

DE0202
Public School Construction
Board of Public Works

Capital Budget Summary

Grant and Loan Programs
(\$ in Millions)

	<i>FY 2011 Approp.</i>	<i>FY 2012 Approp.</i>	<i>FY 2013 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Public School Construction Program	\$263.700	\$311.583	\$351.393	12.8%	\$0.000
Qualified Zone Academy Bonds	4.543	15.902	15.324	-3.6%	0.000
Aging Schools Program	5.109	8.609	6.109	-29.0%	0.000
Total	\$273.352	\$336.094	\$372.826		\$0.000

Note: Includes nonbudgeted funds.

Summary of Issues

Baltimore City Public School Construction Block Grant Proposal: Baltimore City Public Schools (BCPS) currently have the oldest school buildings in the State. BCPS estimates its current capital investment backlog to be \$2.8 billion. Legislation has been introduced that would require the State to provide an annual block grant to the Baltimore City Board of School Commissioners to pay the cost of public school construction and capital improvement projects in Baltimore City. The grant must be for the greater of 15% of the entire State public school construction capital program or \$32 million, adjusted annually for inflation.

Federal Regulations Present Challenges to Qualified Zone Academy Bond Spending: Federal requirements have presented challenges for some school systems in expending Qualified Zone Academy Bond (QZAB) funds. School systems must have a 10% private sector match. In addition, strict expenditure deadlines make it difficult for some local education agencies (LEA) to utilize funds. The State has taken steps to speed the expenditure of funds by making charter schools eligible for their use, allocating funds through the Breakthrough Center, and working directly with LEAs to increase QZAB application activity.

Summary of Recommended Bond Actions

1. Public School Construction Program

Add language allowing contingency funds in the public school construction program to be reserved for two years for use by a county and restricting funds until a report is submitted on standards for energy efficient projects.

2. Qualified Zone Academy Bond Program

Approve the Governor's \$15.3 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

3. Aging Schools Program

Approve the Governor's \$6.1 million general obligation bond fund authorization for the Aging Schools Program.

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.

The Interagency Committee on School Construction (IAC) was created to oversee the PSCP, subject to Board of Public Works (BPW) approval. Members 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 appointed by the President of the Senate; and a member 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, administered by IAC, provides funds to local school systems for improvements, repairs, and deferred maintenance in public school buildings. Funding is outlined 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 that had not been renovated. In Chapter 307 of 2004, the basis of allocation was changed to the proportion of pre-1970 square footage that had not been renovated. Matching local funds are not required for State general funds or general obligation (GO) bond 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 Aging Schools Program.

Qualified Zone Academy Bonds

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

Capital Improvement Program

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

<i>Fund Source</i>	<i>2011 Approp.</i>	<i>2012 Approp.</i>	<i>2013 Allowance</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>
PAYGO GF	\$0.000	\$47.500	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
GO Bonds	259.652	264.855	372.826	260.658	256.109	256.109	256.109
Nonbudgeted	13.700	23.739	0.000	0.000	0.000	0.000	0.000
Total	\$273.352	\$336.094	\$372.826	\$260.658	\$256.109	\$256.109	\$256.109

<i>Uses</i>							
-------------	--	--	--	--	--	--	--

Public School Construction Program	\$263.700	\$311.583	\$351.393	\$250.000	\$250.000	\$250.000	\$250.000
Aging Schools	5.109	8.609	6.109	6.109	6.109	6.109	6.109
QZAB GO Bonds	4.543	15.902	15.324	4.549	0.000	0.000	0.000
Total	\$273.352	\$336.094	\$372.826	\$260.658	\$256.109	\$256.109	\$256.109

Budget Overview

School Construction Program

Proposed Allocation and Distribution for Fiscal 2013

State and local governments share in the cost of school construction projects. 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 PAYGO funding provided by local governments for school construction. The cost share formula is updated every three years to reflect changes in the inputs on the local level. In January 2011, BPW approved updated State shares to be phased in beginning in fiscal 2013. 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, as shown in **Exhibit 1**. More than half (14) LEAs experienced a decrease in their State share, ranging from a 1% decrease in Baltimore City and Howard County to a 14% decrease in Charles County. In many cases, a combination of reduced enrollment growth and reduced local effort toward school construction led to the decreases. In several cases, particularly Garrett and Prince George's counties, increases in relative wealth were a factor.

