

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

House Bill 1422
Appropriations

(Delegate Taylor)

Budget and Taxation

Education - One Maryland Public School Construction

This bill alters the State/local cost sharing formula for public school construction projects in qualified distressed counties that are making progress in implementing the recommendations of a performance audit of the school system by requiring the State to fund 90% of the first 40% of eligible costs and 80% of the remaining eligible costs. This funding arrangement only applies if the State share is greater than the State share the county receives for public school construction under existing law or rules adopted by the Board of Public Works.

The bill takes effect July 1, 2002 and sunsets on June 30, 2004.

Fiscal Summary

State Effect: Total State funding for school construction projects would remain the same. Providing a greater State share for certain school construction projects could result in a reduction in the number of school projects funded in a given year within a local school system and the entire State.

Local Effect: The amount of local funds that qualified distressed counties must use to match State funding for school construction projects would be reduced.

Small Business Effect: None.

Analysis

Current Law: The State/local cost sharing formula for public school construction projects is based on local wealth whereby less affluent school districts receive a higher State share than more affluent school districts. The State provides from 50% to 90% of

the eligible costs for approved school construction projects. **Exhibit 1** shows the State share allocation for each local school system.

Exhibit 1
State/Local Cost Share Amounts

<u>50/50</u>	<u>55/45</u>	<u>60/40</u>	<u>65/35</u>	<u>70/30</u>	<u>75/25</u>	<u>80/20</u>
Anne Arundel Baltimore County Howard Kent Montgomery Talbot Worcester	Calvert Queen Anne's	Prince George's ¹	Carroll Charles Frederick Harford Washington	Cecil Dorchester Garrett St. Mary's Wicomico	Allegany Baltimore City ² Caroline	Somerset

Notes:

¹ For fiscal 2003, the State match in Prince George's County will be 75% for the first \$35 million allocated by the State and 60% on any State funds in excess of \$35 million. At least \$20 million of the State funds must be spent each year on neighborhood school projects.

² For fiscal 2003, the State match in Baltimore City will be 90% for the first \$20 million allocated by the State and 75% on any State funds in excess of \$20 million.

Background: A qualified distressed county includes a county for which the average unemployment rate over the most recent 18-month period is greater than 150% of the statewide average; or the average per capita personal income for the most recent 24-month period is equal to or less than 67% of the statewide average. Based on this definition, seven jurisdictions would be designated as a qualified distressed county: Baltimore City and Allegany, Caroline, Dorchester, Garrett, Somerset, and Worcester counties. However, only two jurisdictions (Baltimore City and Allegany County) have undergone a performance audit of the local school system. Somerset County is currently conducting a performance audit. The other counties have not conducted a performance audit of the local school system and therefore would not be eligible for additional State funding.

Public School Construction Funding in Fiscal 2003

The fiscal 2003 State budget includes \$245.5 million for public school construction projects, \$6 million of which is from reverted funds from several prior fiscal years. Of this amount, \$146.0 million is for school construction projects to be awarded in fiscal 2003, \$89.0 million is for previously funded PAYGO projects that are or will be under

contract shortly, and \$10.5 million is for federal funded projects. Local school systems have requested \$309.9 million in funding for school construction projects in fiscal 2003. The actual amount of State funds to address these requests is \$146 million, which is \$163.9 million less than requested by local school systems. The Interagency Committee on School Construction (IAC) has already allocated \$110.4 million or 75% of the available funding for school construction projects for fiscal 2003. An additional \$35.6 million in State funding remains to be allocated to local school systems.

Noneligible Project Costs

Local school systems are still responsible for paying all noneligible costs for school construction projects. Noneligible costs include architectural and engineering fees, land acquisition, certain off-site development work, movable furniture and equipment, and square footage above the State formula. Noneligible costs may account for 15% to 20% of the total cost for a school construction project. In cases where the local school project exceeds the State’s square footage guidelines, noneligible costs could account for between 25% to 30% of the total cost.

