
Capital Budget Fiscal Briefing

**Department of Legislative Services
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Annapolis, Maryland**

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Analysis of the FY 2008 Maryland Executive Budget, 2007

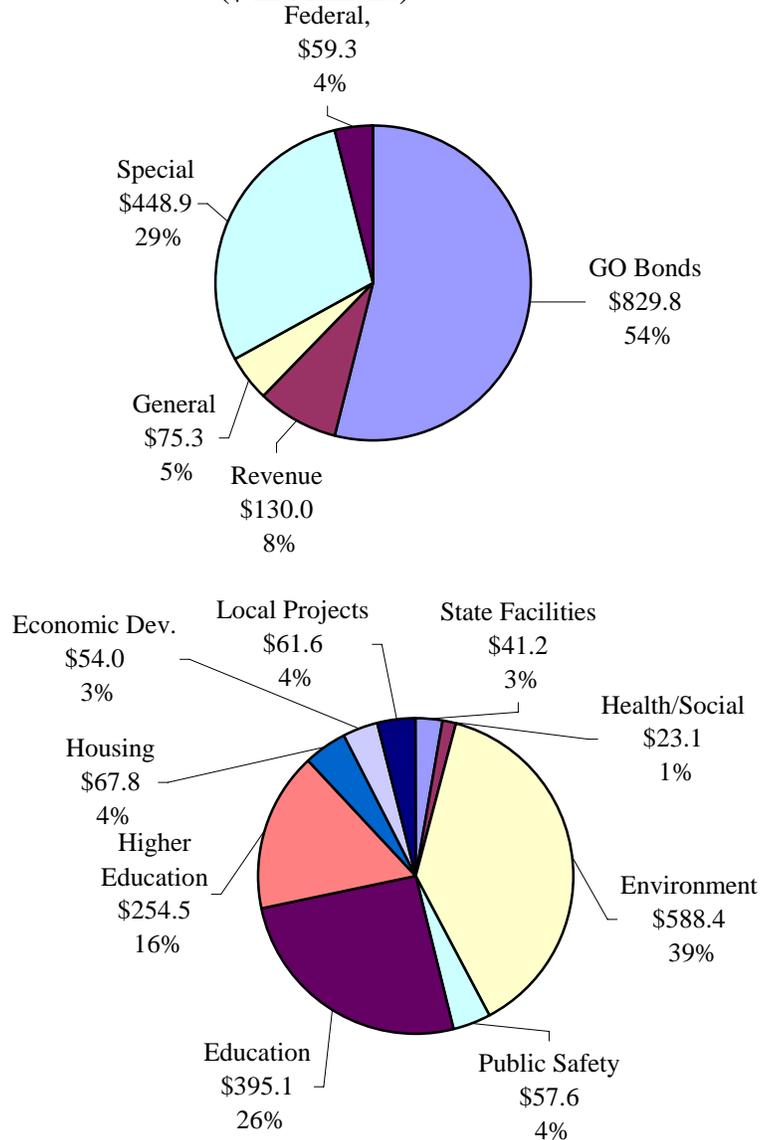
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The Fiscal 2008 Nontransportation Capital Improvement Program Totals Approximately \$1.5 Billion

- The program is funded by debt (\$959 million, 62.7%) and current funds (\$585 million, 37.8%).
- The Capital Debt Affordability Committee (CDAC) recommended a general obligation (GO) debt limit of \$810 million, including \$3 million in Tobacco Transition Program bonds authorized by Chapter 103 of 2002, known as the Southern Maryland Regional Strategy Action Plan for Agriculture. CDAC also recommended a \$30 million limit for academic revenue bonds.
- The Spending Affordability Committee concurred with the recommended \$810 million limit for general obligation debt and \$30 million Academic Revenue Bond (ARB) limit.
- The capital program as introduced includes \$810.0 million in GO debt for State-owned facilities and grant and loan programs. An additional \$19.8 million in GO bonds from prior years will be deauthorized thus increasing the amount of GO debt included in the capital program to \$829.8 million. Of the \$829.8 million of new GO debt, \$3.0 million funds the Tobacco Transition Program, \$5.0 million has been reserved as an allotment for grants to private hospitals, and \$15.0 million has been reserved for legislative community initiatives.
- The nontransportation proposed capital budget is \$1.5 billion. This includes \$829.0 million in GO debt, \$30.0 million in ARB debt, \$100.0 million in revenue debt to be issued by the Maryland Department of the Environment to fund upgrades to wastewater treatment plants, \$75.3 million in PAYGO general funds, \$448.9 million in PAYGO special funds, and \$59.3 million in PAYGO federal funds. **Exhibit 1** shows the fund source distribution and distribution of funds by function.

Fiscal 2008 Proposed Capital Program

Exhibit 1 Nontransportation Fiscal 2008 Capital Funding (\$ in Millions)



Source: Department of Budget and Management

Exhibits 2 and **3** show the major programs and projects by fund source. **Exhibit 4** provides a summary of the capital programs by function. **Exhibit 5** illustrates the difference between the fiscal 2007 and 2008 capital program. **Exhibits 6** and **7** provide a list of projects deauthorized in the capital budget bill as submitted by the Governor. **Exhibits 8** and **9** provide fund data information for past capital program spending. **Exhibit 10** compares the funding plan outlined in the 2006 and 2006 CIP. **Appendix 1** provides a list of all the fiscal 2008 capital program and projects.

Exhibit 2
Top General Obligation/Revenue Bond
Funded Programs and Projects

<u>Program/Project</u>	<u>General Obligation</u>	<u>Revenue</u>	<u>Total</u>
Public School Construction	\$385,800,000	\$0	\$385,800,000
CSU: New Physical Education Complex	99,206,000	10,000,000	109,206,000
MHEC: Community College Grant Program	56,410,000	0	56,410,000
MDE: Water Quality Loan Program	0	50,000,000	50,000,000
MDE: Chesapeake Bay Restoration ENR	0	50,000,000	50,000,000
DPSCS: MCTC 1092-Cell Housing Unit	32,637,000	0	32,637,000
MDE: CBWQ Nutrient Removal – BNR	18,000,000	0	18,000,000
Legislative Initiatives	15,000,000	0	15,000,000
USM: Facility Renewal	0	15,000,000	15,000,000
TU: College of Liberal Arts Complex	13,505,000	0	13,505,000
Misc: Garrett College Community Center	12,451,000	0	12,451,000
BPW: DGS Facilities Renewal Fund	12,147,000	0	12,147,000
Total	\$645,156,000	\$125,000,000	\$770,156,000

BNR: Biological Nutrient Removal
BPW: Board of Public Works
CBWQ: Chesapeake Bay Water Quality
CSU: Coppin State University
DGS: Department of General Services
DPSCS: Department of Public Safety and Correctional Services
ENR: Enhanced Nutrient Removal
MCTC: Maryland Correctional Training Center
MDE: Maryland Department of the Environment
MHEC: Maryland Higher Education Commission
TU: Towson University
USM: University System of Maryland

Source: Department of Budget and Management

Exhibit 3
Top Funded Programs and Projects – All Funds
Fiscal 2008

<u>Project/Program</u>	<u>GO</u>	<u>Revenue</u>	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Total Funds</u>
Public School Construction	\$385,800,000	\$0	\$0	\$2,400,000	\$0	\$388,200,000
DNR: POS Land Acquisition	0	0	0	172,557,277	4,000,000	176,557,277
MDE: Water Quality Loan Program	0	50,000,000	4,240,000	34,580,000	21,180,000	110,000,000
CSU: New Physical Education Complex	99,206,000	10,000,000	0	0	0	109,206,000
MDE: Chesapeake Bay Restoration ENR	0	50,000,000	0	30,000,000	0	80,000,000
MDA: Agricultural Land Preservation	0	0	0	67,961,820	2,000,000	69,961,820
MHEC: Community College Grants	56,410,000	0	0	0	0	56,410,000
DPSCS: MCTC 1092-Cell Housing Unit	32,637,000	0	0	0	0	32,637,000
Planning: Historic Tax Credit Fund	0	0	30,000,000	0	0	30,000,000
DNR: Waterway Improvement Fund	0	0	0	26,700,000	1,000,000	27,700,000
DNR: Rural Legacy Program	0	0	5,000,000	20,921,000	0	25,921,000
DBED: MD Economic Development Fund	0	0	2,000,000	20,000,000	0	22,000,000
MDE: CBWQ Nutrient Removal – BNR	18,000,000	0	0	0	0	18,000,000
USM: Facility Renewal	0	15,000,000	0	0	0	15,000,000
Legislative Initiatives	15,000,000	0	0	0	0	15,000,000
TU: College of Liberal Arts Complex	13,505,000	0	0	0	0	13,505,000
Misc: Garrett College Community Center	12,451,000	0	0	0	0	12,451,000
BPW: DGS Facilities Renewal Fund	12,147,000	0	0	0	0	12,147,000
Total	\$645,156,000	\$125,000,000	\$41,240,000	\$375,120,097	\$28,180,000	\$1,214,696,097

