

**DE0202**  
**Public School Construction**  
**Board of Public Works**

***Capital Budget Summary***

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

<b>Program</b>	<b>2015 Approp.</b>	<b>2016 Approp.</b>	<b>2017 Request</b>	<b>2018 Estimate</b>	<b>2019 Estimate</b>	<b>2020 Estimate</b>	<b>2021 Estimate</b>
Public School Construction Program	\$318.778	\$318.190	\$322.952	\$250.000	\$250.000	\$250.000	\$250.000
Supplemental Capital Grant Program	0.000	20.000	20.000	20.000	20.000	20.000	20.000
Aging Schools Program	6.109	6.109	6.109	6.109	6.109	6.109	6.109
Qualified Zone Academy Bonds	4.625	4.625	4.680	0.000	0.000	0.000	0.000
Nonpublic Aging Schools	3.500	3.500	3.500	0.000	0.000	0.000	0.000
<b>Total</b>	<b>\$333.012</b>	<b>\$352.424</b>	<b>\$357.291</b>	<b>\$276.109</b>	<b>\$276.109</b>	<b>\$276.109</b>	<b>\$276.109</b>

<b>Fund Source</b>	<b>2015 Approp.</b>	<b>2016 Approp.</b>	<b>2017 Request</b>	<b>2018 Estimate</b>	<b>2019 Estimate</b>	<b>2020 Estimate</b>	<b>2021 Estimate</b>
GO Bonds	\$289.212	\$314.234	\$314.289	\$276.109	\$276.109	\$276.109	\$276.109
Nonbudgeted Funds	43.800	38.190	42.952	0.000	0.000	0.000	0.000
<b>Total</b>	<b>\$333.012</b>	<b>\$352.424</b>	<b>\$357.291</b>	<b>\$276.109</b>	<b>\$276.109</b>	<b>\$276.109</b>	<b>\$276.109</b>

GO: general obligation

Note: Nonbudgeted funds in the out-years will depend on the amount of unencumbered funds that are reallocated by the local education agencies and the Interagency Committee on School Construction. Fiscal 2017 nonbudgeted funds are based on reverted funds available for the fiscal 2017 *Capital Improvement Program*.

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## ***Summary of Issues***

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***State Funding for Window Air Conditioning Units:*** Under current practice, State money may not be used for the purchase of window air conditioning (AC) units in school buildings due to the requirement that all State funded capital projects have a life expectancy of 15 years or more. There has been much debate over changing regulations to make window AC units eligible for capital funding in order to protect the health and wellbeing of students. Currently, 9% of schools in the State do not have AC, with especially large numbers in Baltimore and Garrett counties, as well as Baltimore City. The Department of General Services (DGS) has determined that addressing the need for AC through window units would require \$9.5 million in State funding. The Board of Public Works (BPW) has approved a proposed regulation to make window units eligible for capital funding. Under the proposed regulation, approval of funding for window AC units would still be subject to the same process for approval as all other Public School Construction Program (PSCP) projects, requiring recommendation by the Interagency Committee on School Construction (IAC) and approval by BPW. This regulation is subject to review and comment by the Joint Committee on Administrative, Executive, and Legislative Review (AELR) before taking effect. **IAC should provide an updated estimate as to the costs of providing window AC units to those jurisdictions that would request them. IAC should also comment on the likelihood of jurisdictions making requests for window AC units and receiving recommendations for funding for those requests should the proposed regulation be approved.**

***Rising Cost of School Construction:*** The cost of construction has a significant impact on the ability of the State to fund projects. According to IAC, significant increases have occurred in the cost of construction over the last year, accelerating the modest escalation trend since 2010. The State fiscal 2016 construction cost approved for projects planning to go to bid in July 2015, which was set July 2014, was \$233 per square foot for new construction. Market conditions, however, indicated that this figure was significantly below the actual cost of construction in summer 2015. The new projected cost for projects anticipated to go to bid in July 2016 is \$282 per square foot for new construction. IAC also assumes a cost of \$336 per square foot for new construction with site development, fully 28.6% higher than the fiscal 2016 *Capital Improvement Program* (CIP). **IAC should comment on the specific reasons in the market driving the significant increases in cost assumptions.**

## ***Summary of Recommended Bond Actions***

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1. Aging Schools Program

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

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2. Public School Construction Program

Approve the Governor's \$280 million general obligation bond fund authorization for the Public School Construction Program.

3. Nonpublic Aging Schools Program

Approve the Governor's \$3.5 million general obligation bond fund authorization for the Nonpublic Aging Schools Program.

4. Supplemental Capital Grant Program for Local School Systems

Approve the Governor's \$20 million general obligation bond fund authorization for the Supplemental Capital Grant Program for Local School Systems.

5. Qualified Zone Academy Bond Program

Approve the Governor's \$4.7 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

## ***Program Description***

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### **Public School Construction**

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

IAC was created to oversee the PSCP, subject to BPW approval. Members of IAC include the State Superintendent of Schools, who serves as the chairperson; the Secretary of General Services; the Secretary 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 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 up to 75% of the Governor's preliminary allocation for school construction before December 31 of each year. In January, BPW votes on IAC recommendations, and the projects approved by BPW become part of the State's proposed capital budget. The proposed budget is then submitted to the General Assembly for approval. Annually, by March 1, IAC is required

to submit recommendations to the Governor and General Assembly equal to 90% of the school construction allocation submitted by the Governor in the capital budget. In May, BPW allocates any remaining school construction funds to school construction projects recommended by IAC.

