

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 581

(Senator Guzzone)

Budget and Taxation

Appropriations

School Construction Revolving Loan Fund - Maryland School for the Blind - Eligibility

This bill expands eligibility for the School Construction Revolving Loan Fund to include the Maryland School for the Blind (MSB). Under the bill, the Interagency Commission on School Construction (IAC) must give priority to MSB in awarding loans (along with the existing priority given to counties with limited debt capacity that have not advanced construction funding for approved projects in the Public School Construction Program (PSCP)). The bill also makes a technical change to alter the designated purpose of the fund by repealing language specifying that the loans are “for local education agencies that rely on the State or local share to be fully funded in order to complete a project.” **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: Overall State expenditures and revenues are not affected as the bill does not alter the total level of mandated funding for the Public School Construction Revolving Loan Fund. IAC and the Maryland State Department of Education can implement the bill with existing budgeted resources.

Local Effect: To the extent MSB receives funds from the Public School Construction Revolving Loan Fund beginning in FY 2025, availability of funds for use by other local education agencies is reduced. To the extent local school systems receive fewer dollars from the revolving loan fund, any local funds otherwise reserved for school construction can be redirected to other local capital construction projects.

Small Business Effect: Minimal.

Analysis

Current Law:

Maryland School for the Blind

MSB is a nonprofit organization that provides educational programs to Maryland students from birth to age 21 who are blind, severely visually impaired, or visually impaired/multi-disabled. MSB is governed by a 25-member board of directors established in State law. Subject to confirmation by the Senate, 5 members are appointed jointly by the Governor and the State Superintendent with recommendations from the chair of the board. The other 20 members are appointed according to the charter and bylaws of MSB.

School Construction Funding and Maryland School for the Blind

For an overview of State support for public school construction, please see the **Appendix – State Funding for Public School Construction**.

Chapter 14 of 2018, the 21st Century School Facilities Act, established the Local Share of School Construction Costs Revolving Loan Fund to provide loans to local governments to forward fund the local share of school construction projects. Chapter 32 of 2022 subsequently renamed the fund to be the School Construction Revolving Loan Fund. The fund is intended for local school systems that rely on the local share to be fully funded in order to complete a project. It may be used to provide low- or no-interest loans to local governments. Eligibility criteria for loans, to be developed by IAC, must include that a local government (1) needs a loan to forward fund the local share of a project in order to complete it; (2) can demonstrate that it is able to repay the loan at a future date; and (3) has received planning approval for the project from IAC. Loans from the fund are supplemental to and not intended to replace funding that otherwise would be appropriated to local governments for school construction. Under current law, only local governments are permitted to receive loans from the School Construction Revolving Loan Fund.

MSB is an independent, nonprofit organization. As it is not administered by a local school system, it is not otherwise eligible for funding from the School Construction Revolving Loan Fund. However, Chapter 144 of 2012 made MSB eligible for PSCP funding from fiscal 2013 through 2028 and Chapters 639 and 640 of 2023 extended MSB's eligibility beyond fiscal 2028.

Chapter 32 mandated funding for the School Construction revolving loan fund such that the fiscal 2023 budget included \$40.0 million in general funds for the revolving loan fund and the fiscal 2024 budget included \$20.0 million for the fund. The fiscal 2025 operating budget as introduced includes \$10.0 million for the fund and the Governor is mandated to

include an appropriation of at least \$10.0 million in fiscal 2026 to the fund. To date, IAC has not awarded loans from the fund, but it expects to begin making loans during fiscal 2025.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 643 (Delegate Smith) - Appropriations.

Information Source(s): Maryland State Department of Education; Interagency Commission on School Construction; Department of Legislative Services

Fiscal Note History: First Reader - February 5, 2024
km/mcr Third Reader - February 21, 2024

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Appendix – State Funding for Public School Construction

School Construction Review and Approval Process

The Interagency Commission 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 determines which projects to fund through the Public School Construction Program (PSCP). By December 31 of each year, IAC must approve projects comprising 75% of the preliminary school construction allocation projected to be available by the Governor for the upcoming fiscal year. Local school systems may appeal these preliminary decisions by IAC. By March 1 of each year, IAC must recommend to the General Assembly projects comprising 90% of the allocation for school construction submitted in the Governor's capital budget. Following the legislative session, IAC approves projects comprising the remaining school construction funds included in the enacted capital budget, no earlier than May 1. The final allocations are not subject to appeal.

