

DE0202
Public School Construction
Board of Public Works

Capital Budget Summary

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

<i>Program</i>	<i>2012 Approp.</i>	<i>2013 Approp.</i>	<i>2014 Request</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>	<i>2018 Estimate</i>
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Public School Construction Program	\$311.583	\$349.167	\$325.000	\$250.000	\$250.000	\$250.000	\$250.000
Aging Schools Program	8.600	31.100	6.109	6.109	6.109	6.109	6.109
Qualified Zone Academy Bonds	15.902	15.324	4.549	0.000	0.000	0.000	0.000
Total	\$336.085	\$395.591	\$335.658	\$256.109	\$256.109	\$256.109	\$256.109

<i>Fund Source</i>	<i>2012 Approp.</i>	<i>2013 Approp.</i>	<i>2014 Request</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>	<i>2018 Estimate</i>
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PAYGO GF	\$0.000	\$0.000	\$25.000	\$0.000	\$0.000	\$0.000	\$0.000
GO Bonds	336.085	395.591	310.658	256.109	256.109	256.109	256.109
Total	\$336.085	\$395.591	\$335.658	\$256.109	\$256.109	\$256.109	\$256.109

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Analysis of the FY 2014 Maryland Executive Budget, 2013

Summary of Issues

Baltimore City Public School Construction Block Grant Proposal: Baltimore City Public Schools (BCPS) have the oldest school buildings in the State. BCPS's current capital backlog is estimated to be \$2.5 billion. Legislation was introduced during the 2012 legislative session and again in 2013 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 12% of the entire State public school construction capital program or \$32 million, adjusted annually for inflation. In response to a 2012 *Joint Chairmen's Report* (JCR) request, the Interagency Committee on School Construction (IAC) convened a workgroup which found that if BCPS were to use a third-party entity to issue bonds, providing a block grant through the State could be legally possible and feasible, although it is not without risk and raises policy issues.

Maryland Spends \$25.0 Million to Improve Energy Efficiency in Public Schools: Chapter 444 of 2012 restricted \$25.0 million of the Public School Construction authorization to fund projects that improve the energy efficiency of schools. Funds are being used to provide incentive funding for systemic renovations that enhance energy efficiency, including lighting; heating, ventilation, and air conditioning; custom; and solar projects. The fiscal 2014 *Capital Improvement Program* (CIP) 90% recommendations include 221 energy efficiency projects totaling \$23.5 million of the fiscal 2013 CIP-Energy Efficiency Initiative funds. Through an amendment to the fiscal 2013 CIP, \$1.5 million was recommended to enhance 9 previously approved projects.

Maryland School for the Blind Eligible for Public School Construction Funds: Chapter 144 of 2012 added the Maryland School for the Blind (MSB) to the Public School Construction Program (PSCP) for 15 years to help address the school's significant facility needs. IAC staff will soon present regulations incorporating MSB into the PSCP to IAC for approval before being submitted to the Board of Public Works and published for public comment.

Summary of Updates

Public School Construction Policy on Common and Extracurricular Space: The 2012 JCR requested a report from IAC on the use of Public School Construction funds to support the construction and renovation of common and extracurricular spaces. IAC's report identifies a need for more common and extracurricular space in new schools than is fully funded by the PSCP. The report notes that local school boards have great autonomy in planning school facilities, as health suites and gymnasiums are the only specific facilities required by State regulation. Local school boards also determine school size. This autonomy allows local education agencies to build schools that exceed the total construction cost eligible for State share of funding.

Summary of Recommended Bond Actions

1. Public School Construction Program

Add and codify language allowing contingency funds in the Public School Construction Program to be reserved for two years for use by a county.

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 \$4.5 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.

The Interagency Committee on School Construction (IAC) was created to oversee the PSCP, subject to the 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 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 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 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.

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 sector 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 (HVAC); site redevelopment; wiring for technology; and renovation projects related to education programs and services.

Budget Overview

School Construction Program

Proposed Allocation and Distribution for Fiscal 2014

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 pay-as-you-go (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, as shown in **Exhibit 1**. The next update will be calculated in summer 2013 and recommended to BPW for approval to be used beginning in fiscal 2016.

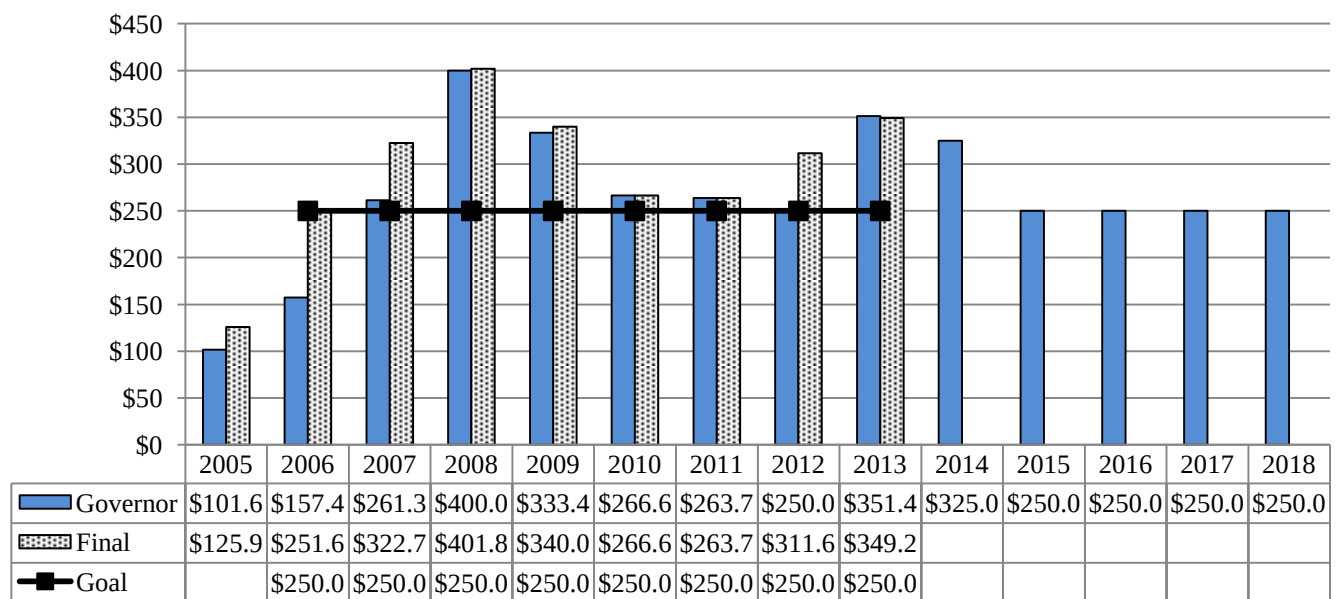
Exhibit 1
State Share of Eligible Costs for School Construction
Fiscal 2013-2015