## **Aging Schools**

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

## **Nonpublic Aging Schools**

The Nonpublic Aging Schools Program, administered by IAC and the Maryland State Department of Education (MSDE), provides funds to nonpublic schools for improvements, repairs, school security improvements, and deferred maintenance in nonpublic school buildings. Funding has been provided for the program in each of fiscal 2014 through 2016. Funds are distributed to nonpublic schools currently participating in the Maryland Nonpublic Student Textbook Program using the same eligibility requirements as the ASP. Payment for work completed under this program will be through reimbursement to the grant recipient. No matching funds are required, but the nonpublic school is responsible for all project costs exceeding the amount of the grant.

## **Qualified Zone Academy Bonds**

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

Federal law requires that schools that are granted QZAB funds receive a 10% private-entity match, which may be in the form of cash, in-kind goods and services, or field trips. The funds must be spent according to federal law (Section 1397E of the Internal Revenue Service code) on renovations and repairs. However, federal law authorizes other uses that are typically not eligible uses of Maryland GO bonds. In Maryland, eligible expenditures include but are not limited to asbestos and lead paint

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abatement; upgrade of fire protection systems and equipment; plumbing and roofing; upgrade of heating, ventilation, and air conditioning systems; site redevelopment; wiring for technology; and renovation projects related to education programs and services.

## **Supplemental Capital Grant Program**

Chapter 355 of 2015 established the supplemental capital grant program to provide grants to local school systems that have enrollment growth that exceeds 150% of the statewide average or with more than 300 relocatable classrooms over a five-year period. The grants are for the construction and renovation of public school facilities and are supplemental to the funding for the public school construction program. Grant awards are subject to the State and local cost-share formula for each school system and require approval by BPW.

## ***Budget Overview***

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### **School Construction Program**

State and local governments share in the cost of school construction projects. **Exhibit 1** shows the State's share of eligible project costs for fiscal 2016 through 2018 by county. This share is based on a formula, which includes components to recognize local wealth and the proportion of low-income students, enrollment growth, economically distressed counties, and the local funding effort by counties. The local effort component of the formula includes bond and pay-as-you-go (PAYGO) funding provided by local governments for school construction. The State/local cost-share formula is required by Chapters 306 and 307 of 2004 to be updated every three years.

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**Exhibit 1**  
**State Share of Eligible Costs for School Construction**  
**Fiscal 2016-2018**

<u>County</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Allegany	88%	83%	83%
Anne Arundel	50%	50%	50%
Baltimore City	93%	93%	93%
Baltimore	52%	52%	52%
Calvert	53%	53%	53%
Caroline	80%	80%	80%
Carroll	59%	59%	59%

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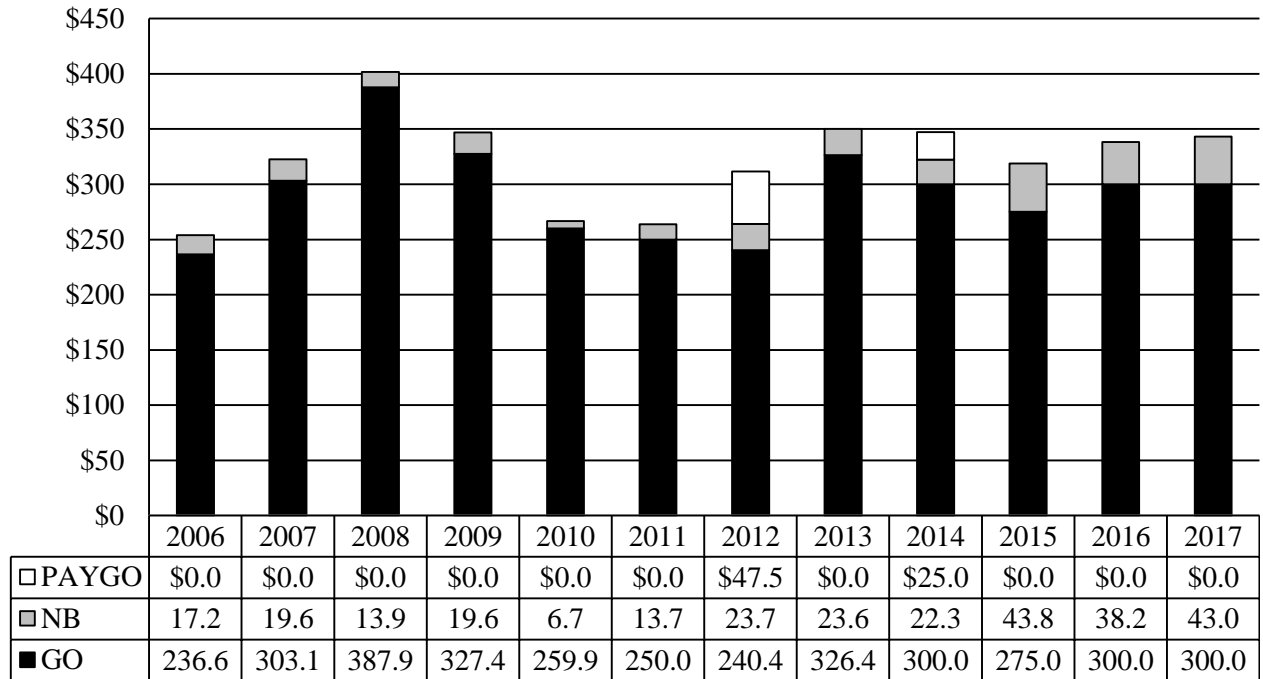
<u>County</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Cecil	64%	63%	63%
Charles	61%	61%	61%
Dorchester	76%	76%	76%
Frederick	64%	64%	64%
Garrett	50%	50%	50%
Harford	63%	63%	63%
Howard	55%	55%	55%
Kent	50%	50%	50%
Montgomery	50%	50%	50%
Prince George's	63%	63%	63%
Queen Anne's	50%	50%	50%
St. Mary's	59%	58%	58%
Somerset	100%	100%	100%
Talbot	50%	50%	50%
Washington	71%	71%	71%
Wicomico	97%	97%	97%
Worcester	50%	50%	50%
Maryland School for the Blind	93%	93%	93%