BNR: Biological Nutrient Removal

BPW: Board of Public Works

CBWQ: Chesapeake Bay Water Quality

CSU: Coppin State University

DBED: Department of Business and Economic Development

DGS: Department of General Services

DNR: Department of Natural Resources

DPSCS: Department of Public Safety and Correctional Services

Source: Department of Budget and Management

ENR: Enhanced Nutrient Removal

MCTC: Maryland Correctional Training Center

MDA: Maryland Department of Agriculture

MDE: Maryland Department of the Environment

MHEC: Maryland Higher Education Commission

POS: Program Open Space

TU: Towson University

USM: University System of Maryland

Exhibit 4
Summary of the Capital Program Request for the 2007 Session
(\$ in Millions)

Function	Bonds		Current Funds (PAYGO)			Total
	General Obligation	Revenue	General	Special	Federal	
State Facilities						\$41.2
Facilities Renewal	\$15.7	\$0.0	\$0.0	\$0.0	\$0.0	
Other	6.0	0.0	12.2	0.3	6.9	
Health/Social						\$23.1
State Facilities	5.6	0.0	0.0	0.0	0.0	
Private Hospitals	5.0	0.0	0.0	0.0	0.0	
Other	12.5	0.0	0.0	0.0	0.0	
Environment						\$588.4
Energy	0.0	0.0	0.0	3.0	0.0	
Natural Resources	8.0	0.0	5.0	238.4	5.0	
Agriculture	8.1	0.0	0.0	74.8	2.0	
Environment	27.3	100.0	7.3	79.5	29.0	
MD Envir. Services	1.0	0.0	0.0	0.0	0.0	
Public Safety						\$57.6
State Corrections	44.4	0.0	0.0	0.0	0.0	
State Police	0.3	0.0	0.0	0.0	0.0	
Local Jails	12.9	0.0	0.0	0.0	0.0	
Education						\$395.1
School Construction	386.1	0.0	0.0	2.4	0.0	
Other	1.7	0.0	5.0	0.0	0.0	
Higher Education						\$254.5
University System	140.3	30.0	0.0	0.0	0.0	
Morgan State University	8.7	0.0	0.0	0.0	0.0	
St. Mary's College	1.1	0.0	0.0	0.0	0.0	
Community Colleges	56.4	0.0	0.0	0.0	0.0	
Private Colleges/Univers.	8.0	0.0	0.0	0.0	0.0	
Medical System	10.0	0.0	0.0	0.0	0.0	
Housing/Community Dev.						\$67.8
Housing	\$7.0	\$0.0	\$2.6	\$18.9	\$4.9	
Other	2.2	0.0	9.2	11.6	11.5	
Economic Development						\$54.0
Economic Development	0.0	0.0	4.0	20.0	0.0	
Other	0.0	0.0	30.0	0.0	0.0	
Local Projects						\$61.5
Administration	46.5	0.0	0.0	0.0	0.0	
Legislative	15.0	0.0	0.0	0.0	0.0	
Deauthorizations						-\$19.8
Deauthorization	-19.8	0.0	0.0	0.0	0.0	
Total Fiscal 2008	\$810.0	\$130.0	\$75.3	\$448.9	\$59.3	\$1,523.5
Total Fiscal 2007	\$712.8	\$25.0	\$166.2	\$649.8	\$76.9	\$1,630.7
Fiscal 2007 Deficiencies	\$0.0	\$0.0	\$1.4	\$0.0	\$3.2	\$4.6

Source: Department of Budget and Management

Exhibit 5
Comparison of Fiscal 2007 and 2008 Capital Program

	<u>2007</u>	<u>2008</u>	<u>Variance</u>
Uses			
State Facilities	\$53.4	\$41.2	-\$12.2
Health/Social	28.9	23.1	-5.8
Environment	636.7	588.4	-48.3
Public Safety	52.3	57.6	5.3
Education	327.7	395.1	67.4
Higher Education	283.5	254.5	-29.0
Housing	83.7	67.8	-15.9
Economic Dev.	58.8	54.0	-4.8
Local Projects	105.7	61.6	-44.1
Total	\$1,630.7	\$1,543.3	-\$87.4
Funds			
General	\$166.2	\$75.3	-\$90.9
Special	649.8	448.9	-200.9
Federal	76.9	59.3	-17.6
General Obligation	712.8	829.8	117.0
Revenue Bonds	25.0	130.0	105.0
Total	\$1,630.7	\$1,543.3	-\$87.4

Source: Department of Budget and Management

- **General Funds:** Includes funding for capital programs that require the issuance of taxable bonds due to federal private activity requirements; continued build-out of the interoperable Public Safety Communication System; Rural Legacy Program as required by Natural Resources Article 5-9A-09; first year funding for the County Library Grant Program required by Chapter 494 of 2006; funding for the Rural Broad Band Network required by Chapter 269 of 2006; and funds for the Heritage Reserve Fund required by Chapter 76 of 2004.
- **Special Funds:** Fiscal 2008 budget reflects the significant decline in State transfer tax revenues available for land conservation programs.
- **Federal Funds:** Decline in federal funds reflects reduced federal allocation for Water Quality Loan Program and the elimination of a one-time federal grant for the construction of the Military Department Dundalk field maintenance shop.

- **General Obligation Bond Funds:** Additional \$100 million in authorizations recommended by CDAC and approved by SAC committees raises debt limit to \$810 million; proposed deauthorizations increase the amount of GO debt to \$829 million.
- **Revenue Bonds:** Fiscal 2008 budget includes \$30 million in Academic Revenue Bonds for various USM projects; \$50 million for Enhanced Nutrient Removal Program Chesapeake Bay bonds; and \$50 million for Water Quality Revolving Loan Program.

Exhibit 6
Deauthorizations Included in the MCCBL of 2007

<u>Year</u>	<u>Project</u>	<u>Reduction</u>	<u>Reason</u>
2004	Clifton T. Perkins Hospital Center – Maximum Security Wing	\$8,368,000	Project cancelled pending facility review
2005	Clifton T. Perkins Hospital Center – Maximum Security Wing	1,870,000	Project cancelled pending facility review
2006	Clifton T. Perkins Hospital Center – Maximum Security Wing	137,000	Project cancelled pending facility review
2005	DHMH – New Public Health Laboratory	9,424,000	Initial planning deferred to fiscal 2010
Total Deauthorizations		\$19,799,000	

Source: 2007 Maryland Consolidated Bond Loan

Exhibit 7
Notable Omissions for Fiscal 2008
(\$ in Millions)

<u>Projects Planned for Fiscal 2008 in 2006 CIP</u>	<u>FY 2008 Planned</u>	<u>Comments</u>
DHMH: Public Health Laboratory	10.4	Round two of planning funds deferred – round one planning funds authorized in 2006 MCCBL to be deauthorized
DHMH: New Office of Chief Medical Examiners Building	40.0	Most of construction funding deferred to FY 2009
BPW: 2100 Guilford Avenue State Office Building	12.8	Deferred to FY 2009
DSP: Hagerstown Barrack and Garage	12.1	Deferred to FY 2009
USM: UMCP Tawes Building Conversion	24.2	Deferred to FY 2009
USM: TU Campus Safety and Circulation Upgrades	14.0	Deferred to FY 2009
USM: CSU Science and Technology Center	15.0	Deferred to FY 2009
USM: Center Environmental Science – Horn Point	7.0	Deferred to FY 2010

Note: While not included in the 2006 CIP for funding in fiscal 2008, the General Assembly included language in the 2006 MCCBL which expressed the intent of the General Assembly that the Governor include \$55 million in the capital budget for the construction of the Rockville District Court House. As submitted, the fiscal 2008 capital budget makes not provision for this project.