<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Allegany	93%	93%	93%
Anne Arundel	50%	50%	50%
Baltimore City	93%	93%	93%
Baltimore	50%	50%	50%
Calvert	56%	56%	56%
Caroline	81%	78%	78%
Carroll	58%	58%	58%
Cecil	70%	69%	69%
Charles	72%	67%	63%
Dorchester	69%	69%	69%
Frederick	67%	62%	60%
Garrett	54%	50%	50%
Harford	63%	63%	63%
Howard	60%	60%	60%
Kent	50%	50%	50%
Montgomery	50%	50%	50%
Prince George's	68%	63%	62%
Queen Anne's	50%	50%	50%
St. Mary's	70%	65%	64%
Somerset	83%	82%	82%
Talbot	50%	50%	50%
Washington	71%	71%	71%
Wicomico	96%	96%	96%
Worcester	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 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. Between fiscal 2005 and 2013, the State invested \$2.3 billion, as shown in **Exhibit 2**. **Appendix 1** shows the total State allocation for public school construction between 1972 and the 90% fiscal 2014 allocation. The fiscal 2013 total includes \$25 million reserved for projects that improved energy efficiency, as discussed in the Issues section of the analysis.

Exhibit 2
State Funding for School Construction
Fiscal 2005-2018
(\$ in Millions)



Note: Includes contingency funds (previously authorized and unspent). The fiscal 2012 final appropriation includes \$47.5 million supplementary appropriation; fiscal 2013 includes \$25.0 million reserved for energy efficiency initiatives. Fiscal 2014 includes \$25.0 million reserved for air conditioning and \$25.0 million is pay-as-you-go funding for a school security initiative.

Source: *Capital Improvement Program*, Fiscal 2005-2014

Air Conditioning Initiative

The fiscal 2014 budget as introduced for public school construction contains \$300 million in GO bonds (not including \$25 million in PAYGO general funds that are reserved for school safety improvements – see PAYGO analysis for further detail). Of this amount, \$25 million is reserved for an air conditioning initiative. Subject to IAC approval, funds will be allocated to projects in schools that do not currently have central air conditioning in instructional spaces. Schools with window units

in classrooms, schools that have central air in only a portion of the classrooms, and schools that have central air only in non-instructional spaces will be eligible, though priority will be given to schools that have no air conditioning. All approved projects will have a local match requirement based on the State-local cost share percentage applicable to projects approved in the fiscal 2014 CIP. Funds will be awarded through a competitive application process, though each jurisdiction submitting an eligible project will be awarded funds for at least one project. Unlike the fiscal 2013 Energy Efficiency Initiative (EEI), air conditioning projects will be treated apart from the regular fiscal 2014 CIP process, though eligible projects must meet the procedural requirements that apply to projects submitted in the annual CIP. Projects must consist of systemic renovations that meet high performance energy requirements, satisfy a minimum total project cost of \$200,000, not include systems or components with less than a 15-year life, and not be in schools that were constructed or renovated within the previous 15 years. As with other fiscal 2014 projects, it is expected that funds awarded through the initiative will be expended by June 30, 2014. Funds that are not allocated in fiscal 2014 may be requested in the fiscal 2015 CIP.

Through a recent phone survey, IAC found that of the State's 1,380 public schools, 155 schools currently have no air conditioning and 226 have only window unit air conditioners. Of this total, IAC reports that 348 would likely be eligible for funding through the initiative. Baltimore City and Baltimore County have 142 and 88 eligible schools, respectively. Prince George's and Anne Arundel counties have a number of schools with window unit air conditioners but no central air conditioning. In 12 local education agencies (LEA), all schools have air conditioning, so these LEAs will not be eligible for funds. Ten projects totaling \$15.5 million received funding to support central air conditioning through the fiscal 2013 EEI and the fiscal 2014 CIP allocation. Currently, air conditioning projects may be submitted by the LEAs among the systemic renovations in the annual CIP. IAC reports that a few projects in the regular fiscal 2014 CIP categorized as HVAC, unit ventilators, and chillers projects will provide air conditioning to parts of existing buildings that previously did not have air conditioning. The cost of air conditioning projects approved in the fiscal 2014 CIP range from \$2.1 million to \$18.3 million with an average cost of \$6.5 million. IAC reports that the State cost of projects approved for funding through the air conditioning initiative could vary greatly depending on the size of the school and the State and local cost share. **IAC should discuss the proposed air conditioning initiative.**