Source: Public School Construction Program

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As illustrated by **Exhibit 2**, between fiscal 2006 and 2016, the State invested \$3.3 billion in public school construction projects. This does not include \$242.2 million that is classified as nonbudgeted out of the Contingency Fund, and \$72.5 million was provided as PAYGO. Chapters 306 and 307 set a goal for the State to provide \$2.0 billion for school construction in fiscal 2006 through 2013. The State exceeded the goal, providing \$2.4 billion. Although the \$250.0 million goal expired after fiscal 2013, annual funding has exceeded that amount every year since 2013. **Appendix 1** shows the total State allocation for public school construction between 1972 and the initial fiscal 2017 allocation. A discussion on the progress of public school facility improvements for Baltimore City Public Schools as part of Chapter 647 of 2013, the Baltimore City Public Schools Construction and Revitalization Act, is located in the Issues section of the IAC operating analysis.

**Exhibit 2**  
**State Funding for School Construction**  
**Fiscal 2006-2017**  
**(\$ in Millions)**



GO: general obligation  
 NB: nonbudgeted  
 PAYGO: pay-as-you-go

Note: Figures include new general obligation bonds, PAYGO, and unexpended funds that were previously authorized. Fiscal 2012 includes \$47.5 million supplementary appropriation. Fiscal 2017 NB based on reverted funds available for the fiscal 2017 *Capital Improvement Program*.

Source: Public School Construction Program *Capital Improvement Programs*, Fiscal 2005-2017

**Fiscal 2017 CIP**

Seventy-five percent of the preliminary \$280 million announced by the Governor in October 2015, or \$210 million, was recommended for specific projects by IAC and approved by BPW in January 2016. Another \$42 million in fiscal 2017 CIP funds was recommended by IAC in February 2016, totaling \$252 million of the \$280 million proposed budget. These actions satisfy the requirement that IAC submit recommendations by March 1, 2016, equal to 90% of the funding provided in the Governor’s proposed capital budget.

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**Appendix 2** shows a summary of the proposed fiscal 2017 CIP by jurisdiction to date. This includes the amount of funding approved by BPW in January 2016 during the initial 75.0% allocation and the amount that IAC is recommending for approval by BPW equal to 90.0% of the capital allocation for school construction. The 90.0% fiscal 2017 CIP recommendations include the following:

- 32 major construction projects totaling \$128.6 million, or 51.0%, of the distribution;
- 142 systemic renovation projects totaling \$118.1 million, or 46.9%, of the distribution;
- 5 kindergarten projects totaling \$5.0 million, or 2.0%, of the distribution; and
- 1 relocatable project for \$238,000.

To date, IAC has recommended 180 projects for funding, 68% of the projects requested by local education agencies (LEA). As seen in Appendix 2, a total of \$599.1 million in funding was requested, representing 263 projects. Of the total requested amount, approximately 79% (\$472.8 million) is eligible for funding. The IAC 90% recommendation funds \$252.0 million, or 53% of the eligible project requests. BPW approved 145 projects in January 2016; the remaining 35 projects and additional projects will be acted on by BPW in May 2016.

**Appendix 3** shows the amount of capital program funds that local school systems have requested and are planning to request between fiscal 2017 and 2022. The amount of funds requested by LEAs for fiscal 2017 reflects a \$29.1 million increase from the previous year's request.

## **Contingency Fund**

**Exhibit 3** shows the components of the contingency fund that are available for projects in fiscal 2017. IAC is required to report quarterly to the General Assembly and the Department of Legislative Services (DLS) on the contingency fund. The contingency balance reserved for LEAs was \$42.7 million as of January 7, 2016, \$42.6 million of which may be allocated toward the fiscal 2017 CIP. Combined with unreserved statewide contingency funds of \$230,216, contingency funding available for fiscal 2017 projects totals \$43.0 million.



**Exhibit 3**  
**Contingency Balance for Specific Local Education Agencies**  
**Fiscal 2006-2008 and Fiscal 2010-2016**

