

DE0202
Public School Construction
Board of Public Works

Capital Budget Summary

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

Program	2016 Approp.	2017 Approp.	2018 Request	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
Public School Construction Program	\$318.190	\$324.993	\$302.182	\$280.000	\$280.000	\$280.000	\$280.000
Supplemental Capital Grant Program	20.000	40.000	40.000	40.000	40.000	40.000	40.000
Aging School Program	6.109	0.000	6.109	6.109	6.109	6.109	6.109
Qualified Zone Academy Bonds	4.625	4.680	4.823	4.823	0.000	0.000	0.000
Nonpublic Aging Schools	3.500	3.500	3.500	3.500	3.500	3.500	3.500
Total	\$352.424	\$373.173	\$356.614	\$334.432	\$329.609	\$329.609	\$329.609

Fund Source	2016 Approp.	2017 Approp.	2018 Request	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
GO Bonds	\$314.234	\$328.180	\$334.432	\$334.432	\$329.609	\$329.609	\$329.609
Nonbudgeted Funds	38.190	44.993	22.182	0.000	0.000	0.000	0.000
Total	\$352.424	\$373.173	\$356.614	\$334.432	\$329.609	\$329.609	\$329.609

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 2018 nonbudgeted funds are based on reverted funds available for the fiscal 2018 *Capital Improvement Program*. In fiscal 2017, \$6.1 million for the Aging Schools Program was restricted in the State Reserve Fund but was not appropriated by the Governor.

Summary of Issues

Addressing Non-air-conditioned Schools: Some Maryland local education agencies (LEA) have a large number of schools without air conditioning (AC), with Baltimore City and Baltimore County having particularly large numbers, with 114 combined. This issue will provide an overview of actions taken by the Board of Public Works (BPW) to require Baltimore City and Baltimore County to provide AC in their schools at an accelerated pace, including the withholding of funds from the fiscal 2017 *Capital Improvement Program (CIP)*, and to authorize the use of portable AC units in schools. It will also provide a description of legislation that has been introduced to establish a School Emergency Air-Conditioning Fund to provide grants to public primary and secondary schools to install AC. **The Public School Construction Program (PSCP) should update the committees on how funds that have been restricted for Baltimore County and that have not been released by BPW will be spent.**

E-rate Funding for Internet Connectivity: This issue will provide an overview of the Schools and Libraries Program, better known as the E-rate program, by the Universal Service Administrative Company, which helps eligible recipients make broadband infrastructure upgrades and pay for fiber construction within school buildings. It will also provide a description of how funds may be allocated to LEAs along with legislation that would establish a School Broadband Upgrade Grant Program to provide State and local funding to leverage federal E-rate funding. A BPW regulation change has been recommended by the Interagency Committee on School Construction (IAC) to specify that certain broadband infrastructure for E-rate-eligible applicants be eligible for funding through the CIP. **PSCP should comment on how E-rate projects would be administered in Maryland if funding were to be provided.**

Summary of Updates

Capital Improvement Program Appeals: Annually, LEAs make appeals to IAC regarding the 75% recommendations for that year's CIP. Following this round of appeals, a second round is typically held, in which the LEAs make their appeals to BPW. The fiscal 2017 capital budget included language that made recommendations by IAC for the fiscal 2018 CIP not subject to further appeal by local school systems. However, members of BPW still called upon LEAs to present to BPW on the fiscal 2018 CIP to provide information before the first round of fiscal 2018 allocations were approved by BPW.

Summary of Recommended Bond Actions

1. Aging Schools Program

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

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 \$40 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 \$4.8 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

Program Description

Public School Construction

The State established 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 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.

DE0202 – BPW – Public School Construction

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

Aging Schools

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

Nonpublic Aging Schools

The Nonpublic Aging Schools Program, administered by IAC and the Maryland State Department of Education (MSDE), provides funds to nonpublic schools for improvements, repairs, school security improvements, and deferred maintenance in nonpublic school buildings. Funding has been provided for the program in each of fiscal 2014 through 2017. Funds are distributed to nonpublic schools currently participating in the Maryland Nonpublic Student Textbook Program. Payment for work completed under this program is through reimbursement to the grant recipient. No matching funds are required, but the nonpublic school is responsible for all project costs exceeding the amount of the grant.

Qualified Zone Academy Bonds

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

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

Supplemental Capital Grant Program

Chapter 355 of 2015 established the supplemental capital grant program to provide grants in the annual CIP 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. Chapters 665 and 666 of 2016 increased the amount to be provided annually for the program from \$20 million to \$40 million.

Budget Overview

School Construction Program

State and local governments share in the cost of school construction projects. **Exhibit 1** shows the State's share of eligible project costs for fiscal 2016 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. It is due for an update in calendar 2017. The 21st Century School Facilities Commission will be examining funding issues in the 2017 interim, including the State-local cost-share formula.