Fiscal 2014 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 2013. In addition, IAC recommended \$21.6 million in fiscal 2013 EEI funding with the 75% recommendation for a total of \$209.1 million. This amount does not include \$1.5 million in enhancement funds from the fiscal 2013 EEI for projects previously approved in the fiscal 2013 CIP. Another \$60.0 million in fiscal 2014 CIP funds were recommended by IAC in February 2013, totaling \$247.5 million of the \$275.0 million proposed budget after setting aside the \$25.0 million reserved for air conditioning projects, which will be distributed through a separate process. These actions satisfy the requirement that IAC submit recommendations by March 1, 2013, equal to 90% of the funding provided in the Governor's proposed capital budget, excluding the \$25.0 million reserved for

HVAC projects. In addition, IAC recommended another \$1.9 million in EEI funds in February (exhausting the \$25.0 million fiscal 2013 EEI authorization).

Appendix 2 shows a summary of the proposed fiscal 2014 CIP by jurisdiction to date. 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. Finally, the exhibit shows the fiscal 2013 EEI allocation, excluding \$1.5 million in funds that were amended to the fiscal 2013 CIP. The 90% fiscal 2014 CIP recommendations, excluding fiscal 2013 EEI-CIP projects, include the following:

- 45 major construction projects at \$149.3 million, or 60.3%, of the distribution;
- 99 systemic renovation projects at \$93.7 million, or 37.9%, of the distribution; and
- 4 kindergarten projects at \$4.5 million, or 1.8%, of the distribution.

Including 9 fiscal 2013 CIP-EEI projects, a total of 369 projects have been recommended for funding to date; 317 of the projects were approved by BPW in January 2013, while the remaining 52 will be acted on by BPW in May 2013. As shown in Appendix 2, LEAs requested a total of \$684.2 million for fiscal 2014, of which approximately \$514.0 million is eligible for funding. The IAC 90% recommendation funds \$271.0 million of the eligible project requests when EEI requests are included. **Appendix 3** shows the amount of capital program funds that local school systems have requested and will request between fiscal 2014 and 2018.

The amount of funds requested by LEAs for fiscal 2014 (\$684.2 million) is \$108.0 million more than the fiscal 2013 amount (\$576.2 million). IAC attributes this increase to fiscal 2013 EEI requests that were submitted for funding through the fiscal 2014 CIP, and the addition of the Maryland School for the Blind (MSB) requests. After taking these factors into account, fiscal 2014 requests increase 2.2% above those in fiscal 2013.

Contingency Fund

Exhibit 3 shows the components of the contingency fund that are available for projects in fiscal 2014. IAC is required to report quarterly to the General Assembly and the Department of Legislative Services on the contents of the contingency fund. The contingency balance reserved for LEAs was \$15.6 million as of December 31, 2012, to be allocated toward the fiscal 2014 CIP. Combined with unreserved statewide contingency funds of \$438,386, contingency funding available for fiscal 2014 projects totals at least \$16.1 million. IAC reports that there have been additional allocation reversions since December 2012 added to each LEA's contingency reserve account, and that funds reserved for specific LEAs total \$23.1 million as of February 19, 2013. IAC reports that \$12.4 million of this amount will be assigned to the fiscal 2014 CIP, while the use of the remaining \$10.7 million is currently undetermined by the LEAs. These funds may be applied as an amendment to the fiscal 2013 CIP or held for allotment in fiscal 2014.

Exhibit 3
Statewide Contingency Fund Account Available for Fiscal 2014
As of December 31, 2012

Bond Funds	\$15,950,320	Funds Reserved for Specific LEAs	\$15,625,480
Supplemental Funds	\$111,561	Unreserved Balance	438,386
Pay-as-you-go Funds	1,985	Funds Available for Allocation Fiscal 2014	\$16,063,866
Total Statewide Contingency	\$16,063,866	Total Available Contingency Fund Balance	\$16,063,866

LEA: local education agencies

Note: As of February 19, 2013, an additional \$7.5 million is available for allocation in fiscal 2013 or 2014 at the LEAs' option, bringing the total funds reserved for specific LEAs to \$23.1 million.

Source: Public School Construction Program

The General Assembly has added language to the capital budgets each year since 2006 allowing 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. Funds not encumbered within two years are reverted and made available to any county. Unless codified, this language will need to be added annually to the capital budget as long as the policy is in place. **The Department of Legislative Services recommends codifying this language. This could be done as an amendment to the capital budget bill (HB 101).**

Qualified Zone Academy Bonds

As of December 2012, Maryland had issued \$83.1 million in QZABs, as shown in **Exhibit 4**. The most recent issuance of \$15.2 million was in Chapter 3 of the First Special Session of 2012. Issuances prior to 2008 are allowed to accumulate interest under federal law, resulting in \$2.9 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 532 of 2010, Chapter 96 of 2011, and Chapter 3 of the First Special Session of 2012. 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. Chapter 707 also authorized the Maryland State Department of Education (MSDE) to allocate QZAB funds to LEAs.