<u>LEA</u>	<u>LEA Contingency Balance As of January 7, 2016</u>	<u>LEA Contingency Changes January to March<sup>1</sup></u>	<u>LEA Contingency Reserves for Specific Programs or Initiatives<sup>2</sup></u>	<u>LEA Contingency Funds Undetermined<sup>3</sup></u>	<u>Current LEA Contingency Balance Available<sup>4</sup></u>
Allegany	\$16,237,233	\$0	-\$124,125	\$0	\$16,113,108
Anne Arundel	2,721,451	-1,120,108	-20,000	-987,469	593,874
Baltimore County	10,181,231	-4,137,000	-3,831,684	0	2,212,547
Baltimore City	17,822,878	-2,703,190	-3,022,506	-352,810	11,744,372
Calvert	3,567,810	0	-22,000	0	3,545,810
Caroline	0	0	0	0	0
Carroll	474,522	0	-3	0	474,519
Cecil	132,851	0	-69,804	0	63,047
Charles	13,942	0	-13,942	0	0
Dorchester	928,488	-401,000	-117,000	0	410,488
Frederick	991,156	0	0	0	991,156
Garrett	77,244	0	0	0	77,244
Harford	630,616	0	0	0	630,616
Howard	2,361,751	-2,050,000	0	0	311,751
Kent	118,439	0	0	0	118,439 <sup>5</sup>
Montgomery	3,076,649	0	-104,000	0	2,972,649
Prince George's	7,133,394	0	-4,992,249	0	2,141,145
Queen Anne's	318,457	0	-69,879	0	248,578
St. Mary's	591,065	0	-591,065	0	0
Somerset	144,345	0	-144,345	0	0
Talbot	38,353	0	-38,353	0	0
Washington	26,534	0	0	0	26,534
Wicomico	64,238	0	-18,348	0	45,890
Worcester	126,226	0	-126,226	0	0
MD School for the Blind	198,000	0	-198,000	0	0
<b>Subtotal</b>	<b>\$67,976,873</b>	<b>-\$10,411,298</b>	<b>-\$13,503,529</b>	<b>-\$1,340,279</b>	<b>\$42,721,767</b>
<b>LEA Reserved Contingency Balance Available for Fiscal 2017 CIP</b>					<b>\$42,721,767<sup>4</sup></b>
<b>Balance of Unreserved Contingency Fund Available for Fiscal 2017 CIP</b>					<b>\$230,216</b>
<b>Total Contingency Balance available for fiscal 2017 CIP (Reserved and Unreserved)</b>					<b>\$42,951,983</b>

CIP: Capital Improvement Program

LEA: local education agency

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<sup>1</sup> Fund adjustment resulting from the Interagency Committee on School Construction actions from January 2016 through March 2016.

<sup>2</sup> Includes the air conditioning initiative, the energy efficiency initiative, the enrollment growth and relocatable classroom initiative, and supplementary appropriation funds for specific LEAs.

<sup>3</sup> Includes CIP funds not designated by LEAs to be assigned pending LEA indication of preferences for fiscal 2016 or 2017 CIP.

<sup>4</sup> Total fiscal 2017 CIP contingency balance available for specific LEAs as of March 2016. If these funds are not allocated to LEAs within two years, they will revert to the statewide Unreserved Contingency Fund.

<sup>5</sup> Kent County Public School's fund balance may not be allocated in fiscal 2017, as it did not submit any projects for that year.

Source: Public School Construction Program

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## Qualified Zone Academy Bonds

As of December 31, 2015, Maryland had issued \$91.2 million in QZABs, as shown in **Exhibit 4**. The most recent issuance of \$4.6 million was authorized in Chapter 401 of 2015. Issuances prior to 2008 are allowed to accumulate interest under federal law, resulting in \$3.0 million in total interest proceeds.

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### Exhibit 4 QZAB Proceeds and Expenditures as of December 31, 2015

<u>Sale Year</u>	<u>Proceeds</u>	<u>Interest Income</u>	<u>Proceeds + Interest</u>	<u>Expenditures</u>	<u>Unexpended Balance</u>	<u>% Expended</u>
2001	\$18,097,984	\$1,321,125	\$19,419,109	\$19,419,109	\$0	100.0
2004	9,043,000	979,857	10,022,857	10,007,197	15,660	99.8
2006	4,378,000	327,855	4,705,855	4,705,355	500	99.9
2007	4,986,000	131,528	5,117,528	5,117,528	0	100.0
2008	5,563,000	73	5,563,073	5,563,073	0	100.0
2009	5,563,000	13,752	5,576,752	5,576,752	0	100.0
2010	4,543,000	13,209	4,556,209	4,556,209	0	100.0
2011	15,731,348	107,897	15,839,245	15,839,245	0	100.0
2012	15,166,643	55,498	15,222,141	15,222,141	0	100.0
2013	4,546,100	6,963	4,553,063	3,414,557	1,138,506	75.0
2014	4,622,100	10,624	4,632,724	1,615,921	3,016,803	34.9
2015	4,621,000	2,824	4,623,824	130,870	4,492,954	2.8
<b>Total</b>	<b>\$96,861,175</b>	<b>\$2,971,205</b>	<b>\$99,832,380</b>	<b>\$91,167,957</b>	<b>\$8,664,423</b>	

QZAB: Qualified Zone Academy Bonds

Note: In anticipation of closing the 2008 QZAB account, the interest was transferred to the proceeds column. As \$593,868 of the expenditures for the 2001 QZAB account was spent on nonqualified projects, this amount must be deducted from expenditures for federal tax purposes, reducing the percent expended to 96.7%.

Source: Interagency Committee on School Construction

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

HB 463 and SB 379 of 2016 would authorize the issuance of \$4.7 million in QZABs by December 31, 2016. Approximately \$1.1 million in currently unexpended balance has a spending deadline of December 19, 2016.

### **Aging Schools**

The Budget Reconciliation and Financing Act (BRFA) of 2011 permanently authorized that either general funds or GO bonds be used to fund the ASP. 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 the ASP to \$31.1 million. The fiscal 2014 capital budget included \$8.1 million for the program. A total of \$6.1 million in GO bonds was provided in fiscal 2015 and 2016 and is consistent with the fiscal 2017 authorization. **Exhibit 5** shows the fiscal 2016 and 2017 allocations by LEA.

