

DE0202
Public School Construction – Capital
Board of Public Works

Capital Budget Summary

Grant and Loan *Capital Improvement Program*
(\$ in Millions)

<i>Program</i>	<i>2014 Approp.</i>	<i>2015 Approp.</i>	<i>2016 Request</i>	<i>2017 Estimate</i>	<i>2018 Estimate</i>	<i>2019 Estimate</i>	<i>2020 Estimate</i>
Public School Construction Program	\$370.397	\$325.300	\$280.000	\$250.000	\$250.000	\$250.000	\$250.000
Aging Schools Program	8.383	7.928	6.109	6.109	6.109	6.109	6.109
Qualified Zone Academy Bonds	4.549	4.625	4.625	0.000	0.000	0.000	0.000
Nonpublic Aging Schools	3.000	3.500	0.000	0.000	0.000	0.000	0.000
Total	\$386.329	\$341.353	\$290.734	\$256.109	\$256.109	\$256.109	\$256.109

<i>Fund Source</i>	<i>2014 Approp.</i>	<i>2015 Approp.</i>	<i>2016 Request</i>	<i>2017 Estimate</i>	<i>2018 Estimate</i>	<i>2019 Estimate</i>	<i>2020 Estimate</i>
PAYGO GF	\$25.000	\$0.000	\$30.000	\$0.000	\$0.000	\$0.000	\$0.000
GO Bonds	315.658	295.734	260.734	256.109	256.109	256.109	256.109
Nonbudgeted Funds	45.671	45.619	0.000	0.000	0.000	0.000	0.000
Total	\$386.329	\$341.353	\$290.734	\$256.109	\$256.109	\$256.109	\$256.109

CIP: *Capital Improvement Program*

GF: general fund

GO: general obligation

Note: Nonbudgeted funds in the out-years will depend on the amount of unencumbered funds that are reallocated by the local education agencies and the Interagency Committee on School Construction.

Summary of Updates

Public School Construction Financing Study: In May 2014, then-Governor Martin J. O’Malley issued an executive order directing the Interagency Committee on School Construction (IAC), in consultation with the Department of Budget and Management (DBM) and the Department of Legislative Services (DLS), to conduct a study of alternative and creative ways for financing and funding public school construction projects. The involved parties and various other stakeholders met on multiple occasions during the 2014 interim and considerable research has been conducted by IAC, primarily regarding the potential for generating value capture savings through energy efficiencies and leveraging those savings to fund public school construction projects. A final report from the study is due September 1, 2015.

Baltimore City Public Schools 21st Century Building Plan: In response to the critical need for public school facility improvements in Baltimore City, Chapter 647 of 2013 (Baltimore City Public Schools Construction and Revitalization Act) established a new partnership among the State, Baltimore City, and Baltimore City Public Schools (BCPS) to fund up to \$1.1 billion in public school facility improvements through revenue bonds to be issued by the Maryland Stadium Authority (MSA). The 10-year plan adopted by the Baltimore City board is referred to as the 21st Century Buildings Plan. The original estimate for the number of schools to be improved has been revised downward from 50 schools to a total of 23 to 28 schools to be replaced or renovated. The lower estimate reflects more realistic cost estimates for the projects based on feasibility studies and revised estimates of projected bond proceeds. The program has experienced delays but appears to be on schedule for overall completion by fiscal 2020.

Summary of Recommended PAYGO Actions

- Funds
1. Add language to repurpose school construction pay-as-you-go funding for housing capital programs currently supported by taxable bonds.

Summary of Recommended Bond Actions

1. Public School Construction Program
Approve the Governor’s \$250 million general obligation bond fund authorization for the Public School Construction Program.
2. Aging Schools Program
Approve the Governor’s \$6.1 million general obligation bond fund authorization for the Aging Schools Program.
3. Qualified Zone Academy Bond Program

Approve the Governor's \$4.6 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

Program Description

Public School Construction

The State established the Public School Construction Program (PSCP) in 1971 to provide State contributions toward school construction costs in an attempt to give property tax relief to local governments and equalize educational facilities across the State.

IAC was created to oversee the PSCP, subject to Board of Public Works (BPW) approval. Members of the IAC include the State Superintendent of Schools, who serves as the chairperson; the Secretary of the Department of General Services; the Secretary of the Maryland Department of Planning; a member of the public appointed by the President of the Senate; and a member of the public appointed by the Speaker of the House. Each October, the Governor announces the proposed amount of funding for public school construction for the upcoming fiscal year. Local jurisdictions submit their annual and five-year *Capital Improvement Program* (CIP) to IAC in October.

Annually, in October and November, PSCP staff reviews the CIP applications and recommends to IAC which projects should be funded based on certain criteria. Each December, IAC develops a list of eligible projects and decides which should be recommended to BPW for approval. IAC must recommend an initial allocation of 75% of the Governor's preliminary allocation for school construction before December 31 of each year. In January, BPW votes on IAC recommendations, and the projects approved by BPW become part of the State's proposed capital budget. The proposed budget is then submitted to the General Assembly for approval. Annually, by March 1, IAC is required to submit recommendations to the Governor and General Assembly equal to 90% of the school construction allocation submitted by the Governor in the capital budget. In May, BPW allocates any remaining school construction funds to school construction projects recommended by IAC.

Aging Schools

The Aging Schools Program (ASP), administered by IAC, provides funds to local school systems for improvements, repairs, and deferred maintenance in public school buildings. Funding is specified in § 5-206 of the Education Article and provides a specific amount based on each school system's share of older space as compared to statewide totals. Originally, the basis of allocation was the proportion of pre-1960 square footage (sq. ft.) that had not been renovated. In Chapter 307 of 2004, the basis of allocation was changed to the proportion of pre-1970 sq. ft. that had not been renovated. Matching local funds are not required for State funds provided for the program. The State/local cost share formula used for State-funded school construction projects in the CIP does not apply to the ASP.

Nonpublic Aging Schools

The Nonpublic Aging Schools Program, administered by IAC and the Maryland State Department of Education (MSDE), provides funds to nonpublic schools for improvements, repairs, school security improvements, and deferred maintenance in nonpublic school buildings. Funding was provided for the program in fiscal 2014 and 2015. Funds are distributed to nonpublic schools currently participating in the Maryland Nonpublic Student Textbook Program using the same eligibility requirements as the ASP. Payment for work completed under this program will be through reimbursement to the grant recipient. No matching funds are required, but the nonpublic school is responsible for all project costs exceeding the amount of the grant.