Exhibit 4
QZAB Proceeds and Expenditures as of December 31, 2012

<u>QZAB Series</u>	<u>Sale Proceeds</u>	<u>Interest Income through 12/31/12</u>	<u>Proceeds Plus Interest through 12/31/12</u>	<u>Expenditures through 12/31/12</u>		<u>Unexpended Balance 12/31/12</u>	<u>% Expended through 12/31/12</u>	<u>Spending Deadline</u>
2001 QZAB	\$18,098,000	\$1,321,124	\$19,419,124	\$19,419,071	(a)	\$53	100.00%	n/a
2004 QZAB	9,043,000	979,640	10,022,640	9,872,441		150,199	98.50%	n/a
2006 QZAB	4,378,000	327,660	4,705,660	4,694,114		11,546	99.75%	n/a
2007 QZAB	4,986,000	130,042	5,116,042	5,097,633		18,409	99.64%	n/a
2008 QZAB (b)	5,563,000	73	(c) 5,563,073	5,563,073		0	100.00%	3-year deadline met
2009 QZAB (b)	5,563,000	13,752	5,576,752	5,576,752		0	100.00%	3-year deadline met
2010 QZAB (b)	4,543,000	11,604	4,554,604	3,547,532		1,007,072	77.89%	12/8/2013
2011 QZAB (b)	15,731,348	85,292	15,816,640	3,552,677		12,263,963	22.46%	8/5/2014
2012 QZAB (b)	15,166,643		15,166,643	7,541		15,159,102	0.05%	8/14/2015
Total	\$83,071,991	\$2,869,187	\$85,941,178	\$57,330,834		\$28,610,344		

QZAB: Qualified Zone Academy Bonds

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

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

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

Source: Interagency Committee on School Construction

SB 141/HB 115 of 2013 would authorize the issuance of \$4.5 million in QZABs by December 31, 2013. While this amount was to represent the final federal QZAB allocation to be issued by the State, the federal American Taxpayer Relief Act of 2012 allocated an additional \$4.6 million through the federal QZAB program to Maryland for each of federal fiscal 2012 and 2013 to be issued by the State at a later date.

Aging Schools

The BRFA of 2010 eliminated \$6.1 million in fiscal 2011 general funds for the ASP, 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 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.

Exhibit 5 shows the fiscal 2013 and 2014 allocation by LEA. **Exhibit 6** shows encumbrances and expenditures.

Exhibit 5
Aging Schools Program Allocations
Fiscal 2013 and 2014

<u>LEA</u>	<u>2013 ASP Allocation</u>	<u>Prior 2010 and 2011 Unexpended Allocation</u>	<u>2013 Total Allocation Available</u>	<u>2014 Allocation</u>
Allegany	\$497,984	\$97,791	\$595,775	\$97,791
Anne Arundel	2,576,913	107,103	2,684,016	506,038
Baltimore City	7,067,769	257,497	7,325,265	874,227
Baltimore	4,451,853	153,570	4,605,423	1,387,924
Calvert	194,996	-	194,996	38,292
Caroline	254,993	59,016	314,009	50,074
Carroll	698,978	-	698,978	137,261
Cecil	488,986	9,243	498,229	96,024
Charles	254,993	7,781	262,774	50,074
Dorchester	194,996	1,385	196,381	38,292
Frederick	929,972	34	930,006	182,622
Garrett	194,996	1,164	196,160	38,292
Harford	1,106,966	77,977	1,184,943	217,379
Howard	446,984	72,787	519,771	87,776
Kent	194,996	-	194,996	38,292
Montgomery	3,068,898	-	3,068,898	602,651
Prince George's	6,158,798	31,861	6,190,659	1,209,426
Queen Anne's	254,993	13,875	268,868	50,074
St. Mary's	254,993	1,523	256,516	50,074
Somerset	194,996	38,292	233,288	38,292
Talbot	194,996	4,272	199,268	38,292
Washington	686,976	-	686,976	134,904
Wicomico	542,980	-	542,980	106,627
Worcester	194,996	2,253	197,249	38,292
Total	\$31,109,000	\$937,424	\$32,046,424	\$6,108,990

ASP: Aging School Program

LEA: local education agency

Source: Interagency Committee on School Construction

Exhibit 6
Aging Schools Program Allocations
Encumbrances and Expenditures
Fiscal 2011-2013

Local Education Agency	2011 Encumbrances	2012 Encumbrances	Expenditures ⁽¹⁾ July 1, 2011 – Dec. 31, 2012	Unexpended Balance as of Dec. 31, 2012	2013 Working Authorization ⁽⁴⁾	Total Unexpended
Allegany	\$81,092	\$137,810	\$218,902	-	\$497,984	\$497,984
Anne Arundel	418,612	642,532	1,061,144	-	2,576,913	2,576,913
Baltimore City	1,140,271	1,955,915	1,735,772	\$1,360,414	7,067,769	8,428,183
Baltimore	724,942	1,231,993	975,170	981,765 ⁽²⁾	4,451,853	5,433,618
Calvert	38,292	53,948	92,240	-	194,996	194,996
Caroline	32,579	70,078	102,657	-	254,993	254,993
Carroll	137,261	193,433	330,694	-	698,978	698,978
Cecil	77,280	125,566	202,846	-	488,986	488,986
Charles	40,344	69,205	109,549	-	254,993	254,993
Dorchester	30,368	46,381	76,749	-	194,996	194,996
Frederick	151,403	214,839	366,242	-	929,972	929,972
Garrett	31,000	38,350	69,350	-	194,996	194,996
Harford	180,259	306,339	453,773	32,825 ⁽³⁾	1,106,966	1,139,791
Howard	0	35,786	35,786	-	446,984	446,984
Kent	31,753	53,962	53,962	31,753	194,996	226,749
Montgomery	499,741	849,278	1,349,019	-	3,068,898	3,068,898
Prince George's	999,363	1,704,368	2,313,278	390,453	6,158,798	6,549,251
Queen Anne's	50,073	70,566	120,639	-	254,993	254,993
St. Mary's	41,522	68,352	109,874	-	254,993	254,993
Somerset	31,753	53,962	31,753	53,962	194,996	248,958
Talbot	38,292	46,745	46,745	38,292	194,996	233,288
Washington	111,867	190,111	301,978	-	686,976	686,976
Wicomico	88,419	147,921	236,340	-	542,980	542,980
Worcester	29,500	29,396	58,896	-	194,996	194,996
ASP Contingency	103,014	272,164	-	375,178	-1	375,177
Total	\$5,109,000	\$8,609,000	\$10,453,358	\$3,264,642	\$31,109,000	\$34,373,642