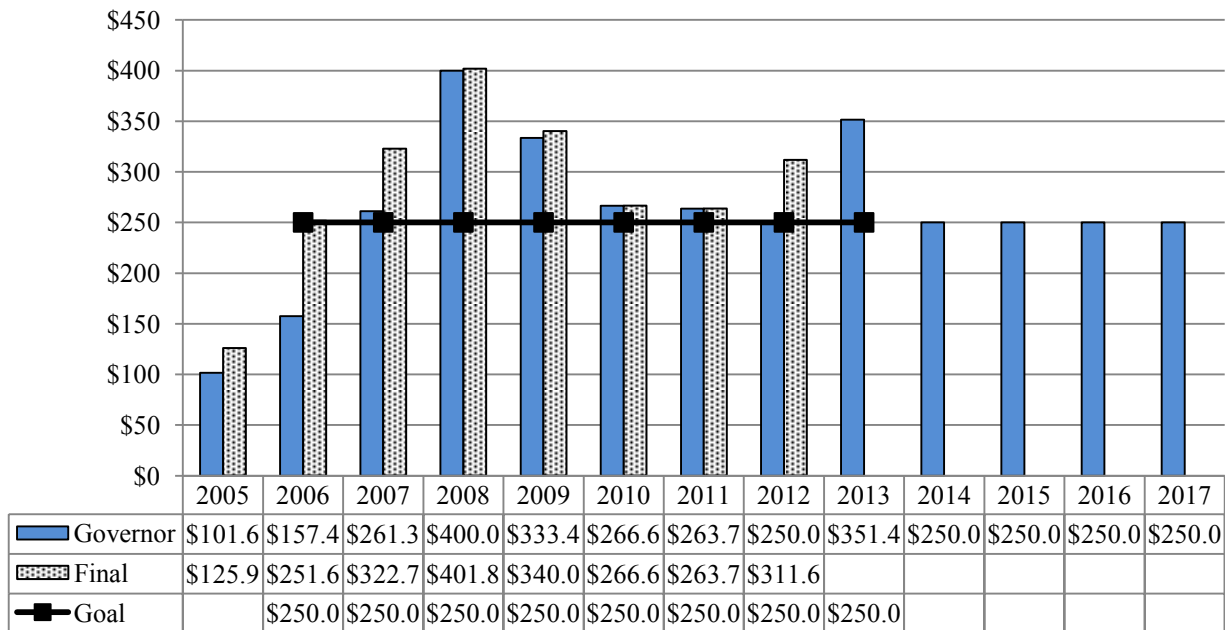
Exhibit 1
State Share of Eligible Costs for School Construction
Fiscal 2012-2015

Implementation				
<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Allegany	91%	93%	93%	93%
Anne Arundel	50%	50%	50%	50%
Baltimore City	94%	93%	93%	93%
Baltimore	50%	50%	50%	50%
Calvert	61%	56%	56%	56%
Caroline	86%	81%	78%	78%
Carroll	61%	58%	58%	58%
Cecil	75%	70%	69%	69%
Charles	77%	72%	67%	63%
Dorchester	71%	69%	69%	69%
Frederick	72%	67%	62%	60%
Garrett	59%	54%	50%	50%
Harford	59%	63%	63%	63%
Howard	61%	60%	60%	60%
Kent	50%	50%	50%	50%
Montgomery	50%	50%	50%	50%
Prince George's	73%	68%	63%	62%
Queen Anne's	55%	50%	50%	50%
St. Mary's	75%	70%	65%	64%
Somerset	88%	83%	82%	82%
Talbot	50%	50%	50%	50%
Washington	73%	71%	71%	71%
Wicomico	87%	96%	96%	96%
Worcester	50%	50%	50%	50%

Source: Public School Construction Program.

The Public School Facilities Act of 2004 established a State goal to provide \$2.0 billion in State funding over the following eight years to address deficiencies, or \$250 million per year through fiscal 2013. The \$2.0 billion goal was met in fiscal 2012, one year early. If fiscal 2013 is included, the State's investment totals \$2.5 billion exceeding the \$2.0 billion goal, as shown in **Exhibit 2**. **Appendix 1** shows the total State allocation for public school construction between 1972 and the initial fiscal 2013 allocation. The fiscal 2012 total includes a \$47.5 million one-time supplementary appropriation for school construction projects, financed with a portion of the alcohol tax increase.

Exhibit 2
State Funding for School Construction
Fiscal 2005-2017
(\$ in Millions)



Note: Fiscal 2012 final appropriation includes \$47.5 million supplementary appropriation.

Source: *Capital Improvement Program*, Fiscal 2005-2013

The fiscal 2013 budget as introduced for public school construction contains \$351.4 million in GO bonds. Of this amount, \$50.0 million is reserved for projects that improve the energy efficiency of schools, including improvements to HVAC systems; lighting; mechanical systems; windows and doors; and any other type of improvement that is specifically designed to improve the energy efficiency of a school building. Priority will be given to projects that maximize leverage, such as projects that only fund the incremental cost of energy efficiency improvements, as opposed to the full cost of the energy project. IAC staff are currently working with the Maryland Energy Administration, the Department of General Services Energy Section, and the Department of Budget and Management

to develop parameters for the \$50.0 million energy component of the proposed capital budget. Given the types of projects that may be designated as eligible, the desire that every interested LEA have a chance to participate, and the relatively few energy related projects submitted by some LEAs, the IAC reports that a separate application process will likely be developed to distribute these funds.

The Department of Legislative Services (DLS) recommends that the General Assembly add language restricting \$50 million of the appropriation until the IAC submits a report to the budget committees outlining the standards that will be used to allocate funds among projects that improve energy efficiency.

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 2012. Another \$83.8 million was recommended by IAC in March 2012, totaling \$271.3 million of the \$301.4 million proposed budget after setting aside the \$50.0 million reserved for energy efficient projects, which will be distributed through a separate process. These actions satisfy the requirement that IAC submit recommendations by March 1 equal to 90% of the funding provided in the Governor's proposed capital budget, excluding the \$50.0 million reserved for energy efficient projects.