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

<u>Counties</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%
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%

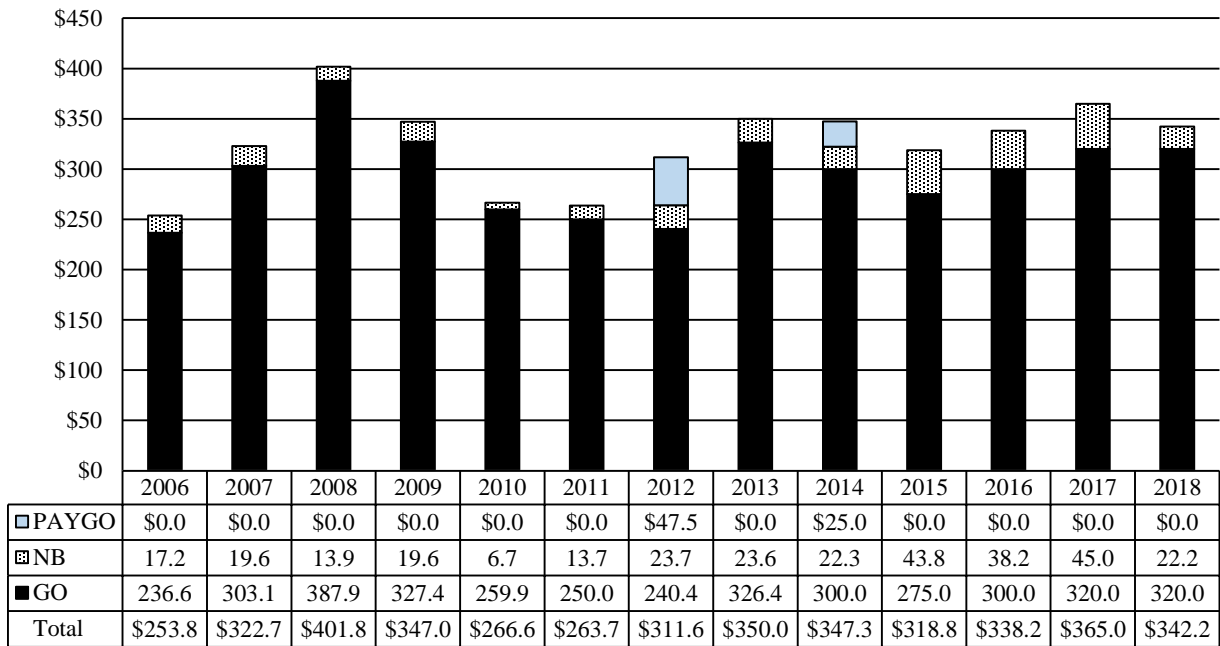
Source: Public School Construction Program

As shown in **Exhibit 2**, the State has invested \$3.6 billion in public school construction projects between fiscal 2006 and 2017, including \$72.5 million provided as PAYGO. (This does not include \$287.2 million that is classified as nonbudgeted out of the contingency fund.) Chapters 306 and 307 set a goal for the State to provide \$2.0 billion for school construction in fiscal 2006 through 2013. The

DE0202 – BPW – Public School Construction

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 2018 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. To date, one bond issuance of \$320.0 million was issued on April 20, 2016, for revitalization under Chapter 647, resulting in \$385.0 million available for construction.

Exhibit 2
State Funding for School Construction
Fiscal 2006-2018
(\$ in Millions)



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

Note: Figures include new GO bonds, PAYGO, and unexpended funds that were previously authorized. Fiscal 2012 includes \$47.5 million supplementary appropriation. Supplemental Capital Grant Program funding is included beginning in fiscal 2016. Fiscal 2017 includes \$5.0 million in GO bonds withheld from Baltimore County by the Board of Public Works. These figures do not include the bond funds for the 21st Century Schools Program in Baltimore City as established by Chapter 647 of 2013.

Source: Public School Construction Program

Fiscal 2018 CIP

Seventy-five percent of the preliminary \$280 million announced by the Governor in October 2016, or \$210 million, was recommended for specific projects by IAC and approved by BPW in January 2017. Another \$42 million in fiscal 2018 CIP funds was recommended by IAC in February 2017, totaling \$252 million of the \$280 million proposed budget. These actions satisfy the requirement that IAC submit recommendations by March 1, 2017, equal to 90% of the funding provided in the Governor's proposed capital budget.

Appendix 2 shows a summary of the proposed fiscal 2018 CIP by jurisdiction to date. This includes the amount of funding approved by BPW in January 2017 for 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 2018 CIP recommendations include the following:

- a total of 44 major construction projects for \$154.2 million of the distribution, or 61.2%;
- a total of 98 systemic renovation projects for \$93.5 million of the distribution, or 37.1%; and
- a total of 6 kindergarten/prekindergarten projects for \$4.3 million of the distribution, or 1.7%.