Built to Learn Act

The Built to Learn Act was enacted as Chapter 20 of 2020, but it was contingent on the enactment of House Bill 1300 of 2020 (Blueprint for Maryland's Future – Implementation). As House Bill 1300 was vetoed by the Governor, the Built to Learn Act took effect in January 2021 when the General Assembly voted to override the Governor's veto of House Bill 1300.

The Built to Learn Act authorizes the Maryland Stadium Authority (MSA) to issue up to \$2.2 billion in revenue bonds, backed by annual payments from the Education Trust Fund beginning in fiscal 2022, for public school construction projects in the State, including to

support a public-private partnership agreement to build six new schools in Prince George’s County. Proceeds from the revenue bonds are in addition to funding available from PSCP and are allocated among local school systems as shown in **Exhibit 1** (based on MSA’s most recent projection of anticipated revenues of \$1.7 billion given increases in interest rates since the program’s enactment). Funds must be used to build or renovate schools within 10 years.

Exhibit 1
Allocation of Built to Learn Bond Sale Proceeds
(\$ in Millions)

| | <u>Percent of Total</u> | <u>Proceeds</u> |
|----------------------------------------|-------------------------|------------------|
| Anne Arundel | 12.5% | \$212.5 |
| Baltimore City | 21.0% | 357.0 |
| Baltimore | 21.0% | 357.0 |
| Frederick | 5.1% | 86.7 |
| Howard | 6.6% | 112.2 |
| Montgomery | 21.0% | 357.0 |
| Prince George’s | * | * |
| All Other Counties | 11.5% | 195.5 |
| Unallocated/Maryland Stadium Authority | 1.3% | 22.1 |
| Total | 100.0% | \$1,700.0 |

* Under Chapter 20 of 2020, as amended by Chapter 679 of 2023, Prince George’s County receives \$27.0 million annually for up to 30 years to supplement local funds for an availability payment if it enters into a public-private partnership agreement, subject to other provisions in the Act.

Source: Department of Legislative Services

The Built to Learn Act also (1) extends mandated funding for the Healthy School Facility Fund (HSFF) by three years, through fiscal 2024, with at least \$30.0 million in fiscal 2022 and at least \$40.0 million in each of fiscal 2023 and 2024; (2) raises the mandated annual funding level for the Enrollment Growth or Relocatable Classrooms (EGRC) program from \$40.0 million to \$80.0 million beginning in fiscal 2027; and (3) creates the Public School Facilities Priority Fund to provide State funds to address the facility needs of the highest priority schools identified by the statewide facilities assessment completed by IAC. In fiscal 2025 and 2026, the Governor must appropriate at least \$40.0 million to the fund. Beginning in fiscal 2027, the mandated annual appropriation increases to at least \$80.0 million. Although mandated funding levels for fiscal 2022 were not required due to

the delay in Chapter 20 taking effect, the fiscal 2022 capital budget, as enacted, included the funding (with EGRC receiving a total of \$60.0 million and HSFF receiving a total of \$70.0 million, including \$40.0 million in federal funds from the American Rescue Plan).

Prior to distributing funds under the program, MSA must enter into a program memorandum of understanding (MOU) with IAC (which is in place), and each county, local school board, and MSA must enter into a project MOU for each project seeking funding from the program. All projects receiving Built to Learn funds must be approved by IAC using the same process it uses for PSCP. As of November 2023, IAC has approved 37 projects and committed more than \$1.0 billion in funding to those projects.