Appendix 2 shows a summary of the proposed fiscal 2013 CIP by jurisdiction. This includes the amount of funding approved by BPW in January during the 75% round of allocation and the amount IAC is recommending for approval by BPW equal to 90% of the capital allocation for school construction. The 75% approved (also included in the 90% recommendation) includes the following:

- 59 major construction projects at \$179.9 million, or 66.3% of the distribution;
- 115 systemic renovation projects at \$84.7 million, or 31.2% of the distribution;
- 2 high school science projects at \$3.8 million, or 1.4% of the distribution; and
- 4 kindergarten projects at \$2.8 million, or 1.0% of the distribution;

A total of 180 projects have been recommended for funding to date; 131 of these projects were approved by BPW in January 2012, while the remaining 49 will be acted on by BPW in May 2012. Three projects in Baltimore City that received approval by BPW for school construction funds on January 25, 2012, were subsequently approved for funding through the fiscal 2012 supplementary appropriation. As a result, funds for these projects were rescinded in the 90% recommendations. As shown in Appendix 2, LEAs requested a total of \$576.2 million for fiscal 2013, of which approximately \$445.0 million is eligible for funding. The IAC 90% recommendation funds \$271.3 million of the eligible project requests. **Appendix 3** shows the amount of capital program funds that local school systems have requested and will request between fiscal 2013 and 2018.

The amount of funds requested by LEAs for fiscal 2013 (\$576.2 million) is less than the fiscal 2012 amount (\$612.3 million). IAC believes that the economic downturn has restricted

counties' ability to provide matching funds. IAC notes, however, that materials prices are expected to increase in the near future, which would cause costs to rise.

Contingency Fund

Exhibit 3 shows the components of the contingency fund that are available for projects in fiscal 2013. Section 5-301 of the Budget Reconciliation and Financing Act (BRFA) of 2005 requires IAC to report quarterly to the General Assembly and DLS on the contents of the contingency fund. The contingency balance reserved for LEAs was \$10.2 million as of December 31, 2011, to be allocated toward the fiscal 2013 CIP. Combined with unreserved statewide contingency funds of \$1.2 million, contingency funding available for fiscal 2013 projects totals at least \$11.4 million. IAC reports that there have been additional allocation reversions since December 2011 added to each LEA's contingency reserve account totaling \$9.3 million, though these funds may be applied as an amendment to the fiscal 2012 CIP or held for allocation in fiscal 2013.

Exhibit 3			
Statewide Contingency Fund Account Available for Fiscal 2013			
As of December 31, 2011			
Bond Funds	\$11,146,221	Funds Reserved for Specific Local Education Agencies*	\$10,188,083
Pay-as-you-go Funds	289,288	Unreserved Balance	1,247,426
		Funds Available for Allocation Fiscal 2013	\$11,435,509
Total Statewide Contingency	\$11,435,509	Total Available Contingency Fund Balance	\$11,435,509

*An additional \$9.3 million is available for allocation in fiscal 2012 or 2013 at the local education agencies' option.

Source: Public School Construction Program

Qualified Zone Academy Bonds

As of January 2012, Maryland had issued \$67.9 million in QZABs, as shown in **Exhibit 4**. The most recent issuance of \$15.9 million was in July of 2011. Issuances prior to 2008 are allowed to accumulate interest under federal law, resulting in \$70.7 million in total proceeds.

Exhibit 4
QZAB Proceeds and Expenditures as of December 31, 2011

<u>Issuance Year</u>	<u>Original Proceeds</u>	<u>Interest Income Earned</u>	<u>Proceeds Plus Interest</u>	<u>Expenditures</u>	<u>Unexpended Balance</u>	<u>% Expended</u>
2001/2002 QZAB	\$18,098,000	\$1,321,097	\$19,419,097	\$19,362,352	\$56,745	99.7%
2004 QZAB	9,043,000	944,934	9,987,934	8,257,866	1,730,068	82.7%
2006 QZAB	4,378,000	326,348	4,704,348	3,769,503	934,845	80.1%
2007 QZAB	4,986,000	128,408	5,114,408	3,342,703	1,771,705	65.4%
2008 QZAB	5,563,000	0	5,563,000	5,563,000	0	100.0%
2009 QZAB	5,563,000	11,366	5,574,366	3,950,337	1,624,029	70.9%
2010 QZAB	4,543,000	7,563	4,550,563	1,372,688	3,177,875	30.2%
2011 QZAB	15,731,348	8,274	15,739,622	0	15,739,622	0.0%
Total	\$67,905,348	\$2,747,990	\$70,653,338	\$45,618,449	\$25,034,889	64.6%

QZAB: Qualified Zone Academy Bond

Note: In anticipation of closing the 2008 QZAB account, the interest balance for 2008 is reflected in the proceeds column. 2011 QZAB issuance excludes transaction costs.

Source: Interagency Committee on School Construction

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 532 of 2010, and Chapter 96 of 2011. Funds are distributed to LEAs that have eligible schools and that apply for the funds. QZABs are discussed further in Issue 2 of this analysis.

Through fiscal 2009, Maryland allowed QZAB proceeds to be used only for renovation and repair (brick-and-mortar) projects as part of the Aging Schools Program. Chapter 707 of 2009 expanded the use of previously authorized QZABs for equipment, affecting funds available from the 2007 and prior issuances. Chapter 707 also authorized the Maryland State Department of Education (MSDE) to allocate QZAB funds to LEAs.

Aging Schools

The BRFA of 2010 eliminated \$6.1 million in fiscal 2011 general funds for the program, authorized \$5.1 million in GO bonds, and \$1.0 million in QZABs to be used instead, and rebased the program at \$6.1 million. It also deleted annual inflation increases that were set to restart in fiscal 2013. The BRFA of 2011 permanently authorized that either general funds or GO bonds may

be used to fund the program. The BRFA of 2012 proposes to rebase funding for the Aging Schools Program at \$6.1 million in fiscal 2013, returning the program to the fiscal 2011 level, and specifies that future year funding is fixed and not based on prior year funding beginning in fiscal 2013.