To date, IAC has recommended 148 projects of the 277 requested by LEAs for planning and funding, or 65.1%. As seen in Appendix 2, total requests were for \$702.3 million. IAC determined \$658.1 million (93.7%) to be eligible for funding. The IAC 90.0% recommendation funds \$252.0 million, or 38.3%, of the eligible project requests. BPW approved 130 projects for 75.0% of the CIP funding in January 2017 and will act on the remaining 25.0% of the CIP in May 2017.

Appendix 3 shows the amount of capital program funds that local school systems have requested for fiscal 2018 and are planning to request for fiscal 2019 through 2023.

It is worth noting that in the fiscal 2018 CIP, the approved construction cost per square foot (sq. ft.) for projects planning to go to bid decreased from \$282 to \$265 for projects without site development and from \$336 to \$315 for projects with site development, a 6% decrease. This reduction follows what was an unprecedented one-year increase in the costs used for projects in the fiscal 2017 CIP, which increased 21% for construction without site development and 29% for construction with site development over 2016 CIP costs. The cost per sq. ft. is based on an average of recent bids (\$255 per sq. ft. in the fiscal 2018 CIP), plus a 4% cost escalation. **PSCP should comment on what market trends indicate a decrease in construction cost per sq. ft.**

Contingency Fund

Exhibit 3 shows the components of the contingency fund that are available for projects in fiscal 2018. IAC is required to report quarterly to the General Assembly and the Department of Legislative Services on the contingency funds. The contingency balance for LEAs was \$22.2 million that may be allocated toward projects in the fiscal 2018 CIP. This includes reserved funds for LEAs (\$22,167,963) and funds that have gone unspent by LEAs for two years and, therefore, become unreserved (\$13,617).

Exhibit 3 Contingency Balance by Local Education Agency Fiscal 2017 Year to Date

	<u>LEA Contingency Balance as of December 12, 2016</u>	<u>LEA Contingency Increases and Decreases January to March</u>	<u>LEA Contingency Reserves for Specific Programs or Initiatives⁽¹⁾</u>	<u>LEA Contingency Funds Undetermined⁽²⁾</u>	<u>Current LEA Contingency Balance Available⁽³⁾</u>
Allegany	\$160,609	\$0	-\$132,802	\$0	\$27,807
Anne Arundel	1,378,052	7,156	-20,000	-831,554	533,654
Baltimore County	2,982,281	-164,998	-2,366,441	-387,692	63,150
Baltimore City	13,387,732	22,882	-2,575,984	-4,936,834	5,897,796
Calvert	32,909	1,983	-23,910	-1,983	8,999
Caroline	0	0	0	0	0
Carroll	814,709	0	-3	0	814,706
Cecil	473,716	0	-20,804	0	452,912
Charles	29,558	-13,728	-6,701	0	9,129
Dorchester	326,744	0	-326,744	-34,166	-34,166
Frederick	373,573	34,166	0	0	407,739
Garrett	77,244	0	0	0	77,244 ⁽⁴⁾
Harford	117,162	0	0	0	117,162
Howard	3,695,321	107,661	-107,661	-2,169,968	1,525,353
Kent	132,719	0	0	-14,280	118,439 ⁽⁴⁾
Montgomery	2,993,551	15,364	-330,000	-2,678,915	0
Prince George's	18,676,781	0	-452,000	-6,268,186	11,956,595
Queen Anne's	69,879	0	-69,879	0	0
St. Mary's	705,651	298,400	-592,192	-298,400	113,459
Somerset	138,345	0	-138,345	0	0

DE0202 – BPW – Public School Construction

	LEA Contingency Balance as of December 12, 2016	LEA Contingency Increases and Decreases January to March	LEA Contingency Reserves for Specific Programs or Initiatives⁽¹⁾	LEA Contingency Funds Undetermined⁽²⁾	Current LEA Contingency Balance Available⁽³⁾
Talbot	313,159	0	-5,159	-308,000	0
Washington	77,698	0	0	0	77,698
Wicomico	0	0	0	0	0
Worcester	126,226	0	-126,226	0	0
Maryland School for the Blind	198,287	0	-198,000	0	287
Subtotal	\$47,281,906	\$308,886	-\$7,492,851	-\$17,929,978	\$22,167,963
LEA Reserved Contingency Balance Available for Fiscal 2018 CIP					\$22,167,963⁽³⁾
Balance of Unreserved Contingency Available for Fiscal 2018 CIP					\$13,617
Total Contingency Balance Available for Fiscal 2018 CIP (Reserved and Unreserved)					\$22,181,580

CIP: Capital Improvement Program
LEA: local education agency

⁽¹⁾ Includes the Air Conditioning Initiative, the Energy Efficiency Initiative, the Enrollment Growth or Relocatable Classrooms funding, and the Supplemental Appropriation funds for specific LEAs.