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

<b>LEA</b>	<b>ASP Allocation 2016</b>	<b>Unexpended Allocation Prior 2012-2015</b>	<b>Total Allocation Available for 2016</b>	<b>ASP Allocation 2017</b>
Allegany	\$97,791	\$97,791	\$195,582	\$97,791
Anne Arundel	506,038	634	506,672	506,038
Baltimore City	1,387,924	101,010	1,488,934	1,387,924
Baltimore	874,227	129,314	1,003,541	874,227
Calvert	38,292	0	38,292	38,292
Caroline	50,074	0	50,074	50,074
Carroll	137,261	0	137,261	137,261
Cecil	96,024	0	6,024	96,024
Charles	50,074	0	50,074	50,074
Dorchester	38,292	0	38,292	38,292
Frederick	182,622	0	182,622	182,622
Garrett	38,292	53,904	92,196	38,292
Harford	217,379	39,510	256,889	217,379
Howard	87,776	58,771	146,547	87,776
Kent	38,292	17,661	55,953	38,292
Montgomery	602,651	0	602,651	602,651
Prince George's	1,209,426	409,541	1,618,967	1,209,426
Queen Anne's	50,074	1,098	51,172	50,074
St. Mary's	50,074	15,254	65,328	50,074
Somerset	38,292	55,239	93,531	38,292
Talbot	38,292	4,499	42,791	38,292
Washington	134,904	180	135,084	134,904
Wicomico	106,627	12,836	119,463	106,627
Worcester	38,292	0	38,292	38,292
<b>Totals 2015</b>	<b>\$6,108,990</b>	<b>\$997,242</b>	<b>\$7,106,232</b>	<b>\$6,108,990</b>

ASP: Aging Schools Program

LEA: local education agency

Source: Interagency Committee on School Construction

## Nonpublic Aging Schools

The Governor's fiscal 2017 capital budget includes \$3.5 million for the Nonpublic Aging Schools program. Although this is the fourth consecutive year of funding, the 2016 CIP does not reflect funding beyond fiscal 2017 in the plan. Since the program was first funded in fiscal 2014, the State has provided \$10.0 million not including the proposed fiscal 2017 amount. **Exhibit 6** shows the allocation of funds for fiscal 2016. A total of 184 nonpublic schools were approved to receive grant funding through the program, awarding nearly the whole allocation. This is five more schools than the number approved for fiscal 2015. The fiscal 2015 approved allocation was \$3.6 million. MSDE has noted that schools do not always request reimbursement for the full amount that they were allocated, so these allocations are expected to be covered with existing funds. Restrictive language was placed on the fiscal 2016 authorization that required grant recipients to be only those nonpublic schools, excluding preschools, which met the eligibility requirements for funding through the Aid to Nonpublic Schools textbook and technology grants. The language also restricted an individual school's grant to no more than \$100,000, contingent on the size of the school's FRPM population, amount of tuition charged to students, and average age of the facility. This language has also been applied to the fiscal 2017 authorization.

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### Exhibit 6 Nonpublic Aging Schools Program Fiscal 2016 Allocation

<u>County</u>	<u>Total Nonpublic Textbook Schools</u>	<u>Maximum Total Allocation</u>	<u>Schools Approved</u>	<u>Allocation Approved</u>
Allegany	4	\$18,350	2	\$18,350
Anne Arundel	29	174,325	11	169,100
Baltimore City	46	770,700	28	697,794
Baltimore County	69	853,275	37	768,857
Calvert	3	27,525	3	27,525
Caroline	0	0	0	0
Carroll	13	0	0	
Cecil	5	91,750	4	73,700
Charles	11	64,225	5	51,700
Dorchester	0	0	0	0
Frederick	16	64,225	5	64,225
Garrett	0	0	0	0
Harford	12	73,400	4	64,514
Howard	22	155,975	9	138,425
Montgomery	55	568,850	27	533,440
Prince George's	47	596,375	31	557,458
Queen Anne's	2	0	0	0

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<u>County</u>	<u>Total Nonpublic Textbook Schools</u>	<u>Maximum Total Allocation</u>	<u>Schools Approved</u>	<u>Allocation Approved</u>
St. Mary's	11	128,450	5	124,925
Somerset	1	9,175	1	9,175
Talbot	3	45,875	3	45,875
Washington	15	119,275	7	116,750
Wicomico	5	36,700	2	36,700
Worcester	1	0	0	0
<b>Statewide</b>	<b>370</b>	<b>\$3,798,450</b>	<b>184</b>	<b>\$3,498,513</b>

Source: Maryland State Department of Education

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## **Supplemental Capital Grant Program**

The supplemental capital grant program provides grants to local school systems that have enrollment growth that exceeds 150% of the statewide average or with more than 300 relocatable classrooms over a five-year period. Grants are allocated based on full-time equivalent enrollment. The grants are for the construction and renovation of public school facilities and are supplemental to the funding for the public school construction program. Projects funded are subject to the State and local cost-share formula for each school system and require approval by BPW. As of February 2016, \$20.0 million has been recommended for funding by the IAC, \$15.2 million of which has already been approved by BPW. **Exhibit 7** details the grant amounts allocated in fiscal 2016 and approved by IAC through February 2016, including funding that has been reserved to be spent in fiscal 2017. It also includes estimates for funding to be allocated in fiscal 2017. The fiscal 2017 budget provides \$20.0 million to the six local school systems that are eligible for funding: Anne Arundel, Baltimore, Dorchester, Howard, Montgomery, and Prince George's counties. It is worth noting that proposed legislation (SB 271 and HB 722) would increase the annual amount for the program by \$20.0 million, totaling \$40.0 million. Should this legislation be enacted, the amounts detailed in Exhibit 7 for fiscal 2017 would double.