Exhibit 5 shows the fiscal 2012 and 2013 allocations by LEA. **Exhibit 6** shows encumbrances and expenditures.

Exhibit 5
Aging Schools Program Allocations
Fiscal 2012 and 2013

<u>County</u>	<u>2012</u>	<u>2013</u>
Allegany	\$137,810	\$97,791
Anne Arundel	713,128	506,038
Baltimore	1,231,993	874,227
Baltimore City	1,955,915	1,387,924
Calvert	53,948	38,292
Caroline	70,566	50,074
Carroll	193,433	137,261
Cecil	135,320	96,024
Charles	70,566	50,074
Dorchester	53,962	38,292
Frederick	257,358	182,622
Garrett	53,962	38,292
Harford	306,339	217,379
Howard	123,697	87,776
Kent	53,962	38,292
Montgomery	849,278	602,651
Prince George's	1,704,368	1,209,426
Queen Anne's	70,566	50,074
Somerset	53,962	38,292
St. Mary's	70,566	50,074
Talbot	53,962	38,292
Washington	190,111	134,904
Wicomico	150,262	106,627
Worcester	53,962	38,292
Total	\$8,608,996	\$6,108,990

Source: Interagency Committee on School Construction

Exhibit 6
Aging Schools Program
Encumbrances and Expenditures
Fiscal 2010-2012

Local Education Agency	Fiscal 2010 Encumbrances	Fiscal 2011 Encumbrances	Expenditures¹ July 1, 2010 – Dec. 31, 2011	Unexpended Balance as of Dec. 31, 2011	2012 Working Authorization	Total Unexpended
Allegany	-	\$81,092	-	\$81,092 ²	\$137,810	\$218,902
Anne Arundel	\$399,949	419,626	\$399,949	419,626	713,128	1,132,754
Baltimore City	1,139,209	1,140,271	1,543,866	735,614	1,955,915	2,691,529
Baltimore	720,657	724,942	1,398,608	46,991 ²	1,231,993	1,278,984
Calvert	38,292	38,292	38,292	38,292	53,948	92,240
Caroline	0	32,579	0	32,579	70,566	103,145
Carroll	137,261	137,261	182,289	92,233	193,433	285,666
Cecil	89,128	77,280	166,408	0	135,320	135,320
Charles	43,470	40,344	83,814	0	70,566	70,566
Dorchester	38,292	30,368	68,660	0	53,962	53,962
Frederick	182,622	151,403	303,435	30,590	257,358	287,948
Garrett	37,881	31,000	68,881	0	53,962	53,962
Harford	139,402	180,259	319,661	0	306,339	306,339
Howard	87,776	72,787	87,776	72,787	123,697	196,484
Kent	38,292	31,753	31,753	38,292	53,962	92,254
Montgomery	602,651	499,741	1,102,392	0 ³	849,278	849,278
Prince George's	1,181,103	999,363	2,088,249	92,217	1,704,368	1,796,585
Queen Anne's	36,198	50,073	86,271	0	70,566	70,566
St. Mary's	48,550	41,522	48,550	41,522	70,566	112,088
Somerset	0	31,753	31,753	0	53,962	53,962
Talbot	34,020	38,292	72,312	0	53,962	53,962
Washington	134,904	111,867	184,904	61,867	190,111	251,978
Wicomico	106,627	88,419	195,046	0	150,262	150,262
Worcester	38,292	29,500	67,792	0	53,962	53,962
ASP Contingency	834,410	29,213			4	
Total	\$6,108,986	\$5,109,000	\$8,570,661	\$1,783,702	\$8,609,000	\$10,392,698

ASP: Aging Schools Program

¹ Expenditure period spans fiscal 2011 and the first six months of fiscal 2012. Amounts expended during fiscal 2011 were from projects approved in the fiscal 2010 program (\$4,370,529) and fiscal 2011 program (\$240,074). Amounts expended in the first six months of fiscal 2012 were for projects approved in the fiscal 2010 program (\$184,746) and fiscal 2011 program (\$3,186,519).

² \$177,829 (Allegany) and \$849,496 (Baltimore) program 2009 encumbrances expended during Fiscal 2011 not reflected.

³ Fiscal 2010 program encumbrance (\$588,796) expended during fiscal 2009 included.

Source: Interagency Committee on School Construction

Issues

1. Baltimore City Public School Construction Block Grant Proposal

BCPS currently has the oldest school buildings in the State, with an average construction date of 1971, or 40 years old, compared to the statewide average age of 27 years. BCPS estimates its current capital investment backlog to be \$2.8 billion. Legislation has been introduced that would require the State to provide an annual block grant to the Baltimore City Board of School Commissioners to pay the cost of public school construction and capital improvement projects in Baltimore City. The grant must be for the greater of 15% of the entire State public school construction capital program or \$32 million, adjusted annually for inflation. This would allow BCPS to accelerate a large number of construction projects by using State public school construction funds financed by State debt service to support contracts with public or private entities to acquire, construct, reconstruct, equip, maintain, repair, or renovate public school facilities. The bill as introduced stipulates that the block grant may not be funded by the proceeds of tax-exempt obligations unless proceeds from nontax-exempt obligations are not available.

BCPS has indicated that it may form a 63-20 corporation through which it could issue debt that is not subject to its statutory limit, and then use the State block grant in combination with other local sources of revenue to pay the debt service on the corporation's debt. The mayor has proposed increasing the city's beverage container tax (estimated to be \$10 million) and dedicating the proceeds for school construction and has pledged to dedicate 10% of revenues from video lottery terminals in the city to school construction, which is expected to add \$1 million. Through a combination of State and local resources, BCPS expects to raise approximately \$73 million in dedicated annual revenue, which it believes can leverage the issuance of \$1.1 billion in debt. BCPS is also seeking authority to raise its debt limit to \$250 million to supplement the leveraged debt.