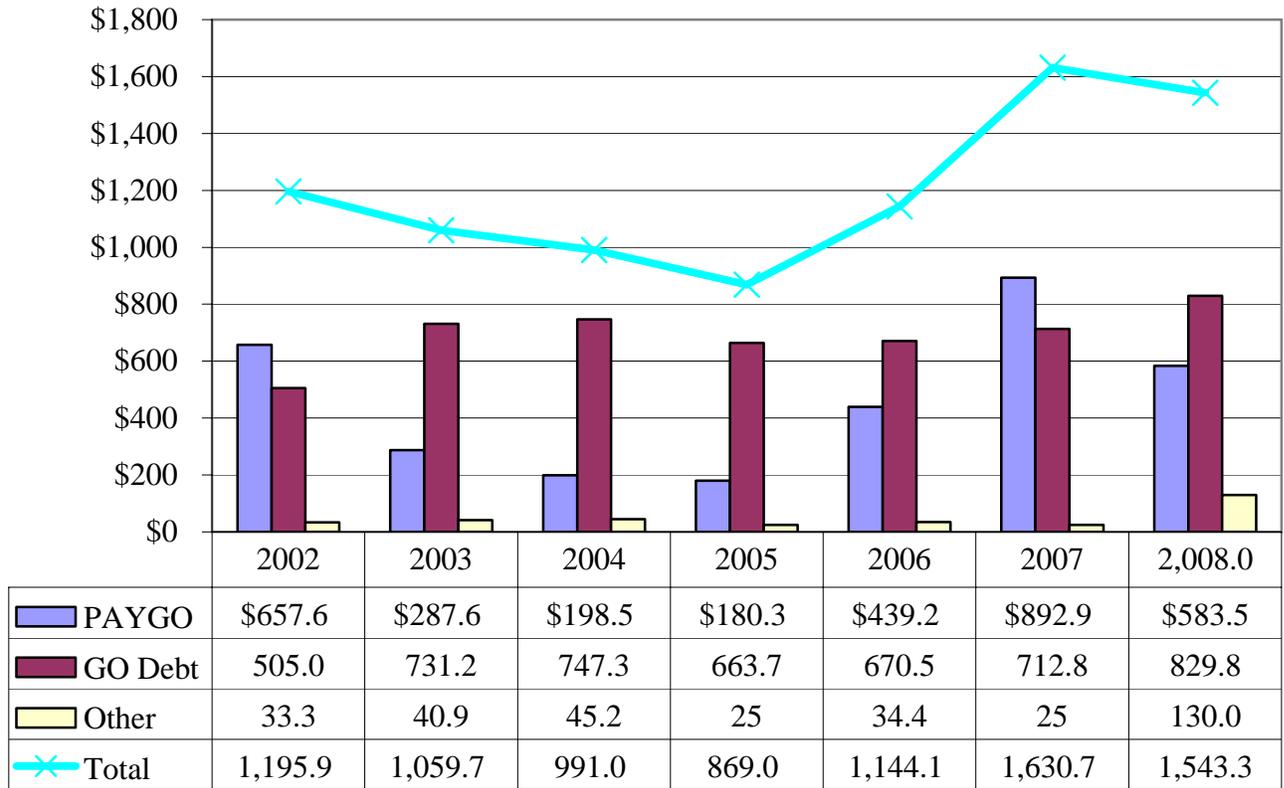
BPW: Board of Public Works
CIP: *Capital Improvement Program*
CSU: Coppin State University

DHMH: Department of Health and Mental Hygiene
DSP: Department of State Police
MCCBL: Maryland Consolidated Capital Bond Loan

UMCP: University of Maryland, College Park
USM: University System of Maryland

Source: Department of Budget and Management

Exhibit 8
Capital Program Funding Sources
Fiscal 2002-2008
(\$ in Millions)



Source: Department of Budget and Management

Exhibit 9
Capital Program Funding Uses and Sources
Fiscal 2004-2008
(\$ in Millions)

	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		Change FY 07-08	
	<u>Legis.</u> <u>Approp.</u>	<u>% of</u> <u>Total</u>	<u>\$ Diff</u>	<u>% Diff</u>								
Uses												
State Facilities	\$33.7	3.4%	\$34.5	4.0%	\$27.5	2.4%	\$53.4	3.3%	\$41.2	2.7%	-\$12.2	-22.8%
Health/Social	18.3	1.8%	32.0	3.7%	25.9	2.3%	28.9	1.8%	23.1	1.5%	-\$5.8	-20.1%
Environment	218.0	22.0%	217.6	25.0%	367.7	32.1%	636.7	39.0%	588.4	38.1%	-\$48.3	-7.6%
Public Safety	120.5	12.2%	51.9	6.0%	60.4	5.3%	52.3	3.2%	57.6	3.7%	\$5.3	10.1%
Education	117.1	11.8%	103.2	11.9%	247.4	21.6%	327.7	20.1%	395.1	25.6%	\$67.4	20.6%
Higher Education	310.1	31.3%	275.8	31.7%	246.6	21.6%	283.5	17.4%	254.5	16.5%	-\$29.0	-10.2%
Housing/Comm.	69.2	7.0%	68.3	7.9%	66.4	5.8%	83.7	5.1%	67.8	4.4%	-\$15.9	-19.0%
Economic Devel.	61.2	6.2%	28.2	3.2%	30.3	2.6%	58.8	3.6%	54.0	3.5%	-\$4.8	-8.2%
Local Projects	42.9	4.3%	57.4	6.6%	71.9	6.3%	105.7	6.5%	61.6	4.0%	-\$44.1	-41.7%
Total	\$991.0	100.0%	\$868.9	100.0%	\$1,144.1	100.0%	\$1,630.7	100.0%	\$1,543.3	100.0%	-\$87.4	-5.4%
Sources												
General	\$9.4	0.9%	\$1.2	0.1%	\$25.5	2.2%	\$166.2	10.2%	\$75.3	4.9%	-\$90.9	-54.7%
Special	128.9	13.0%	117.6	13.5%	341.6	29.9%	649.8	39.8%	448.9	29.1%	-200.9	-30.9%
Federal	60.2	6.1%	61.5	7.1%	72.1	6.3%	76.9	4.7%	59.3	3.8%	-17.6	-22.9%
General Obligation	747.3	75.4%	663.7	76.4%	670.5	58.6%	712.8	43.7%	829.8	53.8%	117.0	16.4%
QZABs	9.1	0.9%	0.0	0.0%	9.4	0.8%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Revenue	36.1	3.6%	25.0	2.9%	25.0	2.2%	25.0	1.5%	130.0	8.4%	105.0	420.0%
Total	\$991.0	100.0%	\$869.0	100.0%	\$1,144.1	100.0%	\$1,630.7	100.0%	\$1,543.3	100.0%	-\$87.4	-5.4%

QZAB: Qualified Zone Academy Bonds

Source: Department of Budget and Management

Exhibit 10
General Obligation Bond Capital Program Comparison
2006 vs. 2007 Capital Improvement Program
(\$ in Millions)

<u>Department</u>	<u>2006</u> <u>CIP</u>	<u>2007</u> <u>CIP</u>	<u>FY 2008-2011</u> <u>Four-year Change</u>
Public School Construction	\$600.400	\$1,136.350	\$536.950
University System of Maryland	536.950	686.599	149.649
Higher Education Commission	197.500	236.410	38.910
MD State Dept of Education	0.000	15.000	15.000
Miscellaneous Projects	212.850	219.076	6.226
State Police	22.150	26.275	4.125
Morgan State University	81.950	85.690	3.740
BPW – Other	62.550	63.747	1.197
School for Deaf	8.000	8.947	0.947
Canal Place	1.650	1.750	0.100
University of Maryland Medical System	62.500	62.500	0.000
Military	3.650	3.650	0.000
Environment	108.250	108.250	0.000
Dept. of Disabilities	6.400	6.400	0.000
Housing	29.000	29.000	0.000
Aging	6.000	5.820	-0.180
Planning	4.700	3.650	-1.050
Environmental Services	12.000	10.007	-1.993
Agriculture	41.000	38.608	-2.392
Natural Resources	49.000	44.000	-5.000
Historic St. Mary's Commission	10.100	2.865	-7.235
Public Safety	318.950	307.922	-11.028
St. Mary's College	30.900	12.177	-18.723
BPW – District Courts	91.300	69.800	-21.500
Juvenile Services	71.500	48.919	-22.581
Baltimore City Community College	75.775	30.100	-45.675
State Library Resource Center	55.600	0.000	-55.600
Health & Mental Hygiene	240.450	117.487	-122.963