**Exhibit 7  
Supplemental Grant Authorization  
Fiscal 2016 and 2017**

<u>Local Education Agency</u>	<u>2016 Funding Used in 2016</u>	<u>2016 Funding Reserved for 2017</u>	<u>New 2017 Funding Estimated</u>
Anne Arundel	\$1,046,000	\$1,973,000	\$3,019,000
Baltimore County	0	4,137,000	4,137,000
Dorchester	0	179,000	179,000
Howard	0	2,050,000	2,050,000
Montgomery	5,864,000	0	5,864,000
Prince George's	0	4,751,000 <sup>1</sup>	4,751,000
<b>Total</b>	<b>\$6,910,000</b>	<b>\$13,090,000</b>	<b>\$20,000,000</b>

CIP: *Capital Improvement Program*

<sup>1</sup>The authorization for Prince George's County was recommended for funding by the Interagency Committee for School Construction in February 2016.

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

## *Issues*

### **1. State Funding for Window Air Conditioning Units**

Under current practice according to Chapter 2 of Title 23, Subtitle 23 of the *Code of Maryland Regulations*, State money may not be used for the purchase of window AC units in school buildings due to the requirement that all State funded capital projects must have a life expectancy of 15 years or more, and the average life of window AC units is considerably lower than 15 years. IAC has also raised potential issues with regard to the use of window AC units, including the need for school electrical upgrades for their use, their energy efficiency, their noise generation, and their being subject to vandalism.

The State has made strides to increase the percentage of schools with AC. Based on surveys prepared by MSDE, the State has increased the total percentage of schools with AC from 78% in calendar 2004, to 91% in calendar 2016. This reflects the increase in the State's investment in school construction over that time period. Included in this investment is a \$25.0 million initiative in fiscal 2014 to provide State funding grants for AC in schools that lacked central AC in spaces used for educational

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instruction. As of November 2015, \$20.0 million of funds under that initiative has been contracted and \$9.6 million has been expended.

The use of window AC units to provide AC to schools and whether the regulations regarding their use should be changed has been the subject of much debate. This is due to concerns raised over the health and wellbeing of students subject to hot classrooms that do not have AC. According to survey data published by IAC in January 2016, 129 of the 1,404 schools in the State do not have air conditioning, or 9%. These survey results are detailed in **Exhibit 8**, and show that three jurisdictions (Baltimore and Garrett counties and Baltimore City) have AC in 72% of their schools or less.

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**Exhibit 8**  
**Air Conditioning Survey Results**  
**January 2016**

<u>Local Education Agency</u>	<u>Total Schools With Air Conditioning</u>	<u>Total Schools Without Air Conditioning</u>	<u>Percentage Without Air Conditioning</u>
Allegany	21	1	5%
Anne Arundel	118	0	0%
Baltimore City	96	67	41%
Baltimore County	122	47	28%
Calvert	25	0	0%
Caroline	10	0	0%
Carroll	43	0	0%
Cecil	29	1	3%
Charles	38	0	0%
Dorchester	13	0	0%
Frederick	63	0	0%
Garrett	4	9	69%
Harford	53	1	2%
Howard	76	0	0%
Kent	8	0	0%
Montgomery	202	0	0%
Prince George's	209	0	0%
Queen Anne's	14	0	0%
St. Mary's	29	0	0%
Somerset	10	0	0%
Talbot	9	0	0%
Washington	47	0	0%
Wicomico	22	3	12%



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<u>Local Education Agency</u>	<u>Total Schools With Air Conditioning</u>	<u>Total Schools Without Air Conditioning</u>	<u>Percentage Without Air Conditioning</u>
Worcester	14	0	0%
<b>Total</b>	<b>1,275</b>	<b>129</b>	<b>9%</b>

Note: “With Air Conditioning” means the general purpose classrooms in the school have cooling with either a central system or window units paid for through local funds. However, Baltimore City data includes school buildings with central air conditioning systems only, not schools cooled with window units. Projects funded in the State fiscal 2014 Air Conditioning Initiative are not included until work is 100% complete.

Source: Public School Construction Program

DGS performed research regarding the cost of the installation of window AC units. This research assumed that the cost of each individual unit, including proper installation, would be \$4,200, and that the cost for necessary electrical upgrades would be \$5,500 per unit. According to surveys taken in November 2015 inquiring whether jurisdictions would request funding for window AC units if they were made an eligible project type for PSCP funding programs, the three jurisdictions with the most need for AC reported that they would consider requesting window units for 1,561 classrooms. Based on the State cost share for these jurisdictions, the total cost for the State for these projects would be \$9.5 million if they were to be approved, the details of which are available in **Exhibit 9**. DLS believes that this classroom count understates the total need of AC for classrooms, due to the large number of schools reporting needing AC in Baltimore City (67) and the relatively low accompanying number of classrooms in need of cooling (416), even considering that Baltimore City did not report on schools that provide AC with locally funded window units. It is also worth noting that among schools included in the survey results, 9 have received recommendations for funding for AC projects under the 90% CIP recommendation, 4 are due for renovation or replacement as part of Baltimore City’s 21st Century School Initiative in the next two to four years, and 1 is to be vacated in 2019 as part of the plan.