State school construction funding is almost exclusively financed by tax-exempt GO bonds. It has been the policy of the State to use State debt to pay for long-term capital improvements, not for lease payments, installment purchases, or other forms of payment that retire other outstanding debt.

The Public School Facilities Act 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, resulting in significant increases in school construction assistance to the counties and Baltimore City. It is not clear whether that level of funding can or will be sustained in the future. **Exhibit 7** shows State funding levels for PSCP and Baltimore City's share of those funds for the past 20 years. Total funding for BCPS has equaled or exceeded the \$32.0 million level in 7 of the last 20 years. BCPS funding has equaled or exceeded 15% of the total in just 2 of the last 20 years. As shown in the exhibit, State funding is proposed at the \$250.0 million level in fiscal 2014 through 2017.

Exhibit 7
Public School Construction Program Funding
Fiscal 1993-2017
(\$ in Millions)

<u>Year</u>	<u>Total State</u>	<u>BCPS</u>	<u>BCPS % of Total</u>
1993	\$79.0	\$4.8	6.1%
1994	87.0	7.4	8.5%
1995	108.0	7.5	6.9%
1996	118.0	7.3	6.2%
1997	140.2	8.7	6.2%
1998	150.0	10.0	6.7%
1999	225.0	12.5	5.6%
2000	258.0	25.1	9.7%
2001	291.0	44.1	15.2%
2002	286.6	44.1	15.4%
2003	156.5	13.8	8.8%
2004	116.5	11.2	9.6%
2005	125.9	11.5	9.1%
2006	253.8	21.5	8.5%
2007	322.7	39.4	12.2%
2008	401.8	52.7	13.1%
2009	347.0	41.0	11.8%
2010	266.7	27.7	10.4%
2011	263.7	28.6	10.8%
2012	311.6	41.0	13.2%
2013	351.4	37.0	10.5%
2014	250.0		
2015	250.0		
2016	250.0		
2017	250.0		

BCPS: Baltimore City Public Schools

Note: Fiscal 2013 Baltimore City Public Schools total is based on the Interagency Committee on School Construction's 90% recommendations.

Source: Department of Legislative Services

The bill presents several challenges from the perspective of State finances, including:

- the funding commitment from PSCP exceeds BCPS's traditional share of State funding, and is made without regard to the relative merit or readiness of the projects to be funded or any guarantee that all the approvals for alternative financing arrangements will be secured;
- the commitment of State funds is open-ended and may prompt bond rating agencies to conclude that the debt issued by the corporation and repaid with State funds is State tax-supported debt, which could negatively affect the State's credit rating;
- the use of either taxable or tax-exempt bonds each presents dilemmas; and
- the additional workload strains IAC resources.

With PSCP funding levels projected to remain constant at \$250.0 million for the next four years, the State's commitment to BCPS will be \$37.5 million (15%) annually, which exceeds State funding for BCPS school construction projects for all but 6 of the past 20 years. This likely means that qualified projects in other jurisdictions will be delayed due to lack of funding. To the extent that PSCP funding levels drop below \$213.0 million in the future (which yields \$32.0 million), the grant amount is subject to the inflation-adjusted minimum amount of \$32.0 million. However, the annual 5% inflator exceeds the current rate of State revenue growth.

The bill establishes a preference for funding sources other than tax-exempt debt for the block grant, which generally consist of PAYGO funding or taxable debt. Given the State's ongoing fiscal condition, there is limited capacity to provide PAYGO funding in the near term. Taxable debt carries a higher interest rate, transaction costs, and smaller yields to the State than nontaxable debt.

Finally, the influx of capital for BCPS school construction projects that results from the bill is expected to increase the number of large funded projects from about 2 to between 15 and 20 annually. The bill retains IAC oversight and monitoring of project procurement and quality, so the increase in project oversight responsibilities for the IAC increase substantially in July 2012 (fiscal 2013) when LEAs begin work on fiscal 2014 school construction improvement programs. **The IAC should discuss the proposed BCPS Construction Block Grant legislation and its potential implications concerning equity in school construction funding across the State, the State's current fiscal situation, and the State's credit rating.**

2. Federal Regulations Present Challenges to QZAB Spending

There are a number of federal requirements that govern QZAB spending:

- **Issuance Deadlines:** States must issue each federal QZAB allocation between the calendar year the funds are first made available and December 31 of two calendar years later. For

example, if a federal QZAB allocation is made in 2008, a state's bonds must be issued by December 31, 2010.

- **Expenditure Deadlines:** Beginning in 2008, proceeds from QZAB issuances must be encumbered within six months and spent within three years of the date of issuance. If they are not spent, the State has to call bonds in an amount equal to the unexpended proceeds, and the funds are no longer available. If the State calls bonds, it likely will pay higher rates for future QZAB issuances because investors will be concerned that the State may again call bonds. At the same time, LEAs operate under a Maryland regulation that they must spend their QZAB funds within two years of receipt. This regulation attempts to ensure that Maryland's QZAB projects are progressing ahead of the federal deadline.
- **Provide Sector Match of 10%:** Each project must secure a private sector match of 10%. As of 2010, the match must be secured in-hand for each project before the State may issue bonds.
- **Davis-Bacon/Prevailing Wage Requirement:** Section 1601 of Division B of the American Recovery and Reinvestment Act of 2009 (ARRA) specifies that QZAB projects are subject to Davis-Bacon prevailing wage standards. State and local government entities, contractors, and others involved in implementing QZAB projects must meet federal Davis-Bacon labor standards.

