

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 519

(Senator Hershey, *et al.*)

Budget and Taxation

Public Schools - State Aid for School Construction - Eligible Costs

This bill requires the Interagency Commission on School Construction (IAC) to adopt regulations that include the cost of land acquisition, architectural and engineering services, consulting services, and other planning costs as eligible costs for State reimbursement for specified projects. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: No effect on total State expenditures for school construction, which is established annually by the Governor and General Assembly through the capital budget process. To the extent that State support for school construction projects in some counties increases to cover costs that are otherwise ineligible for State funding, less State funding is available for school construction projects in other counties assuming a fixed amount of school construction funding. No effect on revenues.

Local Effect: State support for school construction projects potentially increases in Caroline and Somerset counties, to the extent that projects in those counties meet the thresholds established by the bill. To the extent that State funds supplant local funding in those counties, more local funds are available for other capital projects in those counties.

Small Business Effect: None.

Analysis

Bill Summary: Land acquisition and planning costs specified in the bill are eligible costs for a school construction project that:

- is located in a county with the maximum allowable income tax rate in current law;
- serves a school in which at least 50% of students are eligible for the federal free and reduced-priced meals (FRPM) program in the most recent fiscal year; and
- has a total project cost, as initially approved by IAC, that is at least 90% of the county's total annual operating budget for the current fiscal year.

Current Law: The Code of Maryland Regulations (COMAR) specifies which school construction costs are eligible for partial reimbursement under the State-local cost sharing arrangement established in statute. In general, eligible costs are direct construction costs (“bricks and mortar”), including new construction, additions to an existing facility, building and site development, modular construction, systemic renovations, and relocatable facilities. Under Chapter 14 of 2018 (the 21st Century School Facilities Act), an item must have a median useful life of at least 15 years in order to be an eligible cost.

COMAR also lists items that are specifically not eligible for State reimbursement, including, among other things, site acquisition, architectural and engineering services, feasibility studies, and movable equipment.

Background: The maximum local income tax rate allowable by statute is 3.2%. **Exhibit 1** shows the tax rates for each county, including the eight counties that use the maximum rate in fiscal 2019. Exhibit 1 also shows the number of schools in each county in which at least 50% of students qualify for FRPM.

School construction project costs vary tremendously by type of project, type of school, and location, among other factors. In general, however, the cost of a new school ranges from about \$30 million for an elementary school to about \$150 million for a high school. Based on county expenditures in fiscal 2017 and the 90% threshold in the bill (both also shown in Exhibit 1), only projects in Somerset and Caroline counties potentially qualify under the bill.

As of December 31, 2018, Caroline and Somerset counties each have one school construction project that has been approved for State support by IAC in fiscal 2020. A replacement for Greensboro Elementary School in Caroline County has a total estimated cost of \$47.7 million. A replacement for the J.M. Tawes Technology & Career Center in Somerset County has a total estimated cost of \$42.8 million. Based on these projected costs, neither project qualifies for increased State support under the bill because neither one exceeds 90% of county expenditures.

Exhibit 1
Qualifying Factors under SB 519
(\$ in Millions)

	FY 2019	# of Schools	FY 2017	90% of
	<u>Tax Rate</u>	<u>>= 50% FRPM</u>	<u>Expenditures</u>	<u>FY 2017</u>
				<u>Expenditures</u>
Allegany	3.05%	19	\$284.6	\$256.4
Anne Arundel	2.50%	33	\$2,537.8	\$2,284.0
Baltimore City	3.20%	163	\$3,793.3	\$3,414.0
Baltimore	2.83%	84	\$3,937.3	\$3,543.6
Calvert	3.00%	0	\$435.5	\$392.0
Caroline	3.20%	5	\$133.6	\$120.2
Carroll	3.03%	4	\$668.0	\$601.2
Cecil	3.00%	13	\$392.1	\$352.9
Charles	3.03%	9	\$767.0	\$690.3
Dorchester	2.62%	8	\$131.6	\$118.4
Frederick	2.96%	8	\$1,149.0	\$1,034.1
Garrett	2.65%	7	\$142.2	\$128.0
Harford	3.06%	15	\$1,012.2	\$911.0
Howard	3.20%	9	\$2,040.4	\$1,836.4
Kent	2.85%	4	\$82.4	\$74.2
Montgomery	3.20%	60	\$6,793.8	\$6,114.4
Prince George's	3.20%	140	\$4,591.0	\$4,131.9
Queen Anne's	3.20%	2	\$223.5	\$201.2
St. Mary's	3.00%	7	\$433.5	\$390.2
Somerset	3.20%	9	\$98.9	\$89.0
Talbot	2.40%	2	\$132.3	\$119.1
Washington	2.80%	17	\$536.5	\$482.9
Wicomico	3.20%	18	\$397.1	\$357.4
Worcester	1.75%	6	\$276.6	\$248.9

FRPM: free and reduced-price meals; data from 2017-2018 school year

Source: Comptroller's Office; Maryland State Department of Education; Department of Legislative Services

State Expenditures: The State's allocation for school construction funding is not affected by the bill, as it is established annually by the Governor and General Assembly through the capital budget process. To the extent that school construction dollars are paid to Caroline

or Somerset counties for costs that are otherwise ineligible, fewer dollars are available for projects in other counties.

Although IAC requested additional staff to assess projects' eligibility for increased State support under the bill, the bill is expected to affect very few projects on an annual basis and none in fiscal 2020. Therefore, the Department of Legislative Services does not believe that additional staff are necessary.

Local Fiscal Effect: Caroline and Somerset counties potentially receive increased State support for school construction to the extent that site acquisition and planning costs for some school construction projects become eligible expenditures. The extent to which State support for their projects increases depends on whether a school construction project in either county meets both the 50% FRPM threshold and the 90% expenditure threshold in the bill. If a school construction project qualifies for greater State support under the bill, those funds supplant local capital funds, which then become available for other local projects in those counties. No projects are expected to qualify in fiscal 2020.

Additional Information

Prior Introductions: None.

Cross File: HB 534 (Delegate Ghrist, *et al.*) - Appropriations.

Information Source(s): Maryland Association of Counties; Comptroller's Office; Maryland State Department of Education; Public School Construction Program; Department of Legislative Services

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