BPW: Board of Public Works
CIP: *Capital Improvement Program*

Source: Department of Budget and Management

State General Obligation Bond Authorizations Have Increased Substantially Since 2000

Prior to the 2001 legislative session, the State policy was to increase debt authorizations by \$15.0 million annually. This policy had been in place for over a decade. At the time, this provided the program with about a 3% increase every year. In 2001, this steady growth policy was changed. Since 2000, the State has regularly increased the GO bond authorizations. **Exhibit 11** compares the 2000 CDAC proposed authorization with the 2006 CDAC authorizations and quantifies the actions listed below for the five years encompassing the 2007 *Capital Improvement Program*.

Exhibit 11 Capital Debt Affordability Committee’s Recommended Levels of General Obligation Bond Authorizations (\$ in Millions)

<u>Session</u>	<u>2000 CDAC Proposed GO Bond Authorizations</u>	<u>2006 CDAC Proposed GO Bond Authorizations</u>	<u>Variance</u>
2007	\$565	\$810	\$245
2008	580	835	255
2009	595	860	265
2010	610	890	280
2011	625	920	295
Total	\$2,975	\$4,315	\$1,340

Source: Department of Budget and Management

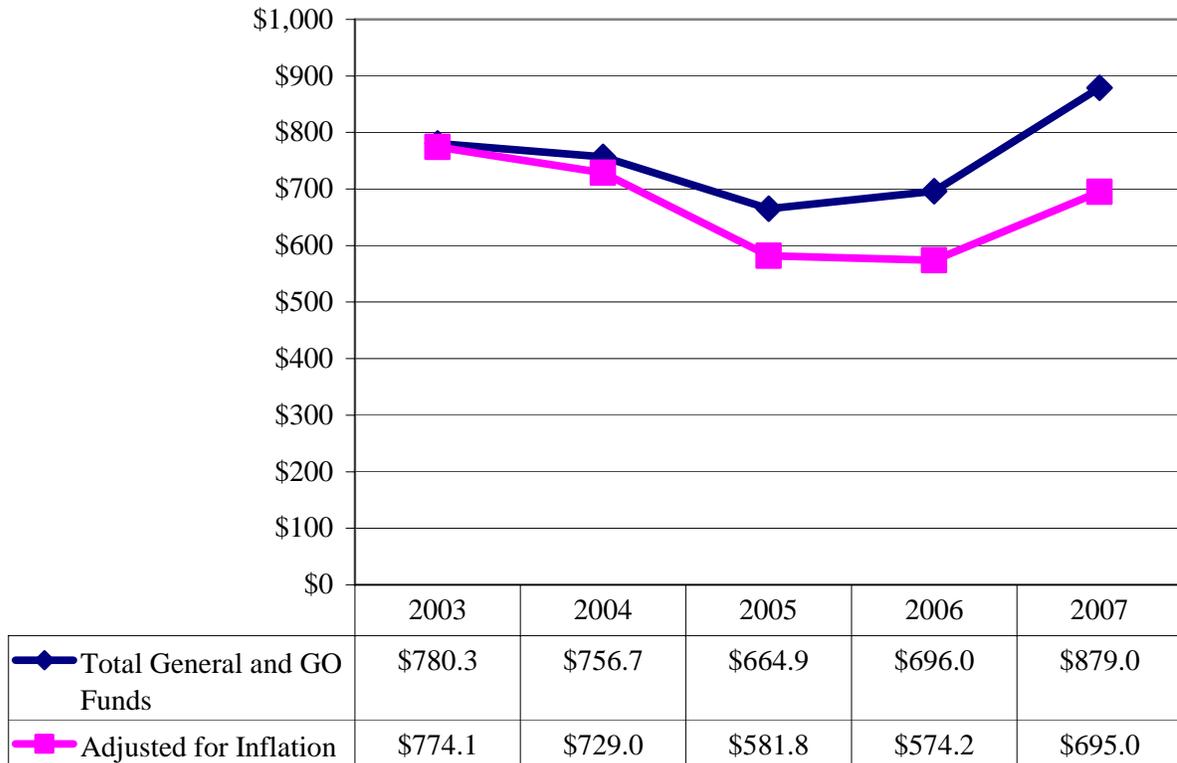
- **2001 Session – Low Debt Ratios and a Good Economy:** In 2001, the debt authorization limit was increased an additional \$30 million annually. CDAC did not reduce the amount the following year, which results in permanently increasing all authorizations by \$30 million.
- **2002 and 2003 Sessions – Poor Economy Dries Up General Fund PAYGO Capital Funds:** In the 2001 session, over \$600 million in general funds were appropriated to support PAYGO capital projects. At the time, the Administration assumed that the general funds would be sufficient to provide significant levels of appropriations for the capital program. When the economy slowed, the general funds were no longer available for the capital program. Instead of withdrawing planned support for projects, CDAC provided \$200 million in additional bond authorizations in the 2002 and 2003 sessions. The planned authorizations were assumed to decrease by a corresponding amount in the 2004 session.

- **2002 Session – Financing for the Tobacco Buyout:** Chapter 103 of 2002 authorized \$30 million (\$5 million annually from fiscal 2004 to 2009) to finance tobacco buyout for farmers. Current CDAC projections do not reduce authorizations after the program is done. Instead, the increased authorizations may be used to support other capital projects.
- **2004 – Move PAYGO to GO:** In the 2004 session, CDAC provided an additional \$100 million annually for five years. At the time it was noted that former PAYGO projects had migrated into the GO program and that either additional GO bonds would need to be authorized or capital projects would need to be reduced or deleted.
- **2006 Session – High Capital Demand:** The 2006 session brought a subtle change in methodology. Prior to 2006, the annual increase was \$15 million per year. This was about 3% when the policy was adopted. As the authorizations increased, \$15 million shrank below 3%. To ensure at least a 3% increase each year, the policy was changed from a flat \$15 million to a 3% increase. CDAC also ended the authorization drop-off proposed in the 2009 session. The justification for these changes was high demand for capital projects.
- **2007 Session – High Capital Demand:** In response to continued high capital demand, the committee proposed a permanent \$100 million increase in the base for the 2007 session. Since the annual increase is 3% (instead of the flat \$15 million prior to 2006), this also results in higher annual increases.

Escalating Construction Costs

- Several years of elevated building construction costs have eroded the State's capital spending power.
- As shown in **Exhibit 12**, despite funding levels in both fiscal 2007 and 2008 that exceed prior year appropriations, when adjusted for inflation these elevated funding levels lag behind what was appropriated in fiscal 2003.