Federal regulations have presented challenges for some LEAs in expending their QZAB funds. Raising the 10% private sector match is difficult, particularly given current economic conditions, and tracking matching funds over time is cumbersome. In some cases, the LEA may not have enough qualifying schools to use large amounts of QZAB funds.

The spending deadlines are a major challenge. Funds issued prior to 2008 do not have strict federal deadlines, although BPW expressed an expectation that each issuance would be spent within five years. However, issuances beginning in 2008 are subject to stringent timetables. Exhibit 4 shows that all of the QZABs issued in 2008 have been spent. These funds were required to be spent by December 2011 to meet federal requirements. IAC is working closely with LEAs to manage QZAB spending to meet necessary timetables.

Changes to Increase the Rate of QZAB Spending

The State helped speed up spending when it authorized 2007 and prior issuances to be spent on equipment and authorized MSDE to allocate funds. A portion of the previously authorized QZABs, approximately \$2.9 million, was allocated through the Breakthrough Center to eligible schools with MSDE helping to identify corporate opportunities to raise the 10% match. This center helps low-performing schools gain coordinated support from MSDE and LEAs.

Chapter 96 of 2011 allows the \$15.9 million in QZAB proceeds authorized in the legislation to be used for competitively awarded grants by the IAC for school construction and for targeted grants awarded by MSDE under the Breakthrough Center Program.

The Breakthrough Center will continue to be important in helping certain LEAs spend existing and future QZAB allocations. Baltimore City and Prince George's County have the highest unexpended balances, as shown in **Exhibit 8**. These are the LEAs that will benefit most from Breakthrough Center efforts because of their large proportions of low-performing schools, and QZAB funds will complement the overall assistance provided by the center.

Exhibit 8
Use of QZAB Bond Proceeds as of January 2012
By Local Education Agencies
(\$ in Thousands)

	<u>Total</u> <u>Appropriations¹</u>	<u>Reverted</u> <u>Appropriations</u>	<u>Current</u> <u>Appropriation²</u>	<u>Expenditures³</u>	<u>Unexpended</u> <u>Balance</u>
Allegany County	\$1,161	\$28	\$1,133	\$1,133	\$0
Anne Arundel County	2,891	573	2,318	2,229	89
Baltimore County	13,439	674	12,765	9,790	2,975
Calvert County	0	0	0	0	0
Caroline County	495	20	474	394	80
Carroll County	150	0	150	0	150
Cecil County	697	68	628	517	111
Charles County	1,122	2	1,120	648	472
Dorchester County	1,290	0	1,290	855	435
Frederick County	1,721	3	1,718	913	805
Garrett County	356	5	351	236	115
Harford County	621	0	621	621	0
Howard County	619	0	619	485	134
Kent County	1,426	3	1,423	1,263	160
Montgomery County	8,154	444	7,710	5,860	1,850
Prince George's County	13,807	1,377	12,430	7,907	4,523
Queen Anne's County	0	0	0	0	0
St. Mary's County	679	0	679	339	340
Somerset County	67	6	61	61	0
Talbot County	211	9	202	202	0
Washington County	2,723	81	2,642	1,287	1,355
Wicomico County	471	115	356	356	0
Worcester County	260	13	247	211	36
Baltimore City	22,085	1,161	20,924	12,006	8,917
Administrative Costs	83	0	83	21	62
State Bond Sale Expense	205	0	205	205	0
Unencumbered Funds	174	-527	701	0	701
Totals	\$74,906	\$4,057	\$70,850	\$47,539	\$23,311

¹Total appropriations include new authorizations and recycled prior year authorizations as approved for each local education agency by the Board of Public Works.

²As of fiscal 2010, the Maryland State Department of Education was authorized to award some Qualified Zone Academy Bonds for equipment. Appropriations included \$1 million to Baltimore County, \$700,000 to Dorchester County, and \$1 million to Kent County.

³Includes expenditures of interest earnings.

Source: Interagency Committee on School Construction

IAC is increasing efforts to help LEAs spend QZAB funds by working with MSDE to identify larger projects in schools that are targeted for intervention by the Breakthrough Center so that eligible capital costs associated with the improvement efforts can be funded with QZAB proceeds. The agency received approval to hire a contractual employee in fiscal 2011 who will help school systems understand and apply for QZAB funds. In addition, in fiscal 2012, IAC transferred an additional \$62,000 of QZAB funds into its operating budget to support LEA understanding of and grant applications for the QZAB program. In fiscal 2013, special funds in the IAC operating budget increase \$68,728 due to additional QZAB funds used to support 1 regular position in the QZAB function that was previously supported with general funds.

Chapter 96 of 2011 first authorized the use of QZABs for public charter schools. IAC sent a letter dated February 6, 2012, to each LEA superintendent and charter school principal informing them of the QZAB program and requesting applications for the anticipated fiscal 2013 authorization. Though no public charter schools have received QZAB authorization to date, IAC reports receiving inquiries as a result of the recent letter distribution, and that charter schools are contacting the local boards of education to discuss potential projects, as charter schools must apply for QZAB funds through the local boards of education. There are currently 50 public charter schools in the State: 38 in Baltimore City; 7 in Prince George's County; 2 in Anne Arundel County; and 1 each in Baltimore, Frederick, and St. Mary's counties.