Qualified Zone Academy Bonds

Funds from Qualified Zone Academy Bonds (QZAB) may be used in schools located in a federal Enterprise or Empowerment Zone or in schools in which at least 35% of the student population qualifies for free or reduced-price meals (FRPM). The State does not pay interest on QZAB issuances. Instead, the State repays the principal only, and the bondholder receives a federal tax credit in lieu of interest payments each year until the bond matures. Because QZABs are issued with the full faith and credit of the State, QZABs are considered State debt and are included in the State's general obligation (GO) bond debt outstanding and debt service in calculations of State debt affordability.

Federal law requires that schools that are granted QZAB funds receive a 10% private-entity match, which may be in the form of cash, in-kind goods and services, or field trips. The funds must be spent according to federal law (Section 1397E of the Internal Revenue Service code) on renovations and repairs. However, federal law authorizes other uses that are typically not eligible uses of Maryland GO bonds. In Maryland, eligible expenditures include but are not limited to asbestos and lead paint abatement; upgrade of fire protection systems and equipment; painting, plumbing, and roofing; upgrade of heating, ventilation, and air conditioning systems; site redevelopment; wiring for technology; and renovation projects related to education programs and services.

Budget Overview

School Construction Program

State and local governments share in the cost of school construction projects. **Exhibit 1** shows the State's share of eligible project costs for fiscal 2016 by county. This share is based on a formula, which includes components to recognize local wealth and the proportion of low-income students, enrollment growth, economically distressed counties, and the local funding effort by counties. The local effort component of the formula includes bond and pay-as-you-go (PAYGO) funding provided by local governments for school construction.

Exhibit 1
State Share of Eligible Costs for School Construction
Fiscal 2016

<u>50%</u>	<u>51% – 60%</u>	<u>61% – 74%</u>	<u>75% – 89%</u>	<u>90+%</u>
Anne Arundel	Baltimore (52)	Cecil (64)	Allegany (88)	Baltimore City (93)
Garrett	Calvert (53)	Charles (61)	Caroline (80)	MD School for the Blind (93)
Kent	Carroll (59)	Frederick (64)	Dorchester (76)	Somerset (100)
Montgomery	Howard (55)	Harford (63)		Wicomico (97)
Queen Anne’s	St. Mary’s (59)	Prince George’s (63)		
Talbot		Washington (71)		
Worcester				

Source: Public School Construction Program

New Cost-share Formula Will Take Effect in Fiscal 2016

The State pays at least 50% of eligible costs of school construction and renovation projects. 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. **Appendix 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2015, which was determined by the 2007 recalculation, and for fiscal 2016 through 2018, as determined by the 2014 recalculation.

The revised share does not affect the fiscal 2015 allocations. Any jurisdiction in which the State share is reduced by more than 5% has a phased-in implementation of the new cost-share percentage over two or three years. The majority of the jurisdictions (11) experience no change in their State share. Eight jurisdictions experience an increase, with Somerset County experiencing the most significant gain of 18 percentage points. With the revised calculation, the State share of eligible project costs for Somerset County is 100%. Six jurisdictions experience reductions in the State shares, ranging from 2% in Charles County to 10% in Allegany County. Reductions in the State shares for Allegany, Cecil, and St. Mary’s counties were phased in over two years because of the magnitude of the reductions.

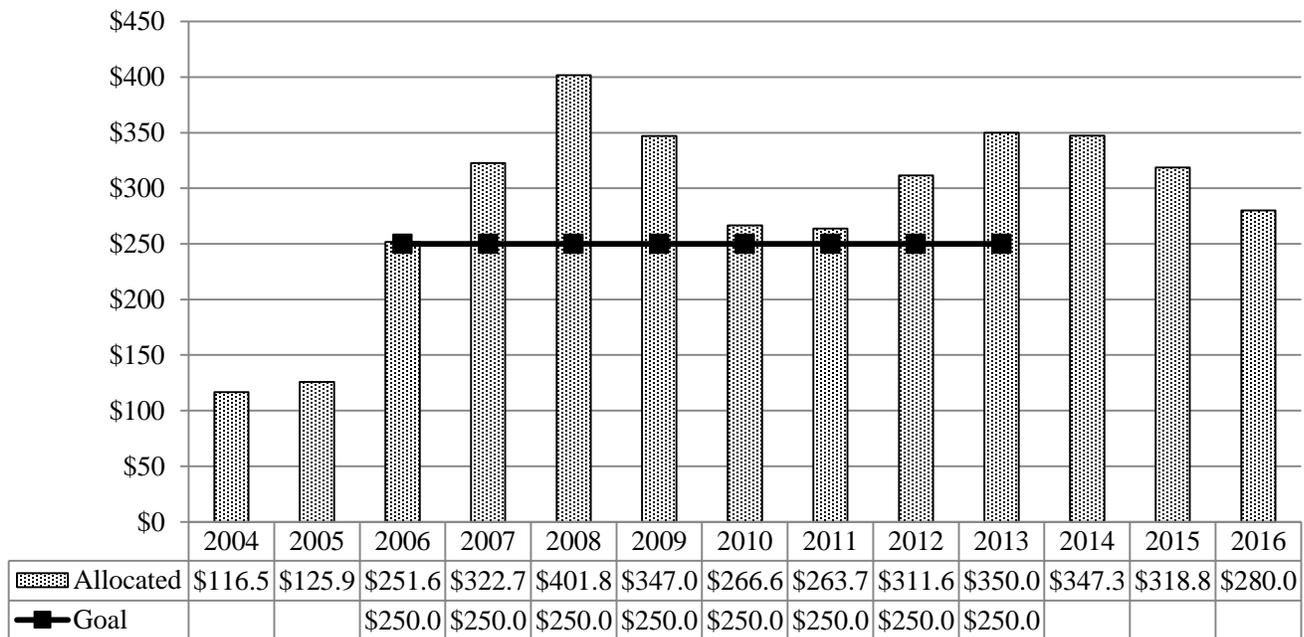
At the fall 2014 meeting when BPW granted approval of the new cost-share rates, the board directed IAC to develop regulations stipulating that, in the future, the State share of eligible costs for school construction should not exceed 98%. That regulation would go into effect with the next recalculation of the formula beginning in fiscal 2019.