Eligible School Construction Costs

IAC establishes a range of appropriate per-student, square-foot allocations for elementary, middle, and high schools as well as for special education students, career and technology students, and specialized programs. IAC updated the space allocations in 2019 and renamed them gross area baselines. IAC also establishes, on an annual basis, a *cost per square foot* that is applicable to major school construction projects. For fiscal 2025, the cost per square foot is \$404 for new construction *without* site development (up from \$385 in fiscal 2024) and \$481 for new construction *with* site development (up from \$458 in fiscal 2024). In general, multiplying the cost per square foot by the applicable gross area baseline for each proposed project (based primarily on the State-rated capacity of a building) yields the maximum allowable cost that is subject to the State/local cost-share formula. Thus, any portion of a project that exceeds the gross area baseline is not eligible for State funding and must be paid for by the local school system.

The cost of acquiring land may not be considered an eligible construction cost and may not be paid by the State. Otherwise, regulations specify public school construction-related costs that are eligible and ineligible for State funding. Chapter 20 expands the costs eligible for State funding. In general, the following costs are now included among *eligible* expenses:

- planning and design costs (including architectural and engineering fees);
- construction of a new facility, a renovation of a new facility, an addition to an existing facility, or a replacement of an existing building or building portion (*i.e.*, “bricks and mortar”);
- building and site development;
- replacement of building systems, including roofs; windows; and heating, ventilation, and air conditioning (*i.e.*, “systemic renovations”);
- modular construction that meets specified standards;
- State-owned relocatable facilities and temporary facilities that are required to be on site during construction; and
- furniture, fixtures, and equipment with a median useful life of at least 15 years.

Among the major items explicitly *not eligible* for State funding under current law (besides site acquisition) are (1) master plans and feasibility studies; (2) projects or systemic renovations for buildings and systems that have been replaced, upgraded, or renovated within the last 15 years; and (3) items that do not have a useful life of at least 15 years.

State Share of Eligible Costs

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 21st Century School Facilities Act requires that the cost-share formula be recalculated every two years (previously, statute required recalculation every three years). **Exhibit 2** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2023 and 2024; FY 2025; and FY 2026, as approved by IAC. Counties whose calculated State share would have been lower in fiscal 2023 than in fiscal 2022 were held harmless by Chapter 698 of 2021; Garrett County’s State share was adjusted in accordance with provisions of Chapter 698.

Exhibit 2
State Share of Eligible School Construction Costs
Fiscal 2023 and 2024

| <u>County</u> | <u>FY 2023 and 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> |
|-----------------|-------------------------|----------------|----------------|
| Allegany | 90% | 89% | 89% |
| Anne Arundel | 50% | 50% | 50% |
| Baltimore City | 96% | 94% | 91% |
| Baltimore | 61% | 59% | 57% |
| Calvert | 56% | 56% | 56% |
| Caroline | 88% | 94% | 94% |
| Carroll | 59% | 57% | 54% |
| Cecil | 66% | 64% | 61% |
| Charles | 65% | 64% | 64% |
| Dorchester | 93% | 98% | 98% |
| Frederick | 65% | 67% | 67% |
| Garrett | 90% | 89% | 89% |
| Harford | 63% | 61% | 58% |
| Howard | 56% | 54% | 51% |
| Kent | 50% | 50% | 50% |
| Montgomery | 50% | 50% | 50% |
| Prince George’s | 73% | 71% | 68% |
| Queen Anne’s | 51% | 50% | 50% |
| St. Mary’s | 58% | 58% | 58% |
| Somerset | 100% | 100% | 100% |

| <u>County</u> | <u>FY 2023 and 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> |
|-------------------------------|-------------------------|----------------|----------------|
| Talbot | 50% | 50% | 50% |
| Washington | 79% | 78% | 78% |
| Wicomico | 100% | 98% | 95% |
| Worcester | 50% | 50% | 50% |
| Maryland School for the Blind | 93% | 89% | 89% |

Source: Interagency Commission on School Construction

State Funding Levels

Chapter 14 of 2018, the 21st Century School Facilities Act, established the State’s intent to provide at least \$400.0 million annually, within current debt affordability guidelines. The State surpassed the \$400.0 million threshold in fiscal 2019, 2021, 2022, and 2023; the State would have surpassed \$400.0 million in fiscal 2020, but the \$10.0 million allocation for the School Safety Grant Program (SSGP) was canceled by the Board of Public Works for cost containment reasons. Chapter 679 of 2023 repeals both SSGP and the Aging Schools Program beginning fiscal 2027 with the intent that funding for those programs be transferred to the Priority Fund, which takes effect that year. **Exhibit 3** shows annual State public school construction funding from fiscal 2020 through 2024, by county.