Exhibit 12
GO and General Fund Capital Appropriations – Actual and Adjusted for Inflation
Fiscal 2003-2007
(\$ in Millions)

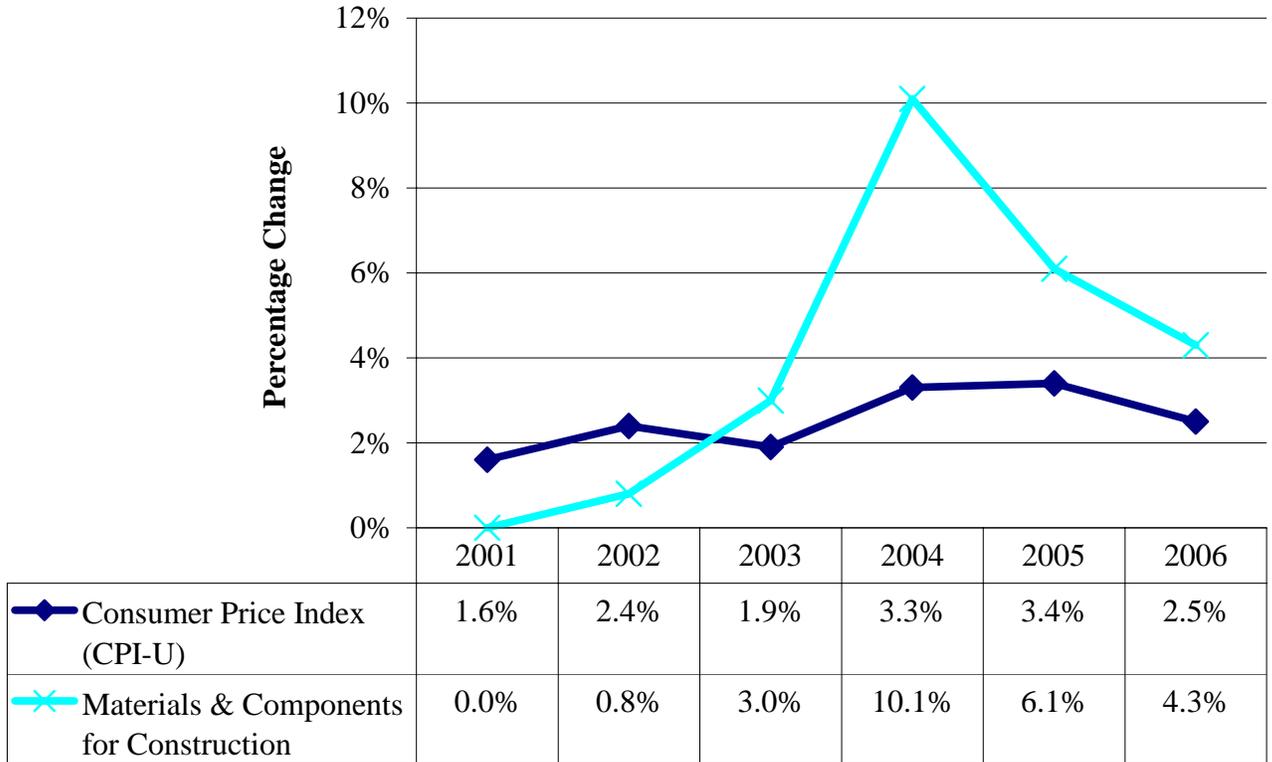


Source: Bureau of Labor Statistics

Construction Cost Inflation Exceeds General Inflation

- As shown in **Exhibit 13**, beginning in 2003 the year-over-year measure for inflation in the building and construction market exceeded the general measure of inflation reflected in the consumer price index (CPI).
- Annual construction components and materials cost increases, ranging from 10.1% in calendar 2004 and 6.0% in calendar 2005, greatly exceed prior year measures. Through September 2006 construction inflation was as high as 8.1%; however, the last quarter of calendar 2006 saw a softening in the market resulting in a final year-over-year inflation rate of 4.3%. Whether this recent softening of the market will result in lower construction bids by contractors is yet to be determined.

Exhibit 13
Materials and Components of Construction Costs Compared to the Consumer Price Index and Producer Price Index



Source: Bureau of Labor Statistics

Public School Construction Reaches Record Levels

The fiscal 2007 budget marked the second year that the level of public school construction funding met the goal set by the Public School Facilities Act of 2004. The Act’s funding goal of \$3.85 billion over eight years (\$2.0 billion paid by the State and \$1.85 billion paid by local governments under the State-local shared cost formula) reflects the amount needed to address deficiencies in facilities identified in the 2003 Task Force to Study Public School Facilities. To meet this funding goal, the State must spend \$250.0 million annually through fiscal 2013.

Spending Goal Met in 2005 Legislative Session

The 2005 General Assembly funding achieved the \$250.0 million funding goal for fiscal 2006, primarily through increasing GO bond funding by \$79.2 million over the Governor’s proposed budget, which involved both reducing and delaying funds for some capital projects in order to remain

within the CDAC's recommended debt limit. Unspent school construction funds from prior years available in the contingency fund provided an additional \$15.0 million to reach the funding goal.

Spending Goal Exceeded in 2006 Legislative Session

The 2006 General Assembly provided \$322.7 million for public school construction in fiscal 2007, including \$43.4 million added to the Governor's proposed budget. This marked the highest level of funding for public school construction since the program began in 1971. Overall the fiscal 2007 budget increased school construction funding by \$68.9 million, or 27.2% over the fiscal 2006 level. Included in the \$322.7 million total are \$284.7 million in GO bonds (\$25.8 million added by the General Assembly), \$18.4 million in special fund PAYGO (\$2.4 million in Stadium Authority funds and \$16.0 million in bond premiums added by the General Assembly), and \$19.6 million from the contingency fund.

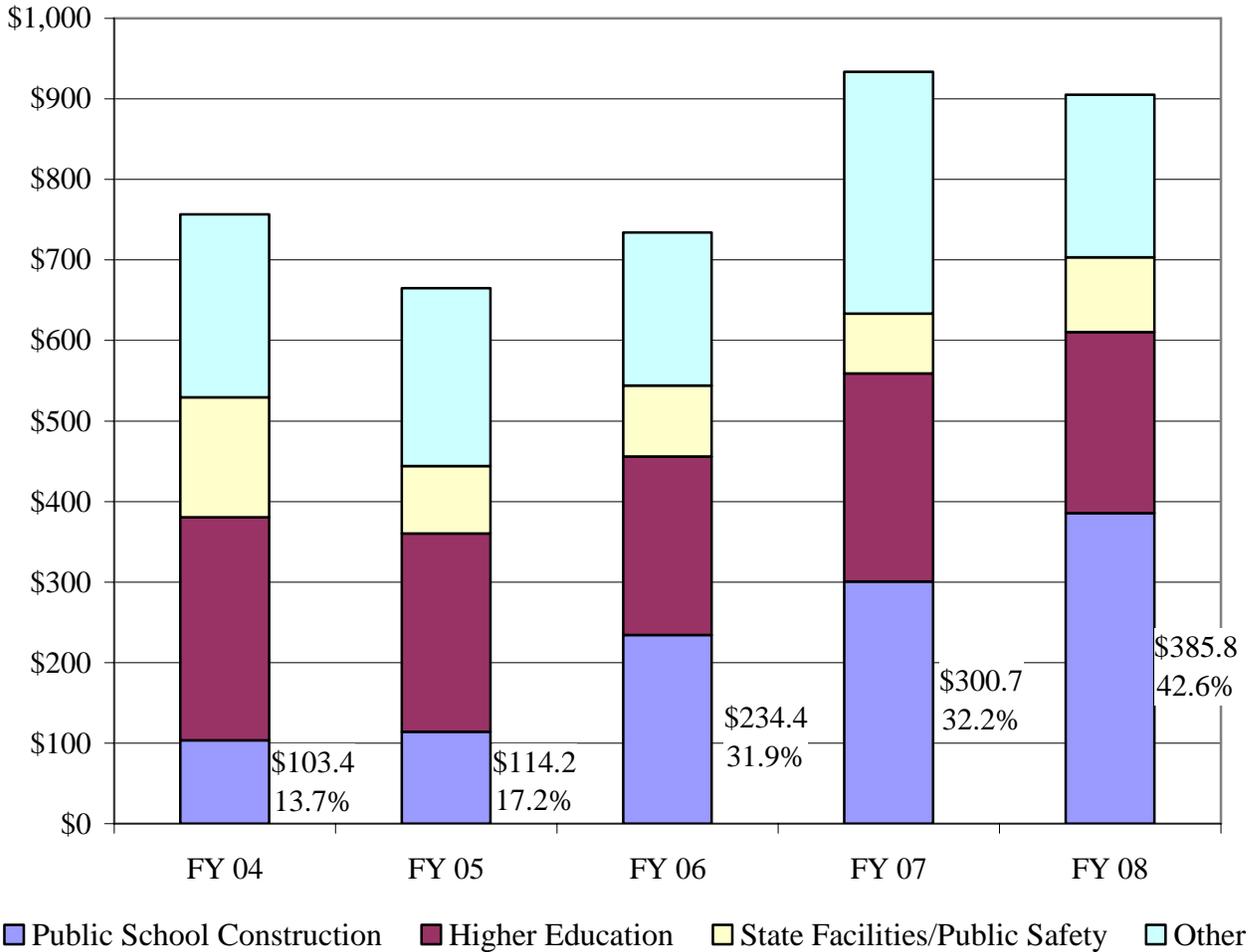
Proposed Fiscal 2008 Funding Would Eclipse Record Level of Funding Provided in Fiscal 2007