Proposed Allocation and Distribution for Fiscal 2016

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, PSCP funding increased from \$125.9 million in fiscal 2005 to \$253.8 million 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 one year ahead of schedule.

As illustrated by **Exhibit 2**, between fiscal 2004 and 2015, the State invested \$3.4 billion in public school construction projects. **Appendix 2** shows the total State allocation for public school construction between 1972 and the initial fiscal 2016 allocation. The fiscal 2013 capital budget included \$25 million for projects to improve the energy efficiency of existing schools through the Energy Efficiency Initiative. The fiscal 2014 budget provided \$25 million PAYGO general funds reserved for projects that improved school security and \$25 million of GO bonds reserved for projects focused on new air conditioning in schools.

Exhibit 2
State Funding for School Construction
Fiscal 2004-2016
(\$ in Millions)



Note: Figures include new general obligation bonds, pay-as-you-go, and unexpended funds that were previously authorized. Fiscal 2012 includes a \$47.5 million supplementary appropriation.

Source: Public School Construction *Capital Improvement Programs*, Fiscal 2005-2016

Fiscal 2016 CIP

Seventy-five percent of the preliminary \$250.0 million announced by the Governor in October, or \$187.5 million, was recommended for specific projects by IAC and approved by BPW in January 2015. Another \$64.5 million in fiscal 2016 CIP funds were recommended by IAC in February 2015. This additional recommendation included \$16.7 million in general fund PAYGO and \$47.8 million in GO bonds, based on the Governor's inclusion of \$30.0 million in PAYGO funding and \$250.0 million in GO bond funding in the fiscal 2016 capital budget, as introduced. To date, IAC has provided allocation recommendations totaling \$252.0 million of the \$280.0 million proposed budget. These actions satisfy the requirement that IAC submit recommendations by March 1, 2015, equal to 90% of the funding provided in the Governor's proposed capital budget.

Appendix 3 shows a summary of the proposed fiscal 2016 CIP by jurisdiction to date. This includes the amount of funding approved by BPW in January during the initial 75% allocation and the amount IAC is recommending for approval by BPW equal to 90% of the capital allocation for school construction. The 90% fiscal 2016 CIP recommendations include the following:

- 45 major construction projects at \$160.8 million, or 63.8%, of the distribution;
- 94 systemic renovation projects at \$86.0 million, or 34.1%, of the distribution; and
- 5 kindergarten projects at \$5.2 million, or 2.1%, of the distribution.

To date, IAC has recommended funding for 64% of the projects requested from local education agencies (LEA). As seen in Appendix 3, a total of \$569.9 million in funding was requested for 225 projects. Of the total requested amount, approximately 86.3% (\$491.9 million) is eligible for funding. The IAC 90.0% recommendation funds \$252.0 million, or 51.2%, of the eligible project requests. This provides funding for 144 projects. BPW approved 122 of the projects in January 2015; the remaining 20 will be acted on by BPW in May 2015.

The 90% additional IAC recommendation allocated \$16.7 million in general fund PAYGO and \$47.8 million in GO bonds. This includes a recommended shift of the BPW-approved allocation of \$6.5 million in bond funding for the Maryland School for the Blind to \$7.4 million in PAYGO funding. According to IAC, this shift is recommended to reserve the entire amount of bonds for the LEAs, which were the traditional or original grantees of the PSCP CIP. The recommendation also includes allocating approximately \$9.3 million of the PAYGO to Prince George's County to reimburse outstanding obligations from projects that were completed in the early to mid-part of the last decade. These obligations can only be funded with the use of PAYGO funding. The projects were forward-funded by the county but are eligible for State reimbursement. In order to fund the reimbursement with bond proceeds, however, the payment from the State must be made within 18 months of the final payment to the contractor. Prince George's County has four projects awaiting reimbursement that were completed well beyond the 18-month period, thus requiring the State's obligation to be met only through the use of PAYGO funding.

The \$9.3 million identified for Prince George’s County is the only outstanding balance for the State that requires the use of PAYGO funding to meet the obligation. DLS supports the recommendation to use a portion of the \$30.0 million PAYGO allocation in the PSCP to fulfill the State’s obligation to the county. With regard to the remaining \$20.7 million, however, DLS recommends repurposing those funds to support capital programs within the Department of Housing and Community Development (DHCD) to avoid the issuance of more expensive taxable debt, which is consistent with DLS recommendations in the DHCD capital analysis. Aside from the obligation to Prince George’s County, the committees could replace the general fund PAYGO funds for the PSCP with GO bond funds that would become available by earmarking the PAYGO general funds for DHCD programs instead of bonds, or consider counting any unreserved contingency funds or even the \$28.2 million of contingency funds in the IAC Contingency Account that has been reserved for specific LEA’s but is not yet reflected in the 90% allocation recommendation as part of the overall total \$280.0 million of PSCP funding in fiscal 2016.

Appendix 4 shows the amount of capital program funds that local school systems have requested and will request between fiscal 2016 and 2021. The amount of funds requested by LEAs for fiscal 2016 continued to decline in comparison to the level of funding requested in fiscal 2014. The fiscal 2016 CIP reflects a \$73.1 million (11.4%) decrease from the previous year’s request. Estimated out-year requests anticipate LEAs to increase the total amount of funding requested for school construction each year.

Contingency Fund

Exhibit 3 shows the components of the contingency fund that are available for projects in fiscal 2016. IAC is required to report quarterly to the General Assembly and DLS on the contents of the contingency fund. The contingency balance reserved for LEAs was \$28.2 million as of December 31, 2014, to be allocated toward the fiscal 2016 CIP. Combined with unreserved statewide contingency funds of \$393,490, contingency funding available for fiscal 2016 projects totals at least \$28.6 million. As of February 23, 2015, the unreserved statewide contingency funds have increased slightly, providing a total of \$28.7 million in the IAC Contingency Account. IAC reports that there is the potential for an additional \$5.4 million to be identified for specific LEAs. Currently, \$17.0 million held in reserve for specific LEAs is undetermined as to its use at this time.