⁽²⁾ Includes CIP funds not designated by LEAs, to be assigned pending LEA indication of preferences to the fiscal 2017 or 2018 CIP.

⁽³⁾ Contingency balance available for specific LEAs as of March 2017. If these funds are not allocated to the LEAs within two years, it will revert to the statewide unreserved contingency.

⁽⁴⁾ Garrett County (\$77,244) and Kent County (\$118,439) funds are reserved for fiscal 2018 CIP.

Source: Public School Construction Program

Qualified Zone Academy Bonds

As of February 22, 2017, Maryland has issued \$97.0 million in QZABs, as shown in **Exhibit 4**. The most recent issuance of \$4.7 million was authorized in Chapter 198 of 2016. Issuances prior to 2008 are allowed to accumulate interest under federal law, resulting in \$3.0 million in total interest proceeds.

Exhibit 4
QZAB Proceeds and Expenditures as of February 22, 2017
Sale Year 2001-2016

<u>Sale Years</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	978,330	10,022,857	10,007,197	15,660	99.8%
2006	4,378,000	327,355	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	12,640	4,558,740	4,558,740	0	100.0%
2014	4,622,100	22,131	4,644,231	3,544,687	1,099,544	76.3%
2015	4,621,000	22,239	4,643,239	2,152,795	2,490,444	46.4%
2016	4,680,000	0	4,680,000	709,552	3,970,448	15.2%
Total	\$101,541,175	\$3,005,777	\$104,548,979	\$96,972,383	\$7,576,596	92.8%

QZAB: Qualified Zone Academy Bonds

Note: Expenditures of \$593,868 for QZAB 2001 were spent on nonqualified projects. This amount must be deducted from expenditures for federal compliance purposes, therefore, reducing percentage expended to 96.65%. In anticipation of closing the 2008 QZAB account, the interest balance was transferred into the proceeds account.

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

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, authorized eligible public charter schools to apply for funds, and allocated another portion of the funds for MSDE Breakthrough Center projects.

DE0202 – BPW – Public School Construction

HB 153 and SB 197 would authorize the issuance of \$4.8 million in QZABs by December 31, 2017, representing Maryland’s share of the latest federal allocation. One more state allocation has been authorized by Congress. Approximately \$1.1 million in currently unexpended balance of funds from the 2014 issuance that have already been authorized has a spending deadline of December 18, 2017.

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. During the 2016 session, in the fiscal 2017 operating budget bill, the General Assembly restricted funding for the program through the State Reserve Fund. However, the Governor announced that he will not appropriate any funds fenced off through the State Reserve Fund in fiscal 2017. Fiscal 2018 funding is once again being provided as \$6.1 million in GO bonds. Approximately \$923,000 is available from prior years to be expended. **Exhibit 5** shows the fiscal 2018 allocations by LEA.

Exhibit 5
Aging Schools Program Allocation
Fiscal 2018

<u>Local Education Agencies</u>	<u>2018 Allocation</u>	<u>Unexpended Funds</u>	<u>Total Allocation</u>
Allegany	\$97,791	\$693,566	\$791,357
Anne Arundel	506,038	0	506,038
Baltimore City	1,387,924	0	1,387,924
Baltimore	874,227	0	874,227
Calvert	38,292	10,349	48,641
Caroline	50,074	21,246	71,320
Carroll	137,261	0	137,261
Cecil	96,024	1,656	97,680

DE0202 – BPW – Public School Construction

<u>Local Education Agencies</u>	<u>2018 Allocation</u>	<u>Unexpended Funds</u>	<u>Total Allocation</u>
Charles	50,074	2,589	52,663
Dorchester	38,292	0	38,292
Frederick	182,622	9,904	192,526
Garrett	38,292	0	38,292
Harford	217,379	0	217,379
Howard	87,776	0	87,776
Kent	38,292	0	38,292
Montgomery	602,651	1,812	604,463
Prince George's	1,209,426	0	1,209,426
Queen Anne's	50,074	585	50,659
St. Mary's	50,074	8,586	58,660
Somerset	38,292	172,164	210,456
Talbot	38,292	68	38,360
Washington	134,904	0	134,904
Wicomico	106,627	0	106,627
Worcester	38,292	622	38,914
Total	\$6,108,990	\$923,147	\$7,032,137

Note: Unexpended funds are from the fiscal 2010, 2013, and 2015 allocations.

Source: Public School Construction Program

Nonpublic Aging Schools

The Governor's fiscal 2018 capital budget includes \$3.5 million for the Nonpublic Aging Schools program. Since the program was first funded in fiscal 2014, the State has provided \$13.5 million not including the proposed fiscal 2018 amount. **Exhibit 6** shows the allocation of funds for fiscal 2017, as well as the maximum allocation available for schools that were approved for funds. A total of 180 nonpublic schools were approved to receive grant funding through the program, awarding the whole allocation as well as approximately \$73,000 of unspent funds from the fiscal 2014 allocation. The allocations for fiscal 2017 are preliminary and subject to BPW approval, scheduled for March 22, 2017.