Fiscal 2012 and 2013 Issuances Put \$31.2 Million More in Pipeline

There is concern about the capacity of LEAs to use funds from imminent issuances, particularly given the large dollar amount of the allocations and the tight timeframes imposed by federal deadlines. Chapter 96 authorized the issuance of \$15.9 million bonds by December 31, 2011, per the federal requirement. Additional federal allocations include \$15.3 million for fiscal 2013 and \$4.5 million for fiscal 2014. Fiscal 2012 and 2013 amounts are higher because they represent enhancement funds from the ARRA, which expanded the program by \$1.4 billion nationwide.

IAC should brief the committees on its efforts to help school systems expend QZAB funds.

Updates

1. School Construction Supplementary Appropriation

Chapter 572 of 2011 allocated \$47.5 million in supplementary appropriations for public school construction projects as one-time funds from the increase in the State sales and use tax on alcoholic beverages to 9% of the taxable price of the alcoholic beverage. The General Assembly allocated each county or region a specific sum for which local matching funds are not required. Under the Act, these projects may or may not be eligible for funding from the PSCP and must be approved by BPW. BPW must consider requests from local jurisdictions and projects that benefit older school buildings; benefit schools with high proportions of low-income students; can be completed in one year; eliminate or reduce the use of relocateable classrooms; are eligible for State funding but are not fully funded in fiscal 2012; or reduce energy consumption or incorporate high-performance “green” building principles. Funds may also be reserved for eligible projects in fiscal 2013, but local funding recommendations must be submitted to BPW for approval by January 31, 2012. **Exhibit 9** shows the allocation of fiscal 2012 supplementary funds by county or region.

Exhibit 9 Fiscal 2012 Supplementary Public School Construction Appropriation By County or Region

<u>County/Region</u>	<u>Appropriation</u>
Anne Arundel	\$5,000,000
Baltimore City	9,000,000
Baltimore County	7,000,000
Howard County	4,000,000
Montgomery County	9,000,000
Prince George’s County	9,000,000
Eastern Shore (Caroline, Dorchester, Kent, Queen Anne’s, Somerset, Talbot, Wicomico, Worcester)	1,250,000
Northeast Maryland (Cecil, Harford)	1,250,000
Southern Maryland (Calvert, Charles, St. Mary’s)	1,250,000
Western Maryland (Allegany, Carroll, Garrett, Frederick, Washington)	750,000
Total	\$47,500,000

Source: Chapter 572 of 2011

DE0202 – BPW – Public School Construction

As of February 22, 2012, all 10 counties and regions had submitted school construction project recommendations to BPW for review and received approval for projects totaling \$47.5 million. Approved projects range from the installation of artificial turf athletic fields to the replacement of entire facilities (in which case supplementary funding supports only a portion of the total project cost).

GO Bond Recommended Actions

1. Add language allowing contingency funds in the Public School Construction Program to be reserved for two years for use by a county, and restricting funds until a report is submitted on standards for energy efficient projects.

DE0202A Public School Construction Program..... \$ 351,393,000

Add the following language:

- (A) Public School Construction Program. Provide funds to construct public school buildings and public school capital improvements in accordance with §§ 5-301 through 5-303 of the Education Article, provided that \$50,000,000 of this appropriation shall be used to fund projects that improve the energy efficiency of schools, including improvements to heating, ventilation, and air conditioning systems; lighting; mechanical systems; windows and doors; and any other type of improvement that is specifically designed to improve the energy efficiency of a school building, per standards to be developed by the Interagency Committee on School Construction (IAC) in collaboration with the Maryland Energy Administration. Priority will be given to projects that maximize leverage, such as projects that only fund the incremental cost of energy efficiency improvements, as opposed to full costs of the energy project. The funds may also be used to install renewable energy systems in schools. 351,393,000

Further provided that any school construction funds allocated to an eligible project in a county that are not spent for the project may, within two years, at the county's option be:

(1) applied to another eligible project in the current fiscal year; or

(2) reverted to the contingency fund and reserved for eligible projects in the county in the next fiscal year, which shall be in addition to new funds allocated for eligible projects in the county in the next fiscal year.

Further provided that any school construction funds reserved for a county in the contingency fund that are not encumbered within two years shall become available to be allocated to an eligible project in any county.

Further provided that \$50,000,000 of this appropriation is restricted and may not be expended until the IAC submits a report to the budget

committees detailing the standards that will be used to allocate funds among project that improve the energy efficiency of schools. The budget committees shall have 45 days from the receipt of the report to review and comment

Explanation: This language allows funds allocated to an eligible project in a county that are not spent for the project to be reserved in the contingency fund for two years for use by the county for another eligible project. It also specifies that funds not encumbered within two years shall be reverted and made available to any county. Finally, it restricts \$50,000,000 until the IAC submits a report to the budget committees outlining the standards that will be used to allocate funds among projects that improve the energy efficiency of schools.

2. Approve the Governor’s \$15.3 million general obligation bond fund authorization for Qualified Zone Academy Bonds.
3. Approve the Governor’s \$6.1 million general obligation bond fund authorization for the Aging Schools Program.