Exhibit 3
Statewide Contingency Fund Account Available for Fiscal 2016
As of December 31, 2014

Bond Funds	\$28,629,614	Funds Reserved for Specific LEAs	\$28,236,124
Supplemental Funds	0	Unreserved Balance	393,490
PAYGO Funds	0	Funds Available for Allocation Fiscal 2016	28,629,614
Total Statewide Contingency	\$28,629,614	Total Available Contingency Fund Balance	\$28,629,614

LEA: local education agency

PAYGO: pay-as-you-go

Source: Interagency Committee on School Construction

Qualified Zone Academy Bonds

As of December 2014, Maryland had issued \$82.0 million in QZABs, as shown in **Exhibit 4**. The most recent issuance of \$4.6 million was in Chapter 475 of 2014. Issuances prior to 2008 are allowed to accumulate interest under federal law, resulting in \$2.8 million in total proceeds.

Maryland first authorized the sale of QZABs in Chapter 322 of 2000. Additional issuances were authorized by Chapter 139 of 2001, Chapter 55 of 2003, Chapter 431 of 2005, Chapter 585 of 2007, Chapter 523 of 2010, Chapter 96 of 2011, Chapter 3 of the first special session of 2012, and Chapter 426 of 2013. Funds are distributed to LEAs that have eligible schools that apply for the funds.

Through fiscal 2009, Maryland allowed QZAB proceeds to be used only for renovation and repair (brick-and-mortar) projects as part of the ASP. Chapter 707 of 2009 expanded the use of previously authorized QZABs for equipment, affecting funds available from the 2007 and prior issuances. The expansion of the program to purchase equipment was not repeated in the years following fiscal 2010. Chapter 707 also authorized MSDE to allocate a portion of the funds to be accessed through competitive applications among eligible LEAs and authorized eligible public charter schools to apply for funds.

HB 110 and SB 79 of 2015 would authorize the issuance of \$4.6 million in QZABs by December 31, 2015. Approximately \$4.7 million in currently unexpended balance has a spending deadline of August 14, 2015. **IAC should comment on the status of expending the fiscal 2012 funds with the August 2015 spending deadline.**

Aging Schools

The Budget Reconciliation and Financing Act (BRFA) of 2011 permanently authorized that either general funds or GO bonds may be used to fund the program. The BRFA of 2012 rebased funding for the ASP at \$6.1 million in fiscal 2013, returning the program to the fiscal 2011 level, and specified that future year funding is fixed at that level, rather than based on prior year funding beginning in fiscal 2013. However, Chapter 444 of 2012 increased the fiscal 2013 authorization for ASP to \$31.1 million. The fiscal 2014 capital budget included \$8.1 million for the program. A total of \$6.1 million in GO bonds was provided in fiscal 2015 and is consistent with the fiscal 2016 authorization. **Exhibit 5** shows the fiscal 2015 and 2016 allocations by LEA. The total available allocation for fiscal 2015 includes \$1.8 million in recycled ASP bond allocations from prior years. This increases fiscal 2015 spending to \$7.9 million. **Exhibit 6** shows encumbrances and expenditures.

Exhibit 4
Expenditures of QZAB Bond Proceeds through December 2014

<u>QZAB Series</u>	<u>Appropriated Authorizations</u>	<u>Interest Income Appropriated through 12/31/14</u>	<u>Proceeds Plus Interest through 12/31/14</u>	<u>Expenditures through 12/31/14</u>	<u>Unexpended Balance 12/31/14</u>	<u>% Expended through 12/31/14</u>	<u>Spending Deadline</u>
2001 QZAB	\$18,097,984	\$1,321,187	\$19,419,171	\$19,419,109 ⁽¹⁾	\$62	100.00%	n/a
2004 QZAB	9,043,000	978,330	10,021,330	10,007,197	14,133	99.86%	n/a
2006 QZAB	4,378,000	327,855	4,705,855	4,705,355	500	99.99%	n/a
2007 QZAB	4,986,000	131,528	5,117,528	5,117,528	0	100.00%	n/a
2008 QZAB ⁽²⁾	5,563,000	75 ⁽³⁾	5,563,075	5,563,073	2	100.00%	3-year deadline met
2009 QZAB ⁽²⁾	5,563,000	14,000	5,577,000	5,576,752	248	100.00%	3-year deadline met
2010 QZAB ⁽²⁾	4,543,000	13,500	4,556,500	4,556,209	291	99.99%	3-year deadline met
2011 QZAB ⁽²⁾	15,902,000	0	15,902,000	15,839,245	62,755	99.61%	3-year deadline met
2012 QZAB ⁽²⁾	15,324,000	0	15,324,000	10,584,440	4,739,560	69.07%	8/14/2015
2013 QZAB ⁽²⁾	4,549,000	0	4,549,000	636,147	3,912,853	13.98%	12/19/2016
2014 QZAB ⁽²⁾	4,625,000	0	4,625,000	0	4,625,000	0.00%	12/18/2017
Total	\$92,573,984	\$2,786,475	\$95,360,459	\$82,005,055	\$13,355,404		

QZAB: Qualified Zone Academy Bonds

⁽¹⁾ A total of \$593,868 of the expenditures for the 2001 QZAB were spent on nonqualified projects. This amount must be deducted from expenditures for federal compliance purposes, therefore, reducing the percentage expended to 96.65%.

⁽²⁾ QZABs issued after October 3, 2008, require 100% of proceeds to be spent within three years of issuance.

⁽³⁾ In anticipation of closing the 2008 QZAB account, the interest balance was transferred into the proceeds account.

Source: Interagency Committee on School Construction

**Exhibit 5
Aging School Program Allocation
Fiscal 2015 and 2016**

<u>Local Education Agency</u>	<u>ASP Allocation 2015</u>	<u>Prior Unexpended Allocation 2015</u>	<u>Total Allocation Available for 2015</u>	<u>ASP Allocation 2016</u>
Allegany	\$97,791	\$595,775	\$693,566	\$97,791
Anne Arundel	506,038	168,452	674,490	506,038
Baltimore City	1,387,924	72,136	1,460,060	1,387,924
Baltimore	874,227	22,631	896,858	874,227
Calvert	38,292	1,344	39,636	38,292
Caroline	50,074	41,858	91,932	50,074
Carroll	137,261	192,835	330,096	137,261
Cecil	96,024	138,122	234,146	96,024
Charles	50,074	2,311	52,385	50,074
Dorchester	38,292	0	38,292	38,292
Frederick	182,622	17,156	199,778	182,622
Garrett	38,292	196,160	234,452	38,292
Harford	217,379	17,224	234,603	217,379
Howard	87,776	0	87,776	87,776
Kent	38,292	0	38,292	38,292
Montgomery	602,651	0	602,651	602,651
Prince George's	1,209,426	70,977	1,280,403	1,209,426
Queen Anne's	50,074	9,554	59,628	50,074
St. Mary's	50,074	0	50,074	50,074
Somerset	38,292	233,288	271,580	38,292
Talbot	38,292	28,720	67,012	38,292
Washington	134,904	0	134,904	134,904
Wicomico	106,627	10,846	117,473	106,627
Worcester	38,292	0	38,292	38,292
Total Fiscal 2014	\$6,108,990	\$1,819,389	\$7,928,379	\$6,108,990