In January 2016, BPW approved a proposed regulation to make window AC units eligible for capital funding. Under the proposed regulation, approval of funding for window AC units would still be subject to the same process for approval as all other PSCP projects, requiring recommendation by IAC and approval by BPW. This regulation is subject to review and comment by the Joint Committee on AELR before taking effect. **IAC should provide an updated estimate as to the costs of providing window AC units to those jurisdictions that would request them. IAC should also comment on the likelihood of jurisdictions making requests for window AC units and receiving recommendations for funding for those requests for funding should the proposed regulation be approved.**

**Exhibit 9**  
**Estimated Cost of Window Air Conditioning Units**  
**November 2015 Survey**

<u>Local Education Agency</u>	<u>Classrooms Without AC</u>	<u>Cost for Window AC Units</u>	<u>State Cost Share</u>	<u>State Cost</u>
Baltimore County	1,109	\$10,757,300	52%	\$5,593,796
Baltimore City	416	4,035,200	93%	3,752,736
Garrett County	36	349,200	50%	174,600
<b>Total</b>	<b>1,561</b>	<b>\$15,141,700</b>		<b>\$9,521,132</b>

AC: air conditioning

Note: Assumes cost of \$9,700 per classroom.

Source: Department of General Services

## 2. Rising Cost of School Construction

The cost of construction has a significant impact on the ability of the State to fund projects. According to the fiscal 2017 CIP, significant increases have occurred in the cost of construction over the last year, accelerating the modest escalation trend since 2010. Past and projected costs for school construction are detailed in **Exhibit 10**. The State fiscal 2016 construction cost approved for projects planning to go to bid in July 2015, which was set July 2014, was \$233 per square foot for new construction. Market conditions, however, indicated that this figure was significantly below the actual cost of construction in summer 2015. The new projected cost for projects anticipated to go to bid in July 2016 is \$282 per square foot for new construction. IAC also assumes the cost of \$336 per square foot for new construction with site development, fully 28.6% higher than the fiscal 2016 CIP.

IAC reports that the following factors contribute to cost escalation:

- **Market Conditions:** Increased opportunities in the private sector and other governmental entities has reduced competition for school construction projects; the recession has reduced the number of contractors as well as plant capacity; the recession reduced the availability of labor, particularly skilled; and contractor margins have increased as they have recovered from years of at- or below-cost bidding.

**Exhibit 10**  
**Past and Projected School Construction Costs**  
**July 2003-July 2016**  
**(\$/Square Foot)**

<u>Bid Date</u>	<u>Building</u> (New Construction without <u>Site Development</u> )	<u>Construction</u> (New Construction with <u>Site Development</u> )
July 2003	\$138.75	\$155.40
July 2004	140.00	156.80
July 2005	157.00	175.84
July 2006	190.00	212.80
July 2007	215.00	240.80
July 2008	215.00	240.80
July 2009	224.00	250.88
July 2010	200.00	224.00
July 2011	200.00	224.00
July 2012	207.00	231.84
July 2013	215.00	240.80
July 2014	224.00	250.88
July 2015	233.00	260.96
July 2016	282.00	335.58

Source: Public School Construction Program; *Capital Improvement Program*, Fiscal 2017

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- **Regulations/Codes/Standards:** Increased direct costs due to stormwater management, high-performance building standards, ventilation, accessibility, and energy code requirements, as well as prevailing wage rates and associated labor requirements, and emergency electrical power regulations; and increased indirect costs as contractors show a preference to bid in less highly regulated environments, reducing competition.
- **Schedule:** Longer times required to obtain permits, reducing the time available to complete the projects and resulting in higher costs associated with acceleration or phasing of construction activities.
- **Sites:** High development costs for sites that are less than ideal, requiring soil mitigation or extensive import/export of soils, combined with the increased cost of stormwater management to meet Maryland’s regulatory requirements in effect since 2011.

**IAC should comment on the specific reasons in the market driving the significant increase in assumptions.**

Further discussion regarding potential cost saving options through alternative school construction delivery, and the commission announced by the Senate President and Speaker of the House to review the State's school construction policies, is located in the IAC operating analysis.

## ***GO Bond Recommended Actions***

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1. Approve the Governor’s \$6.1 million general obligation bond fund authorization for the Aging Schools Program.
2. Approve the Governor’s \$280 million general obligation bond fund authorization for the Public School Construction Program.
3. Approve the Governor’s \$3.5 million general obligation bond fund authorization for the Nonpublic Aging Schools Program.
4. Approve the Governor’s \$20 million general obligation bond fund authorization for the Supplemental Capital Grant Program for Local School Systems.
5. Approve the Governor’s \$4.7 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

**Total State Allocation for Public School Construction  
Fiscal 1972 through Initial 2017 Allocation**

<u>Local Education Agency</u>	<u>Allocation</u>	<u>% of Total</u>
Allegany	\$109,461,846	1.49%
Anne Arundel	641,710,709	8.75%
Baltimore City	827,348,268	11.29%
Baltimore County	747,987,934	10.20%
Calvert	173,187,272	2.36%
Caroline	77,826,069	1.06%
Carroll	239,313,395	3.26%
Cecil	142,778,764	1.95%
Charles	256,841,542	3.50%
Dorchester	92,599,789	1.26%
Frederick	410,430,343	5.60%
Garrett	55,067,950	0.75%
Harford	338,996,349	4.62%
Howard	498,770,523	6.80%
Kent	20,800,390	0.28%
Montgomery	1,025,179,688	13.98%
Prince George's	813,774,626	11.10%
Queen Anne's	85,725,328	1.17%
St. Mary's	183,984,033	2.51%
Somerset	76,594,670	1.04%
Talbot	30,111,613	0.41%
Washington	177,254,833	2.42%
Wicomico	182,770,748	2.49%
Worcester	68,823,978	0.94%
MD School for the Blind	36,227,631	0.49%
Statewide	17,237,039	0.24%
<b>Total</b>	<b>\$7,330,805,330</b>	<b>100.00%</b>