State and Local Fiscal Effect: The ability to meet the local matching requirement for State school construction funds has been a concern for some less affluent jurisdictions. Some jurisdictions are having difficulty providing sufficient funds to qualify for State funds. Pursuant to this legislation, two qualified distressed jurisdictions with either high unemployment or low per capita personal income (Baltimore City and Allegany County) would receive enhanced State funding for school construction projects. As of December 31, 2001, IAC has approved 11 school projects in Baltimore City totaling \$9.7 million in State funding. Allegany County has not submitted any school project to the IAC for funding in fiscal 2003. **Exhibit 2** shows the number of school construction projects already approved by IAC in qualified distressed counties that have undergone a performance audit.

Exhibit 2
FY 2003 School Construction Projects Approved by IAC

<u>Local School System</u>	<u>Projects Requested</u>	<u>Projects Approved</u>	<u>State Funding Provided</u>
Allegany	0	0	\$0
Baltimore City	32	11	9,663,000
Total	32	11	\$9,663,000

Since Baltimore City already receives a 90% State match for the first \$20 million in school construction funds, additional State funding would not be provided in fiscal 2003. However, Baltimore City would become eligible for a higher State match in fiscal 2004 if the existing funding arrangement for the city is discontinued. Allegany County may become eligible for the additional funding in fiscal 2004 if the local school system submits an eligible project to the IAC. **Exhibit 3** shows the potential increase in State funding for a hypothetical high school serving 1,000 students. Somerset County may become eligible for additional State funding if the local school system completes the performance audits and begins implementing the recommendations.

Exhibit 3
Potential Increase in State Funding for Allegany county
for a Hypothetical New High School Serving 1,000 Students

	<u>Current Law</u>	<u>HB 1422</u>	<u>Difference</u>
Total Eligible Cost	\$24 million	\$24 million	\$0
State Share	\$18 million	\$20.2 million	\$2.2 million
Local Share	\$6 million	\$3.8 million	(\$2.2. million)

Total State funding for school construction projects would remain the same. Providing a greater State share for certain school construction projects could result in a reduction in the number of school projects funded in a given year within a local school system and the entire State.

Additional Comments: In recent years, the State has established a special funding arrangement for public school construction projects in Baltimore City and Prince George’s County.

Baltimore City Provision

The Board of Public Works adopted a rule on May 7, 1997 that changed the cost sharing formula for Baltimore City for fiscal 1998 through fiscal 2002. Based on the rule, the State is responsible for 90% of the eligible project costs for the first \$10 million in public school construction funding allocated by the State to Baltimore City and 75% on any funds in excess of \$10 million. The Board of Public Works rule is based on the consent decree entered in the cases that settled the school finance litigation between the State and Baltimore City in November 1996. This provision, however, was not incorporated into the Baltimore City Schools legislation (SB 795 of 1997). Chapter 280 of 2001 extended the special funding arrangement into fiscal 2003 by requiring the State to fund 90% of the eligible project costs for the first \$20 million in public school construction funding

allocated by the State and 75% on any funds in excess of \$20 million. After fiscal 2003, the State will be responsible for 75% of the eligible project costs for Baltimore City.

Prince George's County Provision

Chapter 704 of 1998 altered the State/local cost sharing formula for public school construction projects in Prince George's County by requiring the State to fund 75% of the eligible project costs for the first \$35 million in public school construction funding allocated by the State and 60% on any funds in excess of \$35 million. Under the then existing cost share arrangement, the State was responsible for 60% of eligible project costs. In addition, the legislation required the State to provide Prince George's County with \$35 million each year in school construction funding for fiscal 1999 through fiscal 2002, contingent on future economic conditions. Prince George's County had to provide at least \$32 million for school construction projects.

Chapter 420 of 2001 extended the current State/local cost share arrangement and the required \$35 million State appropriation for school construction projects for Prince George's County until fiscal 2003.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Public School Construction Program, Department of Legislative Services

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