ASP: Aging School Program

Source: Interagency Committee on School Construction

Exhibit 6
Aging Schools Program Allocations
Encumbrances and Expenditures
Fiscal 2013-2015

<u>Local Education Agency</u>	<u>Fiscal 2013 Encumbrances</u> ⁽¹⁾	<u>Fiscal 2014 Encumbrances</u> ⁽²⁾	<u>Expenditures</u> ⁽³⁾ <u>July 1, 2013 – December 31, 2014</u>	<u>Unexpended Balance as of December 31, 2014</u>	<u>2015 Working Authorization</u> ⁽⁵⁾	<u>Total Unexpended</u>
Allegany	\$497,984	\$97,791	\$0	\$595,775	\$97,791	\$693,566
Anne Arundel	2,576,913	506,038	2,515,564	567,387	506,038	1,073,425
Baltimore City	7,067,769	1,387,924	6,792,942	1,662,751	1,387,924	3,050,675
Baltimore	4,451,853	2,874,227	4,476,609	2,849,471	874,227	3,723,698
Calvert	194,996	38,292	193,652	39,636	38,292	77,928
Caroline	254,993	50,074	272,151	32,916	50,074	82,990
Carroll	698,978	137,261	506,143	330,096	137,261	467,357
Cecil	488,986	96,024	360,107	224,903	96,024	320,927
Charles	254,993	50,074	260,463	44,604	50,074	94,678
Dorchester	194,996	38,292	242,254	-8,966	38,292	29,326
Frederick	929,972	182,622	912,850	199,744	182,622	382,366
Garrett	194,996	38,292	0	233,288	38,292	271,580
Harford	1,106,966	217,379	1,092,468	231,877	217,379	449,256
Howard	446,984	87,776	461,000	73,760	87,776	161,536
Kent	194,996	38,292	253,919	-20,631	38,292	17,661
Montgomery	3,068,898	602,651	3,068,898	602,651	602,651	1,205,302
Prince George's	6,158,798	1,209,426	5,633,006	1,735,218	1,209,426	2,944,644
Queen Anne's	254,993	50,074	287,104	17,963	50,074	68,037
St. Mary's	254,993	50,074	258,262	46,805	50,074	96,879
Somerset	194,996	38,292	0	233,288	38,292	271,580

<u>Local Education Agency</u>	<u>Fiscal 2013 Encumbrances</u> ⁽¹⁾	<u>Fiscal 2014 Encumbrances</u> ⁽²⁾	<u>Expenditures</u> ⁽³⁾ <u>July 1, 2013 – December 31, 2014</u>	<u>Unexpended Balance as of December 31, 2014</u>	<u>2015 Working Authorization</u> ⁽⁵⁾	<u>Total Unexpended</u>
Talbot	194,996	38,292	211,558	21,730	38,292	60,022
Washington	686,976	134,904	686,796	135,084	134,904	269,988
Wicomico	542,980	106,627	532,134	117,473	106,627	224,100
Worcester	194,996	38,292	197,249	36,039	38,292	74,331
ASP Contingency	(1)	10		9	10	19
Total	\$31,109,000	\$8,109,000	\$29,215,129 ⁽⁴⁾	\$10,002,871	\$6,109,000	\$16,111,871

ASP: Aging Schools Program

⁽¹⁾ Fiscal 2013 encumbrances do not reflect reallocated fiscal 2010 (\$834,410) and fiscal 2011 (\$103,014) contingency balances.

⁽²⁾ Fiscal 2014 encumbrances do not reflect the reallocated fiscal 2012 (\$274,252) contingency balance.

⁽³⁾ The expenditure period spans fiscal 2014 and the first six months of fiscal 2015. Amounts expended during fiscal 2014 were from projects approved in the fiscal 2013 program (\$22,484,693) and fiscal 2014 program (\$45,873). Amounts expended in the first six months of fiscal 2015 were for projects approved in the fiscal 2013 program (\$6,416,118), fiscal 2014 program (\$694,343), and fiscal 2015 program (\$35,100).

⁽⁴⁾ Total expenditures include recycled funds from prior year authorizations: fiscal 2010 (\$697,916), fiscal 2011 (\$102,261), and fiscal 2012 (\$14,798).

⁽⁵⁾ The fiscal 2015 working authorization does not reflect the \$1,819,389 reallocation from the fiscal 2010 (\$136,494), fiscal 2011 (\$753), fiscal 2012 (\$165,744), and fiscal 2013 (\$1,516,398) contingency balance.

Source: Interagency Committee on School Construction

Nonpublic Aging Schools

A total of \$6.5 million was provided in fiscal 2014 and 2015 to fund the Nonpublic Aging Schools Program. **Exhibit 7** shows an overview of the allocation of funds and projects for fiscal 2014. A total of 269 nonpublic schools were approved to receive grant funding through the program, awarding nearly \$3.0 million. Total allocations per jurisdiction ranged from \$5,000 in Kent and Queen Anne’s counties to \$625,045 in Baltimore County. Participating nonpublic schools were to have projects completed by December 1, 2014, and submitted requests for reimbursement by December 31, 2014. To date, 216 schools have received a total of \$2.5 million in reimbursements.