Exhibit 6
Nonpublic Aging Schools Program
Fiscal 2017 Allocation

<u>Local Education Agencies</u>	<u>Schools Approved</u>	<u>Allocation Approved</u>
Allegany	3	\$27,132
Anne Arundel	13	216,836
Baltimore City	26	664,399
Baltimore County	34	756,254
Calvert	3	27,132
Caroline	0	0
Carroll	1	9,044
Cecil	3	75,614
Charles	7	74,264
Dorchester	0	0
Frederick	2	54,264
Garrett	0	0
Harford	4	68,018
Howard	8	136,030
Kent	1	27,132
Montgomery	30	640,352
Prince George's	27	483,905
Queen Anne's	0	0
St. Mary's	5	108,102
Somerset	0	0
Talbot	3	46,176
Washington	6	104,484
Wicomico	4	54,264
Worcester	0	0
Statewide	180	\$3,573,402

Note: The fiscal 2017 Nonpublic Aging Schools Program allocation is supplemented by \$73,402 reallocated from the unspent balance of the fiscal 2014 allocation.

Source: Public School Construction Program

DE0202 – BPW – Public School Construction

Language in the fiscal 2016 and 2017 authorizations 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 and no less than \$5,000 and provided three criteria to determine maximum funding per school. The three criteria are: (1) at least 20% of the school's students being eligible for FRPM; (2) tuition charged to students being less than the statewide average per pupil expenditure; and (3) the school having a facility with an average age of 50 years or older. The language specifies that that schools may receive up to a maximum allocation based on how many criterion it meets. This language, which has also been included in the fiscal 2018 authorization, sets the levels as follows:

- up to \$25,000 for schools meeting one criterion;
- up to \$75,000 for schools meeting two criteria; and
- up to \$100,000 for schools meeting three criteria.

MSDE adjusts the recommended allocations for schools in order to use the total allocation, while also reflecting that some schools request lower than their eligibility level as outlined in the language. In fiscal 2017, MSDE set the levels as follows:

- up to \$9,044 for schools meeting one criterion;
- up to \$27,132 for schools meeting two criteria; and
- up to \$36,176 for schools meeting three criteria.

MSDE should explain to the budget committees how it sets the maximum funding levels for nonpublic schools participating in the Nonpublic Aging Schools Program.

Supplemental Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms

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 proportionally 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. The program was provided \$20 million in fiscal 2016, its initial year. The program's funding was doubled for fiscal 2017, and each year thereafter, by Chapters 665 and 666 of 2016. Allocations for this funding are shown for the eligible LEAs in **Exhibit 7**.

Exhibit 7
Supplemental Grant Authorization
Fiscal 2016-2018

<u>Local Education Agencies</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Anne Arundel	\$3,019,000	\$6,038,000	\$6,080,000
Baltimore County	4,137,000	8,275,000	8,342,000
Dorchester	179,000	357,000	0
Howard	2,050,000	4,100,000	4,170,000
Montgomery	5,864,000	11,728,000	11,835,000
Prince George's	4,751,000	9,502,000	9,573,000
Total	\$20,000,000	\$40,000,000	\$40,000,000

Note: This exhibit shows years in which funds were allocated. Local education agencies reserved \$13.1 million of their fiscal 2016 funding to be spent in fiscal 2017. Dorchester County has reserved \$178,000 of its fiscal 2017 allocation for projects to be specified in May 2017. Dorchester County did not qualify for funding in fiscal 2018 due to having an enrollment below the statewide average over a five-year period.

Source: Public School Construction Program; Department of Legislative Services

Issues

1. Addressing Non-air-conditioned Schools

A survey conducted in January 2016 by MSDE found that all but four school systems had AC (including window units) in at least 95% of their schools (the figures for Baltimore City did not include schools with window units). The four exceptions were Baltimore City (59%) and Baltimore (72%), Garrett (31%), and Wicomico (88%) counties. The survey did not include schools where work for the Air Conditioning Initiative through the fiscal 2014 capital budget was underway, so the number is likely lower now that those projects have been completed. Combined, Baltimore City and Baltimore County had 114 schools without AC, while Garrett and Wicomico counties had 12 combined.

In May 2016, BPW withheld \$5 million and \$10 million, from the fiscal 2017 school construction capital allocations for Baltimore City and Baltimore County, respectively, due to the number of schools without AC in those systems. BPW stated that they would withhold the funds until Baltimore City and Baltimore County submitted a plan to have air conditioning in all their classrooms by late August 2016.

DE0202 – BPW – Public School Construction

In July 2016, BPW adopted a regulation that makes window or other portable AC units eligible for State school construction funding. The funding eligibility begins in fiscal 2018, as the fiscal 2017 capital budget bill specified that regulations in effect on January 1, 2016, apply to eligible costs for fiscal 2017 school construction projects. Under those regulations, only AC systems with a useful life of at least 15 years, the term of State GO debt, are eligible to receive State funding.