ASP: Aging Schools Program

⁽¹⁾ Expenditure period spans fiscal 2012 and the first six months of fiscal 2013. Amounts expended during fiscal 2012 were from projects approved in the fiscal 2010 program (\$184,746), fiscal 2011 program (\$4,765,912), and fiscal 2012 program (\$1,633,745). Amounts expended in the first six months of fiscal 2013 were for projects approved in the fiscal 2012 program (\$3,868,955).

⁽²⁾ Fiscal 2010 program encumbrance (\$184,746) expended during fiscal 2012 included.

⁽³⁾ \$37,619 (Harford) program 2013 encumbrance expended during the first six months of fiscal 2013 not reflected.

⁽⁴⁾ Fiscal 2013 working authorization does not reflect reallocated fiscal 2010 (\$834,410) and 2011 (\$103,014) contingency balances.

Source: Interagency Committee on School Construction

Issues

1. Baltimore City Public School Construction Block Grant Proposal

Baltimore City Public Schools’ Construction Needs

In 2011, the Baltimore City Public Schools (BCPS) commissioned Jacobs Project Management to conduct a comprehensive districtwide assessment of its facilities, consisting of an enrollment projection review, capacity analysis, an education adequacy assessment, a building condition assessment, and a review of all site and building systems with a life cycle renewal forecast. BCPS currently enrolls approximately 84,000 students in 194 schools, including 33 charter and 15 transformational high schools. In conducting its study, Jacobs Project Management assessed the condition of each building owned by BCPS and evaluated the cost of upgrading or replacing each building to develop a commonly used industry metric called a facility condition index (FCI) that ranges from 1 to 100%. For the Baltimore City study, a score of less than 10% is good, 11 to 30% is average, 31 to 50% is poor, 51 to 74% is very poor, and a facility with a score of 75% or more is a candidate for replacement.

The final report, commonly referred to as the *Jacobs Report*, was released in June 2012 and contains a number of significant findings:

- The 10-year FCI for BCPS is 60% reflecting facilities in very poor condition.
- Total need, including education adequacy, facility condition, and 10-year life cycle costs, is \$2.5 billion. Of this amount current facility condition costs total \$1.4 billion, while 10-year life cycle (building system replacement) costs total \$1.0 billion.
- An overall utilization rate of city schools of 66% represents a significant amount of unused space. High school campuses have a very low utilization percentage of 51%; middle school campuses have the lowest utilization of 43%; and elementary school and K-8 campuses have a utilization rate of approximately 80%.

Based on the findings of the *Jacobs Report*, BCPS developed a 10-year Comprehensive Master Plan that prioritizes projects for new construction, replacement, and renovation, and proposes school closures to better utilize the school system’s capacity. BCPS plans to address \$1.1 billion of an identified \$2.5 billion capital need in the first four years of the plan, which would require between \$66.0 and \$69.0 million in State and local annual funding using a block grant approach.

School Construction Block Grant for Baltimore City

During the 2012 session, legislation was proposed that would allow Baltimore City to receive its school construction funding as a block grant in order for BCPS to use State funds to leverage additional debt. The bill was not acted upon by either chamber. Instead, the budget committees requested in the *Joint Chairmen’s Report* (JCR) that IAC lead a group to study the proposal and report its findings.

The workgroup found that if BCPS were to use a third-party entity to issue bonds, such as a Baltimore City Schools Construction Authority, providing a block grant through the State would be legally possible and feasible. In order to implement a block grant program, the proceeds from State bonds would be used to pay for the debt service on bonds issued by a third party. According to the findings of the report, a third-party entity issuing bonds, either directly or through a conduit issuer, is likely to have sufficient distance from the State and Baltimore City so that its debt would not be considered the debt of either government, though this would be unknown until the actual financing arrangement was presented to the ratings agencies. The report also notes that the State Treasurer's Office has indicated that an increase in State block grant funding commitments beyond what is being proposed in Baltimore City could lead rating agencies to downgrade Maryland's bond rating, resulting in an increased cost of debt. Such an impact would reduce the total amount that Maryland could borrow each year, similarly reducing the amount of funds available to other LEAs.