Exhibit 7 Nonpublic Aging Schools Program Fiscal 2014 Allocation

<u>Local School System</u>	<u>Total Schools</u>	<u>Maximum Total Allocation</u>	<u>Schools Approved</u>	<u>Allocation Approved</u>
Allegany	4	\$32,120	2	\$22,120
Anne Arundel	27	317,955	19	277,215
Baltimore County	63	713,445	49	625,045
Calvert	3	17,175	3	17,175
Caroline	0	0	0	0
Carroll	12	70,270	7	45,270
Cecil	5	48,015	4	31,635
Charles	11	89,690	9	79,435
Dorchester	0	0	0	0
Frederick	13	99,525	11	89,525
Garrett	0	0	0	0
Harford	14	125,475	8	91,900
Howard	21	170,025	12	117,490
Kent	1	5,000	1	5,000
Montgomery	48	537,815	40	482,440
Prince George’s	54	554,790	42	486,410
Queen Anne’s	3	15,000	1	5,000
Somerset	11	89,355	7	63,050
St. Mary’s	2	21,065	1	16,065
Talbot	4	31,320	4	31,320
Washington	11	77,810	9	65,705
Wicomico	5	53,890	4	48,890
Worcester	2	15,395	1	10,395
Baltimore City	45	416,590	35	365,290
Statewide	359	\$3,501,725	269	\$2,976,375

Note: Maximum total allocation exceeds \$3.5 million because one school had underreported 2012 enrollment, and the school grant adjustment was made. Applications from two schools were denied due to the age of the building being less than 16 years old.

Source: Maryland State Department of Education

DE0202 – BPW – Public School Construction – Capital

Restrictive language was placed on the fiscal 2015 authorization that required grant recipients to be only those nonpublic schools, excluding preschools, which met the eligibility requirements for funding through the Aid to Nonpublic Schools textbook and technology grants. The language also restricted an individual school's grant to no more than \$100,000, contingent on the size of the school's FRPM population, amount of tuition charged to students, and average age of the facility.

In fiscal 2015, eligible project requests totaled \$7.2 million. As of February 2015, MSDE proposed allocating the \$3.5 million authorization to 178 schools. All of the schools meet at least one of the required criteria, with each school's tuition revenue per pupil being less than the State per pupil average expended in fiscal 2013. As such, the minimum eligible amount to be received by each school would be \$12,050. A total of 80 schools met at least two of the three specified criteria. Each of those schools is eligible for a grant up to \$24,100. For schools that meet all three criteria, of which there were 24 schools, grant awards could equal up to \$48,200 per school. Although the MSDE recommendations are not final, the smallest award would be one request for \$1,500.

There is no funding provided in the fiscal 2016 capital budget to support the nonpublic ASP.

Updates

1. Public School Construction Financing Study

The need for public school construction funding in Maryland is very largely and widely known. In 2003, the Task Force to Study Public School Facilities, known as the Kopp Commission, found that \$3.85 billion in State and local funds would be needed to bring all of Maryland’s public school buildings to minimum levels of adequacy in 31 areas. According to IAC, if the same needs were identified today, the total cost as a result of construction cost escalation would be over \$6.0 billion. The result of the Kopp Commission was the establishment of a State goal to provide annual funding of \$250.0 million for public school construction.

In recognition of the disparity between need and capacity, despite the State’s \$250 million annual commitment, in May 2014, Governor Martin J. O’Malley issued an executive order charging IAC, in collaboration with DBM and DLS, to study:

- creative means of increasing funding;
- creating more reliable revenue streams;
- the use of “lease payments or other alternative financing methods for public school construction”; and
- local funding, county tax capacity, and county tax effort.

The study is also to examine how other states fund school construction. Recommendations are to be consistent with the goals of maintaining a structurally balanced State budget and sound debt management practices. The final report on the study is due September 1, 2015.

To date, the invested parties have met on multiple occasions beginning in May 2014. IAC has also established a workgroup of local educational facility planners and other local school system officers, local government officers, and various other representatives to ensure that the perspectives of all stakeholders are included. Considerable research has been conducted regarding how other states and countries provide alternative methods for funding and financing public school construction. Two broad categories of funding have been identified for further exploration: direct revenues and value capture.

Direct revenues are familiar forms of revenue that have traditionally supported public works, *i.e.*, taxes, fees, and other proceeds. Across the United States, there are selected instances where states or localities have established direct revenue sources dedicated to school construction. School systems in Maryland, however, currently have no independent taxing authority. Assuming a dedicated revenue source were to be identified for the purpose of funding school construction, the study is also exploring methods used by other states for leveraging the dedicated funds through alternative financing.

Value capture methods of capital funding use avoided future costs to establish the revenue streams that will pay for current public improvements. Typically, the improved efficiency, reduced waste, and avoided other costs generated from the improvements are the source of the savings. Value capture can involve physical facilities, the provision of services, or both. IAC has identified two potential areas for applying the value capture method to school facilities: energy and maintenance and operations. Energy offers the most readily verifiable measures of potential value capture; as such, it is the method that is currently being most closely explored. IAC is currently conducting research to determine the potential for the large scale monetizing of energy savings and the potential to leverage those savings to accomplish school construction projects. After meeting with local and school system officials in fall 2014, IAC is collaborating with the Maryland Energy Administration to gauge the energy savings potential of a sample of 140 school buildings across the State. The committee is anticipating data collection to occur between April and September 2015, with the results and associated recommendations provided in December 2015.

2. Baltimore City Public Schools 21st Century Buildings Plan

The BCPS system has the oldest school buildings in the State, with an average age of 41 years old. A 2012 assessment of the condition of BCPS school facilities by a consultant hired by the Baltimore City Board of School Commissioners estimated a cost of \$2.4 billion to address the educational adequacy, condition, and life-cycle needs of the facilities. In response to the critical need for public school facility improvements in Baltimore City, Chapter 647 of 2013 (Baltimore City Public Schools Construction and Revitalization Act) established a new partnership among the State, Baltimore City, and BCPS to fund up to \$1.1 billion in public school facility improvements through revenue bonds to be issued by MSA. This funding is provided separate from the traditional PSCP.

The 10-year plan adopted by the Baltimore City board is referred to as the 21st Century Buildings Plan. BCPS is responsible for managing the majority of the renovation projects, while MSA is managing new construction and some renovation projects. The original estimate was that improvements could be made to 50 schools with the \$1.1 billion initiative including approximately 16 new schools and the remainder renovations. That estimate has since been revised downward with a total of 23 to 28 schools to be replaced or renovated. The lower estimate reflects more realistic cost estimates for the projects based on feasibility studies and revised estimates of projected bond proceeds.