Baltimore County is in the midst of an initiative to install AC in all of its schools, which was accelerated after BPW withheld funds. It expects to have central AC installed in most elementary and middle schools by the beginning of the 2017-2018 school year, except those that are scheduled to be replaced or renovated. The remaining schools are scheduled to be completed by the beginning of the 2021-2022 school year. The 21st Century Schools initiative in Baltimore City will also dramatically reduce the number of schools without AC through a combination of 23 to 28 renovated and new school buildings and the closure of 26 school buildings. In addition, Baltimore City was approved by BPW to use \$3.8 million of contingency funds (prior authorized but unexpended) to install portable AC window units or ductless split systems in 7 schools in fiscal 2018.

In January 2017, BPW released \$5 million each in withheld fiscal 2017 school construction funds for Baltimore City and Baltimore County; \$5 million remains withheld from Baltimore County. **PSCP should update the committees on how funds that have been restricted for Baltimore County that have not been released by BPW will be spent.**

Legislation has been introduced (SB 334 and HB 692) that would establish the School Emergency Air-Conditioning Fund to provide grants to public primary and secondary schools to install AC. The Governor would be required to appropriate at least \$7.5 million to the fund from fiscal 2019 through 2022. Money expended from the fund would be supplemental and not intended to replace funding that would otherwise be appropriated to public schools. IAC would allocate the funds according to the following priorities (in descending order of priority):

- installation of AC in school buildings that, as of July 1, 2016, did not have any source of AC, including window units;
- installation of central AC systems in schools that, as of July 1, 2016, did not have central AC but did have other AC including window units; and
- replacement of AC units, including window units, that have reached the end of their expected life cycle.

2. E-rate Funding for Internet Connectivity

The federal Telecommunications Act of 1996 created four universal service programs to expand Internet access to underserved areas. Funding for the programs is collected from telecommunications companies, which typically pass the cost on to consumers through universal service fees. The Universal Service Administrative Company (USAC), an independent nonprofit company, collects the

DE0202 – BPW – Public School Construction

funds and administers the programs in collaboration with the Federal Communications Commission (FCC).

USAC’s Schools and Libraries Program, better known as the E-rate program, provides discounts of up to 90% to help eligible schools and libraries connect to the Internet. Eligible grant recipients include public and most nonprofit elementary and secondary schools as well as all public and many private libraries. To receive E-rate funding, eligible recipients must first conduct a competitive procurement to obtain the most cost-effective proposal to provide the goods or services requested. Eligible expenses are divided into Category 1 and Category 2 costs, with Category 1 costs being broadband infrastructure upgrades that bring broadband services up to and into a school building or non-instructional facility of a school district, and Category 2 costs being fiber construction within a school building. After selecting a vendor, recipients then apply to USAC for E-rate funding, which is based on the proportion of low-income families served by the recipient. Recipients must provide the balance of the cost of the goods or services being provided. MSDE advises that dedicated State funds have not been available to cover the costs not paid for by the E-rate program.

In a recent order, FCC established an enhanced match for Category 1 costs only. The enhanced match increases the E-rate subsidy by up to 10% for a dollar-for-dollar match for state funds dedicated to Category 1 projects. For example, a district with a 70% E-rate subsidy currently pays 30% of Category 1 costs; with the enhanced match, if the state contributes 10%, the E-rate subsidy increases by 10%, leaving the district to pay for just 10% of project costs.

Exhibit 8 shows the five-year projected Category 2 costs to provide universal Internet coverage to all schools for each local school system in the State, the share of those costs eligible for reimbursement by E-rate, and the funding gap for each system. Comparable data on Category 1 costs were not available from USAC but are believed to be no higher than Category 2 costs. The \$44.8 million funding gap over five years translates into annual costs of just less than \$9.0 million.

Exhibit 8
Five-year Category 2 E-rate Costs

<u>System</u>	<u>Category 2 Costs</u>	<u>E-rate Share</u>	<u>E-rate Contribution</u>	<u>Funding Gap</u>
Allegany	\$1,252,350	85%	\$1,064,498	\$187,853
Anne Arundel	11,371,450	50%	5,685,725	5,685,725
Baltimore City	11,861,750	85%	10,082,488	1,779,263
Baltimore	15,729,400	60%	9,437,640	6,291,760
Calvert	2,397,450	60%	1,438,470	958,980
Caroline	794,450	80%	635,560	158,890
Carroll	3,927,900	50%	1,963,950	1,963,950
Cecil	2,274,800	70%	1,592,360	682,440