The Governor's proposed fiscal 2008 level of spending for public school construction would exceed the task force recommended \$250 million baseline and the record level established in fiscal 2007. As proposed, the fiscal 2008 budget provides a total of \$400.0 million for public school construction comprised of \$385.8 million of GO debt, \$2.4 million in special fund PAYGO from the Maryland Stadium Authority as required by Section 13-715.2 of the Financial Institutions Article, and \$11.8 million available in the public school construction contingency fund. The amount of proposed GO debt allocated for public school construction is \$235.8 million more than planned in the 2006 CIP and \$52.8 million more than the former Governor proposed in the October 2006 preliminary allocation of GO debt for fiscal 2008. On January 24, 2007, the Board of Public Works approved \$242.3 million for projects recommended by the Interagency Committee on School Construction (IAC) representing 75% of the preliminary allocation proposed by the Governor in October. The remaining \$143.5 million is likely to be allocated by the General Assembly for eligible projects to specific jurisdictions as has been the case in the previous two sessions.

Public School Construction Puts the Squeeze on Other State Capital Priorities

As shown in **Exhibit 14**, the level of funding for public school construction is increasing in both total dollars and as a share of the total GO and general fund capital budget. In fiscal 2007 funds allocated to school construction represented just 13.7% of total GO and general fund capital appropriations. In each year thereafter, including the proposed fiscal 2008 budget, both the total funding level and budget share have increased substantially to the point where school construction funding now takes up 42.6% of capital GO and general fund appropriations. To achieve this level of funding, other State capital needs are being deferred.

Exhibit 14
Public School Construction Funding Budget Share Increase
General Obligation and General Funds
(\$ in Millions)



Source: Department of Budget and Management

It could be argued that the high level of public school construction funding is needed in order to keep pace with escalating construction costs. In the previous section of this report, it was noted that escalation in the construction market exceeds the general rate of inflation driving up construction costs. School construction projects are not immune from this economic reality. According to the IAC the square foot cost of school construction projects has increased from \$138 per square foot in fiscal 2004 to a projected \$215 per square foot for fiscal 2008, a 55.7% overall increase, which equates to an average annual rate of increase of 11.6% which surpasses the rate of escalation experienced in other sectors of the construction market.

Funding for Land Conservation Programs Impacted by Declining Transfer Tax Revenues

The State transfer tax funds several programs in the Department of Natural Resources (DNR) and the Maryland Department of Agriculture including Program Open Space, the Maryland Agricultural Preservation Foundation, Rural Legacy, and the Heritage Conservation Fund. Transfer tax funded programs received significant levels of funding through fiscal 2002. However, the fiscal crisis, which began mid way through fiscal 2002, brought with it actions that shifted much of the transfer tax revenues to the State general fund to balance the annual State operating budget.

Exhibit 15 shows the budgeting of the transfer tax for fiscal 2002 through 2008. Overall, \$479.2 million was redirected through budget reconciliation legislation to the general fund. No transfer tax revenues were distributed to the general fund in fiscal 2007 and no such transfer is proposed for fiscal 2008.

Exhibit 15 Transfer Tax Revenues Fiscal 2002-2008 (\$ in Millions)

<u>Fiscal Year</u>	<u>Budgeted Transfer Tax Revenues*</u>	<u>Amount to Programs</u>	<u>Amount to General Fund</u>	<u>Replacement GO Funds</u>
2002	\$117.4	\$114.4	\$0.0	\$0.0
2003	108.7	47.3	58.5	0.0
2004	136.8	9.9	123.4	58.3
2005	176.2	6.8	165.4	23.6
2006	259.7	120.4	131.9	0.0
2007	368.9	361.1	0.0	0.0
2008	264.1	258.4	0.0	0.0
Total	\$1,431.8	\$918.3	\$479.2	\$81.9

Note: Amount to programs does not include 3% for administrative costs. Amount to general fund does not include unencumbered balances transferred by budget reconciliation legislation (\$39.8 million).

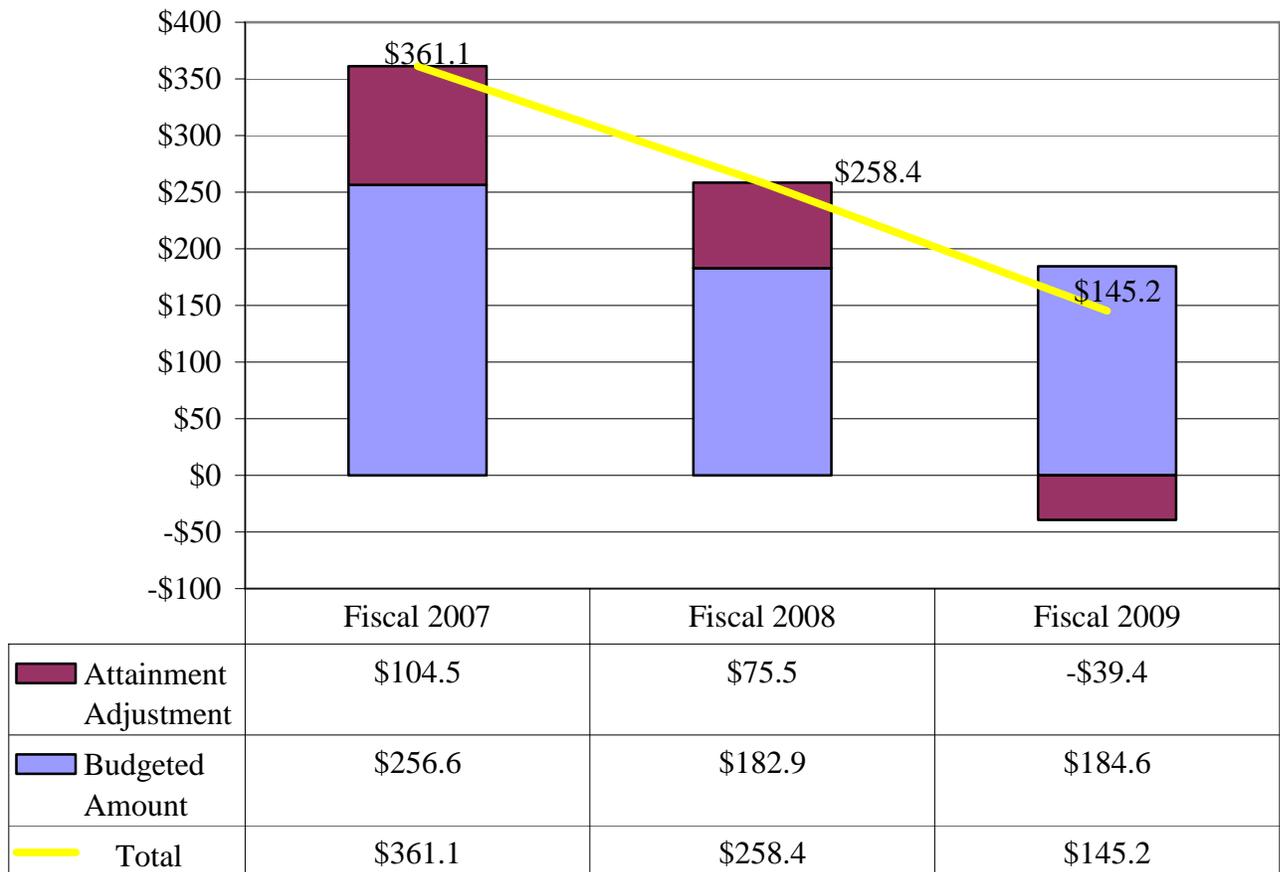
*Reflects estimated revenues plus revenue over attainment from the second prior year.

Source: Department of Legislative Services.

Although State transfer tax revenues have been robust in recent years, the current estimate for fiscal 2007 provided by the Board of Revenue Estimates indicates a decline in these revenues. The amount budgeted in fiscal 2007 included \$264.5 million of which \$256.6 million went toward programs. Revised revenue estimates now put the fiscal 2007 figure at \$225.1 which is \$39.4 million below the amount budgeted.