To issue bonds for school construction, a third party entity would need to receive guaranteed funding for the life of the debt. Legislation introduced in the 2013 session (SB 743/HB 860) would guarantee Baltimore City an annual block grant of at least \$32.0 million for school construction, representing the average amount received by the city since fiscal 2006, when the State began implementing the 2004 Public School Facilities Act's goal of \$2 billion for public school construction by fiscal 2013. The State has provided more than \$250.0 million for school construction each year since fiscal 2006 – exceeding \$300.0 million in five of the past eight years – and achieved the \$2 billion goal ahead of schedule. It is not clear whether that level of funding can or will be sustained in the future. Since the City-State Partnership began in fiscal 1998, Baltimore City has received on average 10 to 11% of the total school construction funds annually, ranging from \$10.0 million to a high of \$52.7 million depending on total funds provided, as shown in **Exhibit 7**. The report notes that a block grant requiring a minimum level of funding for a particular jurisdiction would reduce the State's flexibility to respond to future project requests from other LEAs, and that if State funding were reduced below \$250.0 million, funding inequities could emerge as the amount provided for a single jurisdiction would be fixed. The workgroup also raised concerns that such a large and rapid influx of construction funds into the market could result in poor quality design and construction, and contractor defaults.

Exhibit 7
Public School Construction Program Funding
Fiscal 1993-2018

<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	251.6	21.5	8.5%
2007	322.7	39.4	12.2%
2008	401.8	52.7	13.1%
2009	340.0	41.0	12.1%
2010	266.7	27.7	10.4%
2011	263.7	28.6	10.8%
2012	311.6	32.0	10.3%
2013	349.2	42.6	12.2%
2014	325.0	27.4 *	8.4%
2015	250.0		
2016	250.0		
2017	250.0		
2018	250.0		

BCPS: Baltimore City Public Schools

*Fiscal 2014 BCPS total, based on the Interagency Committee on School Construction's 90% recommendations, does not include funds reserved for school security or air conditioning enhancements.

Source: Department of Legislative Services

Finally, the report notes that the success of the 10-year, \$2.5 billion school construction program will depend on a management structure with adequate staffing to execute the planning, design, and construction of multiple projects, establishing binding agreements about the responsibilities of all parties, institutionalizing mechanisms for monitoring to ensure accountability, and developing a comprehensive business plan.

IAC should discuss the proposed BCPS Construction Block Grant legislation and the findings of the block grant workgroup.

2. Maryland Spends \$25 Million to Improve Energy Efficiency in Public Schools

Language added to the Maryland Consolidated Capital Bond Loan of 2012 (Chapter 444 of 2012) restricted a portion of the fiscal 2013 GO bond authorization for the PSCP to fund projects that improve the energy efficiency of schools.

On August 17, 2012, IAC submitted a report outlining the type of projects eligible for funding and the technical standards that projects must satisfy to receive support through the fiscal 2013 EEI:

- **Incentive Funding:** Funds will provide incentive funding beyond the base funding that a project would otherwise receive if it were approved in the fiscal 2013 or 2014 CIP. Approved fiscal 2013 projects may be resubmitted for a recalculation of State and local match funding to include an incentive allocation.
- **Fiscal 2013 and 2014 Eligibility:** Authorized funds remain eligible for new projects submitted by local jurisdictions for IAC consideration in the fiscal 2014 CIP.
- **Systemic Renovation:** Funds will be used to enhance eligible systemic renovation projects to achieve energy performance requirements. Eligible projects include lighting, HVAC, custom (which may include retrofits to roofs, building envelopes including windows and doors), and solar projects.
- **Competitive and Statewide Allocation:** Allocations will be made on a competitive basis with the provision that all jurisdictions receive incentive funds for at least one project.

Technical Standards

IAC worked with engineering consultants, the Maryland Energy Administration, and the Department of General Services to develop energy efficiency standards. EEI project requirements vary from those applied to traditional CIP projects:

- to achieve maximum energy efficiency, funds may be used to replace lamps and ballasts for lighting retrofits and upgrades (typically such items would only be allowable if the entire lighting system were upgraded);
- the total construction cost floor is lowered to \$100,000 from \$200,000 for mechanical equipment or system upgrades and to \$25,000 for lighting upgrades;
- funds may be used for lighting upgrades in schools built or renovated within the last 15 years but not after January 1, 2011; and
- local jurisdictions must pursue utility rebates when available.

A preliminary screening deadline of August 7, 2012, allowed LEAs to submit project applications to IAC to determine project eligibility, receive assistance in calculating the total State funding participation, and accept guidance on the new initiative. Final submissions were due by October 5, 2012.

Funded Projects

The fiscal 2014 CIP 90% recommendations include 221 energy efficiency projects, which are to be funded entirely or in part from \$23.5 million in the fiscal 2013 EEI. The recommendation represents 94% of the \$25.0 million bond authorization in fiscal 2013 reserved for energy efficiency projects. Through a separate action to amend the fiscal 2013 CIP, an additional \$1.5 million of the fiscal 2013 EEI funds was recommended to enhance the funding for nine eligible projects that were approved in the fiscal 2013 CIP.

IAC should comment on LEA demand for EEI funds and on how the impact of these funds on energy savings will be assessed at the State and/or local level.

3. Maryland School for the Blind Eligible for Public School Construction Funds

Chapter 144 of 2012 added MSB to the PSCP for 15 years to help address the school's significant facility needs. MSB is a private nonprofit school that provides a range of educational services to blind children throughout the State, including services to a largely residential population at the campus in northeast Baltimore City. All students at MSB have an Individualized Education Program, and the majority have multiple disabilities in addition to blindness. MSB has developed an extensive campus renewal plan, including a life skills building for children with multiple disabilities scheduled to begin construction in 2013 and a building for students with autism currently in planning. The main instructional portion of the Multiple Disabilities-Blind building was funded through the State bond program, but the dormitory portion, which also serves an educational purpose in developing life skills among the students, was approved for first-time funding by BPW through the PSCP. On November 8, 2012, IAC gave approval for staff to develop regulations regarding MSB

DE0202 – BPW – Public School Construction

projects funded through the PSCP-CIP. Current regulations governing public school construction will apply to MSB projects, with the following four exceptions:

- MSB school buildings will be exempt from State rated capacity requirements;
- State participation will be calculated at 93% of total construction cost (the same share as Baltimore City);
- funding allocations will be based on total construction cost estimates and contract awards; and
- requirements for site selection and priority funding area waivers will only be applied to properties located outside the school's current boundaries.