As a result of the higher cost estimates and the need to conduct feasibility studies for the schools, most of the Year 1 schools have been delayed to some extent, in order to complete a comprehensive program review that would ultimately maximize the funds for projects. Estimates and forecasts developed from the feasibility studies conducted by MSA in spring 2014 indicated that the initiative could only support 60% of the 30 to 35 school estimate that the parties were anticipating at the time. This would have equated to projects for only 18 to 21 schools.

In fall 2014, BCPS accepted \$257.6 million in savings options to increase the number of schools to the current estimate of 23 to 28 schools. Those savings were achieved by deferring construction of two high schools, which are more costly, in order to support a higher number of school projects overall. Building efficiencies were also increased and common spaces within facilities were reduced. Finally,

the utilization for Year 1 and Year 2 schools was increased to 90%, where appropriate, in some instances, grade reconfigurations were considered, and other strategic modernizations were implemented. Based on a market analysis conducted by IAC and DLS, the average construction cost for BCPS projects is now in line with other districts.

According to BCPS and MSA, despite the delays, the program remains on schedule to be completed by fiscal 2020. A total of 11 schools have been identified as Year 1 schools; 7 of those schools have received IAC approval. The replacement projects for the first 2 schools are scheduled for completion by summer 2017. Three more schools are anticipated for completion by December 2017, with the balance of Year 1 schools to be completed by summer 2018.

The fiscal 2016 allowance marks the first year in which all three partners are participating financially: Baltimore City – \$18 million; BCPS – \$10 million; and State of Maryland (through lottery proceeds) – \$20 million. The city school board will increase its contribution to \$20 million beginning in fiscal 2017. MSA anticipates issuing the first \$250 million in bonds in the late summer/early fall 2015. Based on the timing of the first bond issuance and the delays in the project schedules, MSA is expected to finish fiscal 2016 with a fund balance of over \$252 million. DLS has recommended that the contributions for Baltimore City and the State lottery proceeds be reduced in fiscal 2016, meaning that each party would contribute \$10 million in fiscal 2016 to reflect the true timing of the debt issuance and the delayed need for construction funds.

With regard to the school closures required through the initiative, BCPS surplused three buildings in 2014. In addition, the BCPS Board of Commissioners approved six school closures in December 2014. A draft revised list updating the schools that will be surplused has been submitted to MSA for approval. BCPS has also committed to a districtwide target utilization rate of 86% by the 2019-2020 school year, with an 80% interim target rate established for the 2015-2016 school year. IAC approved the system's Comprehensive Maintenance Plan in September 2014, which establishes a five-year plan to increase the facility maintenance budget by \$3 million annually, enhance staffing, reorganize personnel, and implement performance metrics. BCPS has also engaged a project manager to provide a single point of contact for the initiative, in order to improve working relationships among all stakeholders.

PAYGO Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that \$20,690,000 of this appropriation made for the purpose of public school construction may not be expended for that purpose but instead may be transferred by budget amendment to the Department of Housing and Community Development (DHCD) to be used only to support capital programs currently funded through the use of taxable general obligation bonds. The transferred funds shall be allocated within DHCD in the following manner:

- (1) \$10,000,000 for S00A25.07 Rental Housing Programs – Capital;
- (2) \$7,000,000 for S00A25.08 Homeownership Programs – Capital; and
- (3) \$3,690,000 for A00A25.09 Special Loans Program – Capital.

Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund.

Explanation: The Governor’s allowance provides \$30.0 million in general fund pay-as-you-go (PAYGO) to support public school construction. Approximately \$9.3 million is required to fund outstanding reimbursements owed by the State to Prince George’s County. Due to the timing of the completion of the associated projects, these obligations can only be funded by cash reimbursement. The remaining \$20.7 million in proposed school construction projects could be supported via tax-exempt bonds. This action proposed repurposing \$20.7 million of the general fund PAYGO appropriation to support capital programs within DHCD. These DHCD programs are currently funded through the use of taxable bonds, which are more expensive and increase the State’s out-year debt service costs. The school construction projects that would have otherwise been funded through the PAYGO appropriation can be supported through the use of additional general obligation bonds or any unreserved contingency funds.

GO Bond Recommended Actions

1. Approve the Governor's \$250 million general obligation bond fund authorization for the Public School Construction Program.
2. Approve the Governor's \$6.1 million general obligation bond fund authorization for the Aging Schools Program.
3. Approve the Governor's \$4.6 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

**State Share of Eligible School Construction Costs
Fiscal 2015-2018**

<u>County</u>	<u>2015</u>	<u>Revised Share</u>	<u>Change</u>	<u>Implementation</u>		
				<u>2016</u>	<u>2017</u>	<u>2018</u>
Allegany	93%	83%	-10%	88%	83%	83% ⁽¹⁾
Anne Arundel	50%	50%	0%	50%	50%	50%
Baltimore City	93%	93%	0%	93%	93%	93%
Baltimore	50%	52%	2%	52%	52%	52%
Calvert	56%	53%	-3%	53%	53%	53%
Caroline	78%	80%	2%	80%	80%	80%
Carroll	58%	59%	1%	59%	59%	59%
Cecil	69%	63%	-6%	64%	63%	63% ⁽¹⁾
Charles	63%	61%	-2%	61%	61%	61%
Dorchester	69%	76%	7%	76%	76%	76%
Frederick	60%	64%	4%	64%	64%	64%
Garrett	50%	50%	0%	50%	50%	50%
Harford	63%	63%	0%	63%	63%	63%
Howard	60%	55%	-5%	55%	55%	55%
Kent	50%	50%	0%	50%	50%	50%
Montgomery	50%	50%	0%	50%	50%	50%
Prince George's	62%	63%	1%	63%	63%	63%
Queen Anne's	50%	50%	0%	50%	50%	50%
St. Mary's	64%	58%	-6%	59%	58%	58% ⁽¹⁾
Somerset	82%	100%	18%	100%	100%	100%
Talbot	50%	50%	0%	50%	50%	50%
Washington	71%	71%	0%	71%	71%	71%
Wicomico	96%	97%	1%	97%	97%	97%
Worcester	50%	50%	0%	50%	50%	50%
Maryland School for the Blind	93%	93%	0%	93%	93%	93%

⁽¹⁾ Percentage change is phased in over two fiscal years.