In accordance with applicable State law (Section 13-209, Tax Property Article), any under attainment would be reconciled in the second year following the deficiency (fiscal 2009 in this instance as it relates to fiscal 2007), or through the deauthorization of prior year authorized projects. **Exhibit 16** shows the impact that both the declining revenue estimates and budgeting for the current revenue underattainment will have on the current and fiscal 2009 budgets.

Exhibit 16
Budgeted Transfer Taxes on the Decline
Negative Attainment Adjustment Expected in Fiscal 2009
(\$ in Millions)



Source: Comptroller of the Treasury

Capital Program Request for the 2007 Session

Project Title	Bonds		Current Funds (PAYGO)			Total Funds	
	General Obligation	Revenue	General	Special	Federal		
State Facilities							
D06E02.01A	Public Safety Communication System	\$0	\$0	\$10,000,000	\$0	\$0	\$10,000,000
D06E02.01B	DGS: Asbestos Abatement Program	0	0	2,000,000	0	0	2,000,000
D55P00.04	Veterans Affairs Cemetery Expansion	0	0	210,000	0	6,912,000	7,122,000
DA02.01A	DOD: Accessibility Modifications	1,600,000	0	0	0	0	1,600,000
DE02.01A	BPW: Annapolis State Ctr. State House	3,550,000	0	0	0	0	3,550,000
DE02.01B	BPW: DGS Facilities Renewal Fund	12,147,000	0	0	0	0	12,147,000
DE02.01C	BPW: DGS Construction Contingency	2,500,000	0	0	0	0	2,500,000
DE02.01D	BPW: DGS Underground Storage Tank	400,000	0	0	0	0	400,000
DE02.01E	BPW: Centreville District Court Parking	1,500,000	0	0	0	0	1,500,000
P00A01.10	DLLR: Eastern Shore Regional Call Ctr.	0	0	0	348,000	0	348,000
	Subtotal	\$21,697,000	\$0	\$12,210,000	\$348,000	\$6,912,000	\$41,167,000
Health/Social							
DA07A	Aging: Senior Citizens Activities Centers	\$1,320,000	\$0	\$0	\$0	\$0	\$1,320,000
MA01A	DHMH: Community Health Facilities	7,510,000	0	0	0	0	7,510,000
MA01B	DHMH: Federally Qualified Health Ctrs.	3,712,000	0	0	0	0	3,712,000
MF05A	DHMH: Forensic Medical Center	1,915,000	0	0	0	0	1,915,000
VD01A	DJS: Juvenile Services Facilities Program	3,669,000	0	0	0	0	3,669,000
ZA03.1	MHA: Private Hospital Grants	5,000,000	0	0	0	0	5,000,000
	Subtotal	\$23,126,000	\$0	\$0	\$0	\$0	\$23,126,000
Environment							
D13A13.02	MEA: Community Energy Loan Program	\$0	\$0	\$0	\$1,500,000	\$0	\$1,500,000
D13A13.03	MEA: State Agency Loan Program	0	0	0	1,000,000	0	1,000,000

		Bonds		Current Funds (PAYGO)			
Project Title		General Obligation	Revenue	General	Special	Federal	Total Funds
D13A13.04	MEA: Energy Efficiency & Econ. Dev. Loan	\$0	\$0	\$0	\$500,000	\$0	\$500,000
K00A05.10A	DNR: Rural Legacy Program	0	0	5,000,000	20,921,000	0	25,921,000
K00A05.10B	DNR: POS Land Acquisition & Loan Program	0	0	0	172,557,277	4,000,000	176,557,277
K00A05.10C	DNR: Natural Resources Development	0	0	0	9,717,000	0	9,717,000
K00A05.10D	DNR: Critical Maintenance Projects	0	0	0	5,970,000	0	5,970,000
K00A05.11	DNR: Waterway Improvement Fund	0	0	0	26,700,000	1,000,000	27,700,000
K00A05.14	DNR: Shore Erosion Control Program	0	0	0	500,000	0	500,000
K00A09.06	DNR: Ocean City Beach Maintenance	0	0	0	2,000,000	0	2,000,000
KA05A	DNR: Community Parks & Playgrounds	5,000,000	0	0	0	0	5,000,000
KA17A	DNR: Oyster Restoration Program	3,000,000	0	0	0	0	3,000,000
L00A11.11	MDA: Agricultural Land Preservation	0	0	0	67,961,820	2,000,000	69,961,820
LA12.13	MDA: Tobacco Transition Program	3,000,000	0	0	6,880,000	0	9,880,000
LA15A	MDA: Agricultural Cost Share Program	5,108,000	0	0	0	0	5,108,000
U00A01.03	MDE: Water Quality Loan Program	0	50,000,000	4,240,000	34,580,000	21,180,000	110,000,000
U00A01.04	MDE: Hazardous Substance Cleanup	0	0	850,000	0	0	850,000
U00A01.05	MDE: Drinking Water Loan Program	0	0	2,240,000	3,946,000	7,814,000	14,000,000
U00A01.11A	MDE: Chesapeake Bay Restoration ENR	0	50,000,000	0	30,000,000	0	80,000,000
U00A01.11B	MDE: Chesapeake Bay Restoration/Sewer	0	0	0	5,000,000	0	5,000,000
U00A01.12	MDE: Chesapeake Bay Restoration – Septic	0	0	0	6,000,000	0	6,000,000
UA04A(1)	MDE: CBWQ Nutrient Removal – BNR	18,000,000	0	0	0	0	18,000,000
UA04A(2)	MDE: CBWQ Supplemental Assistance	5,000,000	\$0	\$0	\$0	\$0	\$5,000,000
UA04A(3)	MDE: CBWQ Small Creeks & Estuary	500,000	0	0	0	0	500,000
UA04A(4)	MDE: CBWQ Stormwater Pollution	750,000	0	0	0	0	750,000
UA04B	MDE: Water Supply Assistance Program	3,000,000	0	0	0	0	3,000,000
UB00A	MES: Infrastructure Improvement Fund	1,007,000	0	0	0	0	1,007,000
Subtotal		\$44,365,000	\$100,000,000	\$12,330,000	\$395,733,097	\$35,994,000	\$588,422,097

		Bonds		Current Funds (PAYGO)			
Project Title		General Obligation	Revenue	General	Special	Federal	Total Funds
Public Safety							
QB02A	DPSCS: Balt. City Correctional Complex	\$840,000	\$0	\$0	\$0	\$0	\$840,000
QB04A	DPSCS: MCTC 1092-Cell Housing Unit	32,637,000	0	0	0	0	32,637,000
QB04B	DPSCS: MCTC Site Utilities Upgrade	9,836,000	0	0	0	0	9,836,000
QP00A	DPSCS: Balt. City Detention – Acquisition	1,100,000	0	0	0	0	1,100,000
WA01A	DSP: Tactical Services Bldg.	275,000	0	0	0	0	275,000
ZB02A	Local Jails: Garrett County Detention Ctr.	4,800,000	0	0	0	0	4,800,000
ZB02B	Local Jails: Harford Detention Center	5,815,000	0	0	0	0	5,815,000
ZB02C	Local Jails: Prince George’s Detention Ctr	358,000	0	0	0	0	358,000
ZB02D	Local Jails: Somerset Detention Center	536,000	0	0	0	0	536,000
ZB02E	Local Jails: Washington Detention Center	1,400,000	0	0	0	0	1,400,000
Subtotal		\$57,597,000	\$0	\$0	\$0	\$0	\$57,597,000
Education							
DE02.02A	Public School Construction	\$385,800,000	\$0	\$0	\$2,400,000	\$0	\$388,200,000
DE02.02B	Relocatable Classrooms	250,000	0	0	0	0	250,000
R00A02.33	MSDE: County Library Grant Program	0	0	5,000,000	0	0	5,000,000
RE01A	MD School for Deaf – School Complex	1,250,000	0	0	0	0	1,250,000
RE01B	MD School for Deaf – Cafeteria/Student Ctr	\$447,000	\$0	\$0	\$0	\$0	\$447,000
Subtotal		\$387,747,000	\$0	\$5,000,000	\$2,400,000	\$0	\$395,147,000
Higher Education							
RB22rb	UMCP: School of Journalism	\$0	\$5,000,000	\$0	\$0	\$0	\$5,000,000
RB24A	TU: College of Liberal Arts Complex	13,505,000	0	0	0	0	13,505,000
RB27A	CSU: New Physical Education Complex	99,206,000	10,000,000	0	0	0	109,206,000
RB27B	CSU: Health & Human Services Bldg.	7,270,000	0	0	0	0	7,270,000
RB27C	CSU: Campuswide Utilities/Security	588,000	0	0	0	0	588,000