The fiscal 2025 operating and capital budgets, as introduced, provide more than \$900 million in funding for public school construction projects in the State, divided among general obligation (GO) bond funding, revenue bonds, and special funds. The total includes:

- \$425.4 million in MSA revenue bonds for Built to Learn;
- \$313.9 million in GO funds for PSCP;
- \$40.0 million in GO funds for EGRC;
- \$90.0 million in GO funds for HSFF;
- \$6.1 million in GO funds for the Aging Schools Program; and
- \$27.0 million in special funds for public-private partnerships for school construction in Prince George’s County under Build to Learn.

Exhibit 3
State Public School Construction Funding
Fiscal 2020-2024
(\$ in Thousands)

| <u>County</u> | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> |
|-------------------------------|------------------|------------------|--------------------|--------------------|------------------|
| Allegany | \$2,846 | \$2,080 | \$2,515 | \$4,116 | \$5,742 |
| Anne Arundel | 36,422 | 38,053 | 148,762 | 105,008 | 58,141 |
| Baltimore City | 51,304 | 69,479 | 81,905 | 304,638 | 154,841 |
| Baltimore | 58,936 | 53,015 | 257,425 | 118,800 | 75,823 |
| Calvert | 2,227 | 4,141 | 13,416 | 8,678 | 5,171 |
| Caroline | 11,603 | 13,713 | 4,741 | 2,257 | 4,469 |
| Carroll | 7,604 | 10,312 | 38,693 | 20,955 | 16,609 |
| Cecil | 4,046 | 3,856 | 5,412 | 6,865 | 42,912 |
| Charles | 13,938 | 12,455 | 32,131 | 35,237 | 21,031 |
| Dorchester | 4,068 | 5,955 | 6,578 | 4,670 | 6,114 |
| Frederick | 16,636 | 22,832 | 55,009 | 48,808 | 43,608 |
| Garrett | 443 | 1,795 | 12,147 | 11,061 | 15,316 |
| Harford | 12,975 | 12,964 | 47,235 | 12,680 | 33,455 |
| Howard | 6,494 | 32,508 | 63,374 | 71,539 | 26,993 |
| Kent | 1,389 | 3,193 | 119 | 2,331 | 1,672 |
| Montgomery | 59,107 | 55,710 | 190,879 | 43,540 | 110,357 |
| Prince George's | 52,276 | 47,065 | 42,153 | 124,264 | 76,967 |
| Queen Anne's | 667 | 1,248 | 2,318 | 4,526 | 6,934 |
| St. Mary's | 4,762 | 5,530 | 5,723 | 7,878 | 15,951 |
| Somerset | 3,161 | 3,100 | 776 | 266 | 9,409 |
| Talbot | 9,000 | 3,173 | 1,342 | 1,129 | 2,323 |
| Washington | 11,687 | 8,311 | 8,669 | 10,413 | 14,903 |
| Wicomico | 11,340 | 10,399 | 26,062 | 33,416 | 22,072 |
| Worcester | 4,336 | 1,475 | 4,975 | 308 | 689 |
| Maryland School for the Blind | 7,401 | 6,779 | 2,021 | 15,209 | 13,605 |
| Statewide | 0 | 5,794 | 6,500 | 44,283 | 20,063 |
| Total | \$394,668 | \$434,933 | \$1,060,882 | \$1,042,875 | \$805,170 |

Notes: Includes general obligation bonds, Built to Learn revenue 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. Allocated funds include the Enrollment Growth or Relocatable Classroom program, School Safety grants, and Healthy School Facility grants. Statewide funds include unallocated discretionary funds, contractual costs for external reviews, and funds reserved for unforeseen contingencies. Columns may not sum to total due to rounding.

Source: Interagency Commission on School Construction; Department of Legislative Services