. Ft.</u>	<u>Total Project</u>	<u>\$ per Sq. Ft.</u>	<u>Total Project</u>
Frederick High	\$80.2	\$215	\$97.3	\$233	\$114.3
Sugarloaf Elementary	30.3	215	41.8	282	NA
Butterfly Ridge Elementary	31.1	224	48.5	282	NA

NA = Not applicable

Source: Frederick County Board of Education; Public School Construction Program

State Fiscal Effect: Under the bill, the State owes the Frederick County Board of Education \$17.0 million for Frederick High, which represents the difference between the project cost at bid award (in fiscal 2015) and the total cost when initial State funding was approved, due to the expansion of the prevailing wage requirement (enacted in fiscal 2014). Total State funding for school construction through PSCP is not affected as that amount is fixed in the annual capital budget. Rather, the funds paid to Frederick County are not available for other approved projects in Frederick County or other counties, thereby delaying some projects.

As the two remaining schools have not been bid, the prevailing wage requirement does not trigger State payment under the bill. However, it is unknown if a new financial mandate may be enacted before Butterfly Ridge and/or Sugarloaf are bid. As the bill has no termination date, it is also unknown how many future public school construction projects in Frederick County meet the criteria in the bill and, thus, would be entitled to additional State funding.

Local Fiscal Effect: The Frederick County Board of Education receives \$17.0 million in additional State funds for the replacement of Frederick High School. Future projects that qualify for additional State funding cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: HB 1098 (Frederick County Delegation) - Appropriations.

Information Source(s): Frederick County, Public School Construction Program,
Department of Legislative Services

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min/rhh

Analysis by: Michael C. Rubenstein

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

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