Draft regulations were presented to IAC on February 28, 2013, for comment. After revisions to reflect IAC comments are completed, the regulations will be resubmitted to IAC for approval to forward to BPW for permission to publish in the *Maryland Register* for public comment.

Updates

1. Public School Construction Policy on Common and Extracurricular Space

In the 2012 JCR, the committees requested that IAC submit a report on the use of PSCP funds to support the construction and renovation of common and extracurricular spaces, including but not limited to athletic fields, stadiums, auditoriums, and cafeterias. IAC was asked to identify current policies governing the use of PSCP funds for such projects, catalogue existing unmet facility needs for common and extracurricular spaces, and assess the expected cost and potential impacts of altering the State's current policy.

In the report, IAC identifies a need for more space in new schools than is fully funded by the PSCP. Of 20 new or replacement school projects approved by IAC and BPW in fiscal 2013 for local planning and/or funding, the total built area of new schools exceeded the space eligible for funding by 27%. IAC's analysis determined that 17% of this variance is attributable to the design of new schools with greater capacity and gross square foot (GSF) per student than the State will support, with the remaining 10% possibly related to larger core spaces than funded by the State formula. The PSCP maximum gross area allowance, set by BPW in regulation, does not support the full size of new schools being planned and constructed by LEAs, though IAC reports that Maryland's space allowance is consistent with allowances in other states. Common and extracurricular spaces are eligible for PSCP funding as part of major CIP, ASP, and QZAB projects within the standard maximum gross area allowance established for the school type. Certain educational program areas that also function as common and extracurricular spaces are eligible for PSCP funding as separate addition projects, and enlarged core spaces constructed by an LEA may be eligible for partial reimbursement from the State should the IAC and BPW approve an addition to a school that previously was funded by the State.

The report notes that local school boards have great autonomy in planning school facilities, as health suites and gymnasiums are the only specific facilities required by State regulation. Local school boards also determine school size. This autonomy allows LEAs to build schools that exceed the State's allowable total construction cost eligible for State share of funding, which for new schools is based on the State-approved projected enrollment, a square foot per student allowance, and an annually adjusted cost per square foot. LEAs may design schools with excess capacity to provide room to grow, to operate at less than 100% capacity, or due to uncertainty about future housing development. When this occurs, LEAs are responsible for funding costs that exceed the State's allowable construction cost, which can result in unmet common and extracurricular facility needs.

One way for the State to address the need for additional common and extracurricular space is to provide an additional 5,000 GSF to the standard elementary school maximum gross area allowance to support the now required gymnasium. Increasing the State-funded maximum gross area allowance per student has also been discussed. IAC concludes, however, that both options entail substantial fiscal impact, as providing additional funding to such projects would reduce the amount available for other projects in the PSCP CIP. Instead, the report recommends that IAC staff promote the inclusion of expanded common and extracurricular areas in new schools and renovation/addition projects during preliminary project planning meetings, which may reduce the impact of increased enrollments in the future.

GO Bond Recommended Actions

1. Add language allowing contingency funds in the Public School Construction Program be reserved for two years for use by a county.

DE0202A Public School Construction Program..... \$ 300,000,000

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 \$25,000,000 of this appropriation shall be used to fund projects that install air conditioning systems in schools that do not currently have centralized air conditioning systems.

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.

300,000,000

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. The Department of Legislative Services also recommends codifying this language as an amendment to § 5-301(j) of the Education Article. This can be done in HB 101 – the capital budget bill.

2. Approve the Governor's \$6.1 million general obligation bond fund authorization for the Aging Schools Program.
3. Approve the Governor's \$4.5 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

Total State Allocation for Public School Construction
Fiscal 1972 through Initial 2014 Allocation

<u>Local Education Agency</u>	<u>Allocation</u>	<u>% of Total</u>
Allegany	\$98,899,871	1.49%
Anne Arundel	544,659,745	8.22%
Baltimore City	770,687,653	11.63%
Baltimore County	640,847,586	9.67%
Calvert	170,195,150	2.57%
Caroline	77,180,939	1.16%
Carroll	233,693,390	3.53%
Cecil	134,765,734	2.03%
Charles	237,673,313	3.59%
Dorchester	89,262,756	1.35%
Frederick	363,719,963	5.49%
Garrett	52,738,309	0.80%
Harford	317,092,340	4.78%
Howard	434,832,572	6.56%
Kent	23,480,861	0.35%
Montgomery	905,153,291	13.65%
Prince George's	723,260,284	10.91%
Queen Anne's	81,241,300	1.23%
St. Mary's	170,638,130	2.57%
Somerset	80,464,442	1.21%
Talbot	31,945,268	0.48%
Washington	160,307,349	2.42%
Wicomico	156,715,919	2.36%
Worcester	70,384,406	1.06%
Maryland School for the Blind	8,380,000	0.13%
Statewide	50,600,000	0.76%
Total	\$6,628,820,571	100.00%

Note: Excludes fiscal 2012 Supplementary Appropriation.