Source: Public School Construction Program

**Total State Allocation for Public School Construction
Fiscal 1972 through Initial 2016 Allocation**

<u>Local Education Agency</u>	<u>Allocation</u>	<u>% of Total</u>
Allegany	\$117,057,954	1.67%
Anne Arundel	596,424,113	8.49%
Baltimore City	794,817,434	11.31%
Baltimore County	704,743,965	10.03%
Calvert	176,118,647	2.51%
Caroline	76,888,069	1.09%
Carroll	236,434,142	3.37%
Cecil	139,531,464	1.99%
Charles	249,595,270	3.55%
Dorchester	88,981,255	1.27%
Frederick	390,109,736	5.55%
Garrett	51,747,950	0.74%
Harford	332,154,965	4.73%
Howard	466,852,359	6.64%
Kent	20,918,829	0.30%
Montgomery	977,616,797	13.91%
Prince George's	772,366,971	10.99%
Queen Anne's	85,303,328	1.21%
St. Mary's	181,281,233	2.58%
Somerset	74,312,670	1.06%
Talbot	30,114,772	0.43%
Washington	171,984,500	2.45%
Wicomico	174,526,266	2.48%
Worcester	68,823,978	0.98%
Maryland School for the Blind	29,897,631	0.43%
Statewide	17,055,109	0.24%
Total	\$7,025,659,407	100.00%

Source: Public School Construction *Capital Improvement Program*, Fiscal 2016

Fiscal 2016 Public School Construction Funding
(\$ in Thousands)

<u>Local Education Agency</u>	<u>IAC/BPW</u> <u>Approved 75%</u>	<u>90% Additional IAC</u> <u>Recommendation</u>		<u>90% Total</u> <u>Recommendation</u>	<u>Total</u> <u>Request</u>	<u>A/B</u> <u>Request</u>	<u>% A/B</u> <u>Request</u> <u>Funded*</u>
		<u>PAYGO</u>	<u>Bonds</u>				
Allegany	\$8,120		\$2,145	\$10,265	\$13,173	\$13,173	78%
Anne Arundel	16,700		8,648	25,348	39,636	39,636	64%
Baltimore City	16,387		5,967	22,354	67,576	59,232	38%
Baltimore County	17,800		9,285	27,085	53,926	42,615	64%
Calvert	6,240		1,655	7,895	9,180	9,180	86%
Caroline	2,000		527	2,527	2,938	2,938	86%
Carroll	6,018		397	6,415	6,415	6,415	100%
Cecil	3,289		825	4,114	5,346	5,346	77%
Charles	8,950		2,596	11,546	15,034	15,034	77%
Dorchester	0		0	0	0	0	0
Frederick	13,469		4,531	18,000	42,380	42,111	43%
Garrett	0		0	0	7,821	0	0
Harford	9,309		0	9,309	17,987	9,309	100%
Howard	15,700		6,300	22,000	25,973	25,973	85%
Kent	615		0	615	615	615	100%
Montgomery	18,600		9,018	27,618	147,996	138,971	20%
Prince George's	17,800	9,285	0	27,085	68,911	40,935	66%
Queen Anne's	0		0	0	0	0	0
St. Mary's	4,830		1,279	6,109	7,103	7,103	86%
Somerset	1,370		157	1,527	2,222	2,222	69%
Talbot	308		0	308	308	308	100%
Washington	7,065		500	7,565	8,466	8,466	89%
Wicomico	6,358		485	6,843	14,477	9,850	69%
Worcester	72		0	72	72	72	100%
Maryland School for the Blind	6,500	7,400	-6,500	7,400	12,386	12,386	60%
Total	\$187,500	\$16,685	\$47,815	\$252,000	\$569,941	\$491,890	51%

BPW: Board of Public Works

IAC: Interagency Committee on School Construction

PAYGO: pay-as-you-go

*Percent of A or B projects funded as of the 90% total recommendation.

Source: Public School Construction Program; Interagency Committee on School Construction

Summary of Capital Program Requests
Maryland Public School Construction Program
Fiscal 2016-2021
(\$ in Thousands)

<u>Local Education Agency</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Allegany	\$13,173	\$9,252	\$712	\$402	\$901	\$2,039	\$26,479
Anne Arundel	39,636	51,066	46,723	86,284	68,895	24,990	317,594
Baltimore County	53,926	56,237	41,050	41,050	43,050	43,050	278,363
Calvert	9,180	12,240	9,253	2,419	8,483	2,186	43,761
Caroline	2,938	1,656	8,078	16,614	11,136	13,373	53,795
Carroll	6,415	19,573	16,493	23,807	23,497	6,683	96,468
Cecil	5,345	7,398	15,610	17,958	10,721	8,212	65,244
Charles	15,034	14,950	14,949	20,067	23,953	5,099	94,052
Dorchester	0	16,021	12,435	565	4,306	11,476	44,803
Frederick	42,380	29,450	16,958	11,112	18,697	31,980	150,577
Garrett	7,821	0	850	700	0	0	9,371
Harford	17,987	24,392	8,124	14,058	25,899	16,068	106,528
Howard	25,973	33,864	41,738	47,939	42,792	56,602	248,908
Kent	615	1,300	0	2,530	2,525	2,045	9,015
Montgomery	147,996	87,175	77,428	100,354	124,090	82,134	619,177
Prince George's	68,911	150,971	176,438	152,024	132,669	161,145	842,158
Queen Anne's	0	118	1,092	12,469	11,313	0	24,992
St. Mary's	7,103	918	0	6,672	9,943	21,267	45,903
Somerset	2,222	16,147	15,813	2,220	0	9,914	46,316
Talbot	308	0	0	7,346	0	3,465	11,119
Washington	8,466	3,394	9,890	7,981	17,316	14,950	61,997
Wicomico	14,477	24,881	21,163	12,151	6,504	18,972	98,148
Worcester	72	0	3,245	0	1,600	0	4,917
Baltimore City	67,576	86,000	88,982	70,000	70,000	70,000	452,558
Maryland School for the Blind	12,386	5,660	5,660	7,536	7,459	8,345	47,046
Total State	\$569,940	\$652,663	\$632,684	\$664,258	\$665,749	\$613,995	\$3,799,289
Total Adjusted State	\$569,940	\$678,770	\$684,311	\$747,200	\$778,832	\$747,019	\$4,206,072

Total State: Estimated based on fiscal 2016 requests with no adjustment for inflation.

Total Adjusted State: Adjusted for inflation based on fiscal 2016 requests compounded at 4% per year.

Source: Public School Construction *Capital Improvement Program*, Fiscal 2016