Source: Public School Construction *Capital Improvement Program*, Fiscal 2017

**Fiscal 2017 Public School Construction Funding**  
(\$ in Thousands)

<b>Local Education Agency</b>	<b>IAC/BPW Approved 75%</b>	<b>90% Additional IAC Recommendation</b>	<b>90% Total Recommendation</b>	<b>Total Request</b>	<b>A/B Request</b>	<b>% A/B Request Funded*</b>
Allegany	\$5,800	\$1,618	\$7,418	\$25,115	\$25,115	30%
Anne Arundel	23,018	4,998	28,016	55,043	33,632	83%
Baltimore City	24,572	5,414	29,986	85,194	58,855	51%
Baltimore County	24,675	5,685	30,360	59,277	38,887	78%
Calvert	5,926	492	6,418	9,964	9,964	64%
Caroline	36	0	36	1,835	36	100%
Carroll	2,971	0	2,971	3,418	3,418	87%
Cecil	1,911	950	2,861	7,434	7,434	38%
Charles	2,217	0	2,217	15,599	2,217	100%
Dorchester	3,760	749	4,509	5,010	5,010	90%
Frederick	15,400	2,945	18,345	29,309	29,309	63%
Garrett	3,320	653	3,973	4,414	4,414	90%
Harford	7,472	738	8,210	8,732	8,732	94%
Howard	20,000	4,000	24,000	33,256	33,256	72%
Kent	0	0	0	0	0	n/a
Montgomery	25,700	5,700	31,400	149,958	138,186	23%
Prince George's	24,673	5,688	30,361	71,488	45,399	67%
Queen Anne's	683	0	683	833	683	100%
St. Mary's	1,037	142	1,179	1,273	1,273	93%
Somerset	1,430	164	1,594	1,771	1,771	90%
Talbot	0	0	0	0	0	n/a
Washington	3,958	564	4,522	4,847	4,847	93%
Wicomico	7,227	0	7,227	15,415	10,415	69%
Worcester	0	0	0	0	0	n/a
Maryland School for the Blind	4,214	1,500	5,714	9,902	9,902	58%
<b>Total</b>	<b>\$210,000</b>	<b>\$42,000</b>	<b>\$252,000</b>	<b>\$599,087</b>	<b>\$472,755</b>	<b>53%</b>

BPW: Board of Public Works

IAC: Interagency Committee on School Construction

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

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

**Maryland Public School Construction Program  
Summary of Capital Program Requests  
Fiscal 2017-2022  
(\$ in Thousands)**

<u>LEA</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Allegany	\$25,115	\$13,341	\$433	\$1,004	\$294	\$2,284	\$42,471
Anne Arundel	55,043	62,462	60,098	53,987	70,906	52,864	355,360
Baltimore County	59,277	132,883	66,649	36,050	36,050	36,050	366,959
Calvert	9,964	14,575	12,535	6,690	1,086	10,666	55,516
Caroline	1,835	0	11,049	17,249	15,761	27,904	73,798
Carroll	3,418	10,012	14,896	33,044	25,950	6,823	94,143
Cecil	7,434	7,615	7,915	9,421	15,961	10,721	59,067
Charles	15,599	16,995	27,391	29,848	14,747	17,327	121,907
Dorchester	5,010	11,771	13,399	8,028	2,693	6,043	46,944
Frederick	29,309	29,971	2,837	29,863	27,820	31,328	151,128
Garrett	4,414	5,311	589	985	1,850	2,715	15,864
Harford	8,732	16,392	19,346	17,929	10,057	11,693	84,149
Howard	33,256	86,823	77,776	62,857	13,400	67,809	341,921
Kent	0	1,560	0	3,066	3,000	2,500	10,126
Montgomery	149,958	68,496	92,115	92,935	120,143	86,180	609,827
Prince George's	71,488	133,498	187,802	153,664	124,796	157,138	828,386
Queen Anne's	833	1,702	445	9,782	14,509	8,787	36,058
St. Mary's	1,273	1,030	10,257	10,776	5,617	7,491	36,444
Somerset	1,771	14,464	14,464	7,232	8,236	9,387	55,554
Talbot	0	0	8,870	400	4,255	0	13,525
Washington	4,847	6,167	11,244	11,614	12,827	9,878	56,577
Wicomico	15,415	21,496	14,473	17,279	29,724	18,900	117,287
Worcester	0	0	4,478	4,478	2,704	1,569	13,229
Baltimore City	85,194	96,284	77,674	69,614	68,661	67,562	464,989
Maryland School for the Blind	9,902	7,299	6,600	10,496	7,459	8,345	50,101
<b>Total State</b>	<b>\$599,087</b>	<b>\$760,147</b>	<b>\$743,335</b>	<b>\$698,291</b>	<b>\$638,506</b>	<b>\$661,964</b>	<b>\$4,101,330</b>
<b>Total Adjusted State</b>	<b>\$599,087</b>	<b>\$790,553</b>	<b>\$803,991</b>	<b>\$785,482</b>	<b>\$746,962</b>	<b>\$805,380</b>	<b>\$4,531,456</b>

LEA: local education agency

Total State: Estimated based on fiscal 2017 requests with no adjustment for inflation.

Total Adjusted State: Adjusted for inflation based on fiscal 2017 requests compounded at 4% per year.

Source: Public School Construction *Capital Improvement Program*, Fiscal 2017