Source: Public School Construction Program; Department of Legislative Services

Fiscal 2014 Public School Construction Funding (\$ in Thousands)

<u>Local Education Agency</u>	<u>75% IAC/BPW Approved</u>	<u>90% Additional IAC Recommendation</u>	<u>90% Total Recommendation</u>	<u>Fiscal 2013 EEI Recommendation</u>	<u>Total Recommendation</u>	<u>Total Request</u>	<u>A/B Request</u>	<u>% A/B Request Funded*</u>
Allegany	\$1,350	\$600	\$1,950	\$1,445	\$3,395	\$3,619	\$3,621	94%
Anne Arundel	18,000	6,400	24,400	49	24,449	47,238	36,900	66%
Baltimore City	20,000	5,760	25,760	1,665	27,425	89,021	55,911	49%
Baltimore County	20,000	5,760	25,760	4,094	29,854	123,357	53,744	56%
Calvert	2,950	1,577	4,527	111	4,638	5,378	5,378	86%
Caroline	5,700	1,172	6,872	406	7,278	8,042	8,042	90%
Carroll	3,123	934	4,057	2,231	6,288	6,660	6,660	94%
Cecil	884		884	208	1,092	1,092	1,092	100%
Charles	6,224	1,156	7,380	4,480	11,860	16,435	16,432	72%
Dorchester	150	882	1,032	990	2,022	2,506	2,506	81%
Frederick	12,572	4,557	17,129		17,129	32,174	32,174	53%
Garrett				353	353	358	354	100%
Harford	10,846	1,412	12,258	2,061	14,319	20,635	13,960	103%
Howard	16,043	7,057	23,100	321	23,421	29,652	24,735	95%
Kent				123	123	123	123	100%
Montgomery	20,854	6,155	27,009	688	27,697	149,214	138,177	20%
Prince George's	20,000	5,760	25,760	1,817	27,577	94,601	60,192	46%
Queen Anne's		2,000	2,000	649	2,649	4,787	4,787	55%
St. Mary's	5,300	1,063	6,363	858	7,221	7,970	7,970	91%
Somerset	800	2,891	3,691	289	3,980	4,416	4,416	90%
Talbot	122		122	35	157	157	157	100%
Washington	6,532	1,299	7,831		7,831	8,611	8,611	91%
Wicomico	7,900	1,935	9,835	482	10,317	17,045	17,045	61%
Worcester	3,500	700	4,200	166	4,366	4,833	4,833	90%
MD School for the Blind	4,650	930	5,580		5,580	6,200	6,200	90%
Total	\$187,500	\$60,000	\$247,500	\$23,521	\$271,021	\$684,123	\$514,020	53%

BPW: Board of Public Works

EEI: Energy Efficiency Initiative

IAC: Interagency Committee on School Construction

*Percent of A or B (ready to go) projects funded as of the 90% total recommendation (including fiscal 2013 EEI funding).

Source: Public School Construction Program; Department of Legislative Services

Summary of Capital Program Requests
Maryland Public School Construction Program
Fiscal 2014-2019
(\$ in Thousands)

<u>Local Education Agency</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Allegany	\$3,619	\$9,024	\$12,037	\$8,000	\$1,768	\$0	\$34,448
Anne Arundel	47,238	45,010	53,686	52,593	84,009	65,600	348,136
Baltimore County	123,357	39,119	38,250	50,750	41,500	36,750	329,726
Calvert	5,378	2,404	8,741	9,420	9,327	3,873	39,143
Caroline	8,042	2,938	0	7,268	13,884	9,289	41,421
Carroll	6,661	11,648	17,025	18,406	18,988	14,056	86,784
Cecil	1,092	4,513	5,079	5,500	6,483	9,500	32,167
Charles	16,433	9,601	8,564	9,453	10,911	1,084	56,046
Dorchester	2,506	0	15,317	9,433	0	0	27,256
Frederick	32,174	2,958	50,212	19,426	24,187	14,456	143,413
Garrett	358	6,483	0	850	700	0	8,391
Harford	20,635	23,637	13,361	16,965	17,333	10,089	102,020
Howard	29,652	25,926	12,758	13,889	9,259	7,749	99,233
Kent	124	278	425	0	2,000	1,256	4,083
Montgomery	149,310	58,051	198,130	208,079	65,227	28,000	706,797
Prince George's	94,600	49,927	25,363	17,311	6,508	2,475	196,184
Queen Anne's	4,787	4,000	10,000	8,117	347	5,788	33,039
St. Mary's	7,970	5,560	437	7,070	5,372	9,439	32,294
Somerset	4,416	713	382	1,697	2,546	0	13,308
Talbot	157	0	0	0	0	0	157
Washington	8,611	11,562	14,172	12,446	13,330	11,729	71,850
Wicomico	17,045	19,881	27,968	25,799	30,888	34,005	155,586
Worcester	4,833	0	0	3,595	4,468	873	13,769
Baltimore City	89,021	105,370	106,824	89,334	70,000	70,000	530,549
Maryland School for the Blind	6,200	8,500	8,500	11,500	11,500	10,000	56,200
Total State	\$684,219	\$447,103	\$627,231	\$606,901	\$450,535	\$346,011	\$3,162,000
Total Adjusted State	\$684,219	\$464,987	\$678,413	\$682,681	\$527,062	\$420,975	\$3,458,338

Total State: Estimated based on fiscal 2014 requests with no adjustment for inflation.

Total Adjusted State: Adjusted for inflation based on fiscal 2014 requests compounded at 4% per year construction cost escalation.

Source: Public School Construction Program