Total State Allocation for Public School Construction
Fiscal 1972 through Initial 2013 Allocation

<u>LEA</u>	<u>Allocation</u>	<u>% of Total</u>
Allegany	\$95,504,871	1.53%
Anne Arundel	514,217,745	8.22%
Baltimore City	737,662,653	11.79%
Baltimore County	604,693,586	9.67%
Calvert	165,209,150	2.64%
Caroline	69,552,939	1.11%
Carroll	224,906,841	3.60%
Cecil	133,375,434	2.13%
Charles	225,613,313	3.61%
Dorchester	87,240,756	1.39%
Frederick	344,667,422	5.51%
Garrett	52,385,309	0.84%
Harford	302,146,730	4.83%
Howard	402,347,572	6.43%
Kent	23,357,861	0.37%
Montgomery	871,650,291	13.94%
Prince George's	691,139,996	11.05%
Queen Anne's	78,592,300	1.26%
St. Mary's	162,803,130	2.60%
Somerset	76,484,442	1.22%
Talbot	31,788,268	0.51%
Washington	151,676,349	2.42%
Wicomico	141,350,919	2.26%
Worcester	66,018,406	1.06%
Statewide	500,000	0.01%
Total	\$6,254,886,283	100.00%

LEA: local education agency

Note: Excludes fiscal 2012 Supplementary Appropriation.

Source: Public School Construction Program; Department of Legislative Services

Fiscal 2013 Public School Construction Funding (\$ in Thousands)

LEA	IAC/BPW Approved 75 %	90% Additional IAC Recommendation	90% Total Recommendation	Total Request	A/B Request	% A/B Request Funded*
Allegany	\$300	\$441	\$741	\$741	\$741	100%
Anne Arundel	20,382	6,925	27,307	42,041	28,838	95%
Baltimore City	23,467	13,533	37,000	75,094	39,049	95%
Baltimore County	23,556	13,444	37,000	70,028	39,316	94%
Calvert	5,148	1,522	6,670	7,018	7,018	95%
Caroline	0	0	0	700	0	-
Carroll	7,291	2,958	10,249	14,337	14,298	72%
Cecil	1,113	103	1,216	1,514	1,514	80%
Charles	7,000	800	7,800	8,200	8,200	95%
Dorchester	0	0	0	0	0	-
Frederick	12,542	4,626	17,168	37,141	37,026	46%
Garrett	0	0	0	0	0	-
Harford	12,455	1,430	13,885	15,707	14,512	96%
Howard	16,617	6,809	23,426	37,738	31,584	74%
Kent	0	0	0	0	0	-
Montgomery	24,659	12,641	37,300	184,521	145,562	26%
Prince George's	23,614	12,218	35,832	57,663	53,063	68%
Queen Anne's	0	0	0	0	0	-
St. Mary's	800	900	1,700	2,314	2,314	73%
Somerset	0	0	0	0	0	-
Talbot	0	0	0	0	0	-
Washington	7,007	1,193	8,200	9,418	9,418	87%
Wicomico	1,549	4,211	5,760	12,070	12,070	48%
Worcester	0	0	0	0	0	-
Total	\$187,500	\$83,754	\$271,254	\$576,244	\$444,522	61%

A/B: eligible projects

BPW: Board of Public Works

IAC: Interagency Committee on School Construction

LEA: Local education agency

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

Source: Public School Construction Program; Department of Legislative Services

**Summary of Capital Program Requests
Maryland Public School Construction Program
Fiscal 2013-2018**

<u>LEA</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Allegany	\$741	\$1,034	\$3,574	\$12,563	\$10,987	\$0	\$28,899
Anne Arundel	42,041	58,058	54,587	44,729	76,324	62,021	337,760
Baltimore County	70,028	9,250	19,750	15,250	10,750	11,250	136,278
Calvert	7,018	4,497	5,764	11,465	10,410	10,254	49,408
Caroline	700	7,500	3,191	6,997	13,356	8,924	40,668
Carroll	14,337	10,281	10,388	14,911	23,185	34,542	107,644
Cecil	1,514	941	0	13,787	12,640	13,629	42,511
Charles	8,200	8,200	9,601	12,846	0	0	38,847
Dorchester	0	0	5,446	2,434	15,243	12,711	35,834
Frederick	37,141	17,683	14,026	39,990	14,213	31,110	154,163
Garrett	0	0	6,854	4,569	850	700	12,973
Harford	15,707	5,746	1,345	9,472	17,020	17,603	66,894
Howard	37,738	34,629	37,369	24,243	36,942	29,365	200,286
Kent	0	267	405	0	2,000	1,134	3,806
Montgomery	184,521	67,843	153,216	139,779	65,009	40,109	650,477
Prince George's	57,733	38,199	44,784	29,507	17,663	6,841	194,727
Queen Anne's	0	8,618	10,000	12,337	6,487	0	37,442
St. Mary's	2,314	6,618	5,487	2,087	3,342	1,811	21,659
Somerset	0	4,002	713	382	1,697	2,546	9,340
Talbot	0	0	0	0	0	0	0
Washington	9,418	10,520	10,245	15,474	17,103	13,601	76,361
Wicomico	12,070	17,313	32,571	24,710	48,306	27,854	162,824
Worcester	0	4,859	0	0	3,567	5,427	13,853
Baltimore City	75,094	82,000	121,000	106,248	94,077	60,000	538,419
Total State	\$576,314	\$398,058	\$550,316	\$543,780	\$501,172	\$391,433	\$2,961,073
Total Adjusted State	\$576,314	\$413,980	\$595,222	\$611,679	\$586,300	\$476,238	\$3,259,733

Note: Total State is estimated based on fiscal 2013 requests with no adjustment for inflation. Total Adjusted State is adjusted for inflation based on fiscal 2013 requests compounded at 4% per year construction cost escalation.

Source: Public School Construction Program