DE0202 – BPW – Public School Construction

<u>System</u>	<u>Category 2 Costs</u>	<u>E-rate Share</u>	<u>E-rate Contribution</u>	<u>Funding Gap</u>
Charles	3,840,700	60%	2,304,420	1,536,280
Dorchester	695,350	80%	556,280	139,070
Frederick	5,929,900	50%	2,964,950	2,964,950
Garrett	571,700	70%	400,190	171,510
Harford	5,560,800	50%	2,780,400	2,780,400
Howard	7,761,350	50%	3,880,675	3,880,675
Kent	298,650	80%	238,920	59,730
Montgomery	22,160,150	60%	13,296,090	8,864,060
Prince George's	17,791,050	80%	14,232,840	3,558,210
Queen Anne's	1,120,800	60%	672,480	448,320
St. Mary's	426,100	85%	362,185	63,915
Somerset	2,554,000	60%	1,532,400	1,021,600
Talbot	644,850	70%	451,395	193,455
Washington	3,316,100	80%	2,652,880	663,220
Wicomico	2,076,200	80%	1,660,960	415,240
Worcester	950,350	70%	665,245	285,105
Total	\$125,307,600		\$80,553,000	\$44,754,600

Source: Universal Service Administrative Company

Legislation has been introduced (SB 370 and HB 975) that would establish a School Broadband Upgrade Grant Program to provide State and local funding for Category 1 and 2 services to leverage federal E-rate funding. Overall, the State and local school districts would share these costs under the program equally, but the cost sharing would vary on a county-by-county basis in accordance with the K-12 foundation formula. Thus, the State share of Category 2 costs would be expected to be approximately \$4.5 million (one-half of the total). As Category 1 costs are believed to be no higher than Category 2 costs, the State's share of those costs would also be estimated to be \$4.5 million, for a total of \$9.0 million available in State grants annually.

Separate from the proposed legislation, a BPW regulation change has been recommended by IAC to specify that certain broadband infrastructure for E-rate-eligible applicants will be eligible for funding through the CIP. This proposed regulation is on BPW's agenda on March 8, 2017.

PSCP should comment on how E-rate projects would be administered in Maryland if funding were to be provided.

Updates

1. *Capital Improvement Program Appeals*

Annually, LEAs make appeals to IAC regarding the 75% recommendations for that year’s CIP. Following this round of appeals, a second round is typically held, in which the LEAs make its appeals to BPW. This second round of appeals is sometimes referred to as the “Begathon.” The fiscal 2017 capital budget included language that made recommendations by IAC for the fiscal 2018 CIP not subject to further appeal by local school systems, thereby making the 2017 Begathon unnecessary following IAC’s recommendations. However, members of BPW still called upon LEAs to present to BPW on the fiscal 2018 CIP to provide information before the first round of fiscal 2018 allocations were approved by BPW, effectively holding a 2017 Begathon. These presentations were made to BPW on January 25, 2017.

GO Bond Recommended Actions

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 \$40 million general obligation bond fund authorization for the Supplemental Capital Grant Program for Local School Systems.
5. Approve the Governor’s \$4.8 million general obligation bond fund authorization for Qualified Zone Academy Bonds.

Appendix 1
Total State Allocation for Public School Construction
Fiscal 1972 through Initial 2018 Allocation

<u>Local Education Agencies</u>	<u>Allocation</u>	<u>% of Total</u>
Allegany	\$135,567,362	1.77%
Anne Arundel	680,485,815	8.88%
Baltimore City	856,380,013	11.18%
Baltimore	794,295,690	10.37%
Calvert	185,214,363	2.42%
Caroline	79,472,069	1.04%
Carroll	241,329,689	3.15%
Cecil	152,127,852	1.99%
Charles	270,561,636	3.53%
Dorchester	98,339,045	1.28%
Frederick	430,407,392	5.62%
Garrett	53,099,950	0.69%
Harford	347,139,187	4.53%
Howard	521,175,202	6.80%
Kent	20,786,110	0.27%
Montgomery	1,073,497,597	14.01%
Prince George's	840,293,845	10.97%
Queen Anne's	87,694,328	1.14%
St. Mary's	184,920,647	2.41%
Somerset	76,941,670	1.00%
Talbot	29,803,613	0.39%
Washington	179,812,135	2.35%
Wicomico	193,416,748	2.52%
Worcester	68,810,361	0.90%
Maryland School for the Blind	44,013,344	0.57%
Statewide	17,548,739	0.23%
Total	\$7,663,134,402	100.00%

Source: Public School Construction *Capital Improvement Program*, Fiscal 2018

Appendix 2
Fiscal 2018 Public School Construction Funding
(\$ in Thousands)