		Bonds		Current Funds (PAYGO)			
Project Title		General Obligation	Revenue	General	Special	Federal	Total Funds
RB28A	UB: North Charles Street Bldg.	\$1,211,000	\$0	\$0	\$0	\$0	\$1,211,000
RB29A	SU: Teacher Education & Tech Complex	9,582,000	0	0	0	0	9,582,000
RB29B	SU: Purdue School of Business	2,927,000	0	0	0	0	2,927,000
RB30A	UMUC: Academic Tech Support Ctr.	1,185,000	0	0	0	0	1,185,000
RB31A	UMBC: Performing Arts/Humanities Ctr.	3,625,000	0	0	0	0	3,625,000
RB36A	USM: Shady Grove Educational Center	1,200,000	0	0	0	0	1,200,000
RB36rb	USM: Facility Renewal	0	15,000,000	0	0	0	15,000,000
RD00A	SMC: New Academic Building	1,077,000	0	0	0	0	1,077,000
RI00A	MHEC: Community College Grant Program	56,410,000	0	0	0	0	56,410,000
RM00A	MSU: Center for Built Environment	3,949,000	0	0	0	0	3,949,000
RM00B	MSU: Campuswide Site Improvements	3,723,000	0	0	0	0	3,723,000
RM00C	MSU: Banneker Hall	1,068,000	0	0	0	0	1,068,000
RQ00A	UMMS: Ambulatory Care Center	5,000,000	0	0	0	0	5,000,000
RQ00B	UMMS: Diagnostic & Treatment Ctr.	5,000,000	0	0	0	0	5,000,000
ZA00H	MICUA: JHU Gilman Hall	2,000,000	0	0	0	0	2,000,000
ZA00I	MICUA: MD College of Arts	3,000,000	0	0	0	0	3,000,000
ZA00J	MICUA: Mount St. Mary's Performing Arts	2,000,000	0	0	0	0	2,000,000
ZA00K	MICUA: St. John's College Infrastructure	1,000,000	0	0	0	0	1,000,000
	Subtotal	\$224,526,000	\$30,000,000	\$0	\$0	\$0	\$254,526,000
	Housing/Community Development						
D40W01.11	Planning: MHT Capital Loan Program	\$0	\$0	\$0	\$200,000	\$0	\$200,000
DB01A	Historic St. Mary's: Heritage Center	865,000	0	0	0	0	865,000
DB01B	Historic St. Mary's: St. John's	650,000	0	0	0	0	650,000
DW00.10A	Planning: Historical Trust Capital Fund	700,000	0	0	0	0	700,000
S00A24.02A	DHCD: Community Legacy Program	0	0	8,000,000	0	0	8,000,000
S00A24.02B	DHCD: Neighborhood Business Development	0	0	0	6,000,000	0	6,000,000
S00A24.02C	DHCD: Community Development Block Grants	0	0	0	0	10,000,000	10,000,000

		Bonds		Current Funds (PAYGO)			
Project Title		General Obligation	Revenue	General	Special	Federal	Total Funds
S00A25.07	DHCD: Rental Housing Program	\$0	\$0	\$2,608,000	\$9,392,000	\$4,750,000	\$16,750,000
S00A25.08	DHCD: Homeownership Programs	0	0	0	7,500,000	100,000	7,600,000
S00A25.09	DHCD: Special Loans Programs	0	0	1,150,000	5,350,000	1,500,000	8,000,000
S00A25.10	DHCD: Partnership Rental Housing	6,000,000	0	0	2,000,000	0	8,000,000
SA25B	DHCD: Shelter & Transitional Housing	\$1,000,000	\$0	\$0	\$0	\$0	\$1,000,000
	Subtotal	\$9,215,000	\$0	\$11,758,000	\$30,442,000	\$16,350,000	\$67,765,000
	Economic Development						
D40W01.12	Planning: Historic Tax Credit Fund	\$0	\$0	\$30,000,000	\$0	\$0	\$30,000,000
T00F00.10	DBED: Rural Broadband Network Fund	0	0	2,000,000	0	0	2,000,000
T00F00.23	DBED: MD Economic Development Fund	0	0	2,000,000	20,000,000	0	22,000,000
		\$0	\$0	\$34,000,000	\$20,000,000	\$0	\$54,000,000
	Local Projects						
ZA00A	Misc: Birschmere Music Hall	\$2,000,000	\$0	\$0	\$0	\$0	\$2,000,000
ZA00B	Misc: Comprehensive Housing Assistance	2,500,000	0	0	0	0	2,500,000
ZA00C	Misc: East Baltimore Biotech Park	5,000,000	0	0	0	0	5,000,000
ZA00D	Misc: Garrett College Community Center	12,451,000	0	0	0	0	12,451,000
ZA00E	Misc: Johns Hopkins/Critical Care Tower	7,500,000	0	0	0	0	7,500,000
ZA00F	Misc: Johns Hopkins/Pediatric Trauma Ctr	5,000,000	0	0	0	0	5,000,000
ZA00G	Misc: Kennedy Krieger NCARDC	1,000,000	0	0	0	0	1,000,000
ZA00L	Misc: Maryland Zoo Facilities Renewal	1,000,000	0	0	0	0	1,000,000
ZA00M	Misc: Southern Maryland Stadium	4,700,000	0	0	0	0	4,700,000
ZA00N	Misc: WestSide Revitalization Project	5,000,000	0	0	0	0	5,000,000
ZA00O	Misc: WYPR Digital Conversion	375,000	0	0	0	0	375,000

		Bonds		Current Funds (PAYGO)			
Project Title		General Obligation	Revenue	General	Special	Federal	Total Funds
ZA01	Legislative Initiatives	\$15,000,000	\$0	\$0	\$0	\$0	\$15,000,000
	Subtotal	\$61,526,000	\$0	\$0	\$0	\$0	\$61,526,000
	Deauthorizations	-\$19,799,000	\$0	\$0	\$0	\$0	-\$19,799,000
	Total	\$810,000,000	\$130,000,000	\$75,298,000	\$448,923,097	\$59,256,000	\$1,523,477,097
	Fiscal 2007 Deficiencies						
Q00A01.05	DPSCS: Balt. City Detention – Acquisition	\$0	\$0	\$1,392,410	\$0	\$0	\$1,392,410
U00A01.03	MDE: Water Quality Loan Program	0	0	0	0	2,630,000	2,630,000
U00A01.05	MDE: Drinking Water Loan Program	0	0	0	0	536,000	536,000
		\$0	\$0	\$1,392,410	\$0	\$3,166,000	\$4,558,410

BPW: Board of Public Works
 CBWQ: Chesapeake Bay Water Quality
 CSU: Coppin State University
 DBED: Department of Business and Economic Development
 DGS: Department of General Services
 DHCD: Department of Housing and Community Development
 DHMH: Department of Health and Mental Hygiene
 DJS: Department of Juvenile Services
 DLLR: Department of Labor, Licensing, and Regulations
 DNR: Department of Natural Resources
 DOD: Department of Disabilities
 DPSCS: Department of Public Safety and Correctional Services
 DSP: Department of State Police
 ENR: Enhanced Nutrient Removal
 MCTC: Maryland Correctional Training Center
 MDA: Maryland Department of Agriculture
 MEA: Maryland Energy Administration
 MHEC: Maryland Higher Education Commission

MES: Maryland Environmental Service
 MHA: Maryland Health Administration
 MHT: Maryland Historical Trust
 MSDE: Maryland State Department of Education
 MSU: Morgan State University
 SMC: St. Mary's College
 SU: Salisbury University
 TU: Towson University
 UB: University of Baltimore
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 UMMS: University of Maryland Medical System
 UMUC: University of Maryland University College
 USM: University System of Maryland