<u>LEA</u>	<u>IAC/BPW Approved 75%</u>	<u>90% Additional IAC Recommendation</u>	<u>90% Total Recommendation</u>	<u>Total Request</u>	<u>A/B Request</u>	<u>% A/B Request Funded¹</u>
Allegany	\$7,700	\$2,200	\$9,900	\$12,873	\$12,873	77%
Anne Arundel	21,278	2,500	23,778	69,868	68,677	35%
Baltimore City ²	21,679	1,205	22,884	70,848	69,157	33%
Baltimore	26,569	4,000	30,569	134,795	133,160	23%
Calvert	8,000	2,500	10,500	14,575	14,575	72%
Caroline	1,646	0	1,646	1,646	1,646	100%
Carroll	2,384	500	2,884	3,853	3,853	75%
Cecil	5,014	903	5,917	6,733	6,733	88%
Charles	7,007	1,500	8,507	16,995	16,995	50%
Dorchester	4,700	2,500	7,200	10,975	10,975	66%
Frederick	14,750	2,459	17,209	38,714	38,714	44%
Garrett	1,352	25	1,377	1,567	1,567	88%
Harford	7,000	1,000	8,000	19,200	19,200	42%
Howard	14,894	0	14,894	39,083	21,066	71%
Kent ³	0	0	0	0	0	n/a
Montgomery	26,780	6,541	33,321	119,094	119,094	28%
Prince George's	20,783	1,000	21,783	91,479	69,799	31%
Queen Anne's	2,403	52	2,455	2,455	2,455	100%
St. Mary's	815	0	815	815	815	100%
Somerset	0	7,000	7,000	14,720	14,720	48%
Talbot ³	0	0	0	0	0	n/a
Washington	1,746	700	2,446	2,592	2,592	94%
Wicomico	7,500	2,219	9,719	17,731	17,731	55%
Worcester ³	0	0	0	0	0	n/a
Maryland School for the Blind	6,000	3,196	9,196	11,726	11,726	78%
Statewide	0	0	0	0	0	n/a
Total	\$210,000	\$42,000	\$252,000	\$702,337	\$658,124	38%

BPW: Board of Public Works

LEA: local education agency

IAC: Interagency Committee on School Construction

¹ Percent of A or B projects funded as of the 90% total recommendation. A and B projects are eligible to receive State funding.

² Does not include contingency funds requested for window air-conditioning projects.

³ LEA did not request any projects.

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

Appendix 3
Maryland Public School Construction Program
Summary of Capital Program Requests
Fiscal 2018-2023
(\$ in Thousands)

<u>LEA</u>	<u>2018</u> ¹	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
Allegany	\$12,873	\$4,841	\$1,139	\$1,004	\$1,000	\$3,529	\$24,386
Anne Arundel	69,868	52,012	62,241	40,148	64,799	46,666	335,734
Baltimore County	134,795	67,201	30,050	30,050	30,050	31,050	323,196
Calvert	14,575	12,734	5,491	1,298	10,666	3,522	48,286
Caroline	1,646	0	10,440	16,350	6,263	9,383	44,082
Carroll	3,853	13,163	26,474	27,677	7,890	7,120	86,177
Cecil	6,733	9,127	10,166	16,518	16,120	9,351	68,015
Charles	16,995	35,607	34,560	7,496	21,553	29,668	145,879
Dorchester	10,975	14,957	5,959	3,354	7,346	5,913	48,504
Frederick	38,714	11,026	18,002	14,738	24,094	29,817	136,391
Garrett	1,567	535	985	1,850	2,715	2,947	10,599
Harford	19,200	16,310	24,743	4,730	19,267	24,494	108,744
Howard	39,083	32,735	32,667	38,316	37,461	39,028	219,290
Kent	0	1,650	0	3,352	3,000	2,581	10,583
Montgomery	119,094	72,359	95,050	58,375	61,217	81,511	487,606
Prince George's	91,479	140,936	184,169	131,418	122,425	118,914	789,341
Queen Anne's	2,455	550	6,780	1,800	10,986	9,900	32,471
St. Mary's	815	4,665	10,779	9,348	4,224	1,504	31,335
Somerset	14,720	14,720	2,560	8,685	8,685	1,082	50,452
Talbot	0	12,000	7,617	400	0	0	20,017
Washington	2,592	11,837	9,381	4,729	8,838	10,797	48,174
Wicomico	17,731	16,439	23,854	37,867	22,422	10,178	128,491
Worcester	0	3,769	3,768	2,539	1,569	1,677	13,322
Baltimore City	74,676	82,286	62,787	51,795	49,751	51,911	373,206
Maryland School for the Blind	11,726	13,879	17,761	7,459	0	0	50,825
Total State ²	\$706,165	\$645,338	\$687,423	\$521,296	\$542,341	\$532,543	\$3,635,106
Total Adjusted State ³	\$706,165	\$671,152	\$743,517	\$586,387	\$634,462	\$647,920	\$3,989,603

LEA: local education agency

¹ Includes Baltimore City window air-conditioning projects.

² Estimated based on fiscal 2018 requests with no adjustment for inflation.

³ Adjusted for inflation based on fiscal 2018 requests compounded at 4% per year.

Source: Public School Construction *Capital Improvement Program*, Fiscal 2018