

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 731
 Appropriations

(Delegate G. Clagett, *et al.*)

Education - Public School Construction - Obligation of State to Pay

This bill requires the State to pay at least 50% of the aggregate costs of public school construction and public school capital improvements requested by local boards of education and county governing bodies. The requests must comply with the rules, regulations, and procedures of the Board of Public Works (BPW). BPW may allocate the required State public school construction funds in the manner it determines.

Fiscal Summary

State Effect: Annuity bond fund expenditures for debt service costs could increase by \$1.2 million in FY 2007 and by \$28.5 million in FY 2016. This reflects the additional costs associated with the State’s current five-year Capital Improvement Program (CIP). State debt service costs could increase beyond those specified in the fiscal note for subsequent CIPs.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
Bond Exp.	0	0	1,200,000	3,500,000	7,600,000
Net Effect	\$0	\$0	(\$1,200,000)	(\$3,500,000)	(\$7,600,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Significant increase in State funding for local school construction and improvement projects.

Small Business Effect: Meaningful.

Analysis

Current Law: The Public School Construction Program (PSCP), through oversight by the Interagency Committee on School Construction (IAC), provides State funding to local school systems for school construction and improvement projects. Each September, the Governor provides IAC with the proposed amount of funding for public school construction for the upcoming fiscal year. IAC then transmits this information to the local jurisdictions and requests their annual and five-year CIPs by October 15.

In October and November, IAC staff reviews the CIPs and recommends to IAC which projects should be funded based on certain criteria. In December, IAC develops a list of eligible projects and decides which of those projects should be recommended to BPW for its approval. IAC typically recommends an initial allocation of 75% of the proposed school construction budget. In January, BPW listens to appeals from the local jurisdictions and votes on IAC recommendations. The list of projects approved by BPW and any supplemental requests made by the Governor become part of the State's proposed capital budget. The proposed budget is then submitted to the General Assembly for approval. In May, BPW allocates any remaining school construction funds to school construction projects recommended by IAC and the Governor. BPW defines by regulation what constitutes an approved public school construction or capital improvement cost.

Background: In 2002, the Bridge to Excellence in Public Schools Act (Chapter 288) established a Task Force to Study Public School Facilities. Chapter 288 directed the task force to look at whether the State's public school facilities are adequate to sustain programs provided for under the Act and supported by proposed funding levels.

In completing its charge, the task force undertook an assessment of the current conditions of the State's existing public schools. A survey was conducted by the Maryland State Department of Education (MSDE) based on 31 minimum facility standards developed by a workgroup chaired by the State Superintendent of Schools and approved by the task force in March 2003. The standards were based on local, State, and federal standards for facilities and included the ability of the facility to support educational programs. The National Clearinghouse for Educational Standards reported that Maryland's survey is the first of its kind in the nation. The survey results were released on November 6, 2003.

The survey indicated that \$3.85 billion is needed to bring existing public schools up to standards of which \$1.5 billion is needed for additional student capacity for the 2007-2008 school year. **Appendix 1** shows the amount of needed funds in each county. **Appendix 2** shows a summary of the proposed fiscal 2005 Public School Construction CIP by jurisdiction.

State Fiscal Effect: The State’s fiscal 2005-2009 CIP includes \$501.6 million for public school construction projects. For this same period, local school systems have requested \$1.7 billion in State funding, as shown in **Appendix 3**. Pursuant to this legislation, the State would have to pay for at least 50% or \$850 million of the local funding requests. This represents a \$350 million increase in State funding over the five-year period. Since the fiscal 2005 State capital budget will have already been adopted prior to the bill’s effective date, it is assumed that the required State funding under the bill would take effect beginning in fiscal 2006.

To meet the funding commitment specified in the legislation for the current CIP, the State will have to issue \$260.3 million in additional bonds in fiscal 2006 through fiscal 2013. Annual debt service will total \$1.2 million in fiscal 2007, increasing to \$28.5 million in fiscal 2016, and declining to \$0.6 million in fiscal 2028. Interest payments on the \$260.3 million bond issuance would total \$138.9 million. This estimate assumes a 5.25% to 5.5% annual interest rate over a 13-year period and a phased-in issuance stream. **Exhibit 1** shows the projected State debt service costs for the additional bond issuance in fiscal 2006 through 2009. **Appendix 4** shows the amortization table for the additional bond issuance. This estimate only includes the costs related to the current five-year CIP. Future year expenditures would increase depending upon the level of State funding that is provided in subsequent CIPs.

Exhibit 1
Potential Increase in State Debt Service Costs
Current CIP (Fiscal 2005-2009)
(\$ in millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Issuance Stream	0%	31%	25%	20%	15%
Interest Rate		5.25%	5.5%	5.5%	5.5%
Years to Maturity		13	13	13	13
Additional Bond Issuance	\$0	\$22.8	\$42.6	\$50.0	\$57.3
Debt Service Costs	\$0	\$0	\$1.2	\$3.5	\$7.6

Impact on the Annuity Bond Fund

Without a corresponding reduction in the overall State capital budget, the increased issuance of general obligation bonds for public school construction would require either a

State property tax increase or a general fund appropriation to the Annuity Bond Fund. Based on the current Annuity Bond Fund forecast which assumes a stable property tax rate, the State will be required to make a \$15 million general fund appropriation in fiscal 2007 to pay existing general obligation bond debt service. The required general fund appropriation increases to \$42 million in fiscal 2008 and \$58 million in fiscal 2009. Pursuant to this legislation, the required general fund appropriation to the Annuity Bond Fund would total \$16.2 million in fiscal 2007, \$45.5 million in fiscal 2008, and \$65.6 million in fiscal 2009.

Impact of Future Local Capital Requests

This legislation may encourage local school systems to increase their funding requests beyond current practice. According to PSCP, local school systems attune their requests to a reasonable expectation of the State and local funding that will be available within any fiscal year. Local school systems defer projects that they know the State will not be in a position to fund. For example, Prince George's County maintains a list of 40 systemic renovation projects that have a high priority but typically submits requests for no more than four to eight of these projects in any one fiscal year. If the local school systems know that the State must fund up to 50% of their aggregate requests, there could be a sizable increase in local requests. As stated earlier, according to a recent survey of public school facilities in Maryland, \$3.85 billion is needed to bring current facilities up to standards.

Existing staffing at MSDE and PSCP is adequate to manage an annual school construction program between \$175 million and \$187 million. If aggregate local school systems requests exceed \$375 million, staffing levels at MSDE and PSCP may need to be increased. As shown in **Exhibit 2**, local school capital requests have ranged between \$160 million and \$378 million since fiscal 1988.

Exhibit 2
Public School Construction Program
Fiscal 1988 – 2005
(\$ in thousands)

Fiscal	Requests	Funded	Percent Funded
1988	\$159,692	\$58,197	36.4%
1989	260,220	61,652	23.7%
1990	170,637	88,000	51.6%
1991	198,122	80,470	40.6%
1992	204,488	64,700	31.6%
1993	196,884	79,000	40.1%
1994	206,286	87,000	42.2%
1995	239,402	107,970	45.1%
1996	281,780	118,000	41.9%
1997	273,541	140,200	51.3%
1998	309,904	150,300	48.5%
1999	339,548	225,000	66.3%
2000	361,307	257,500	71.3%
2001	367,209	290,899	79.2%
2002	371,622	286,600	77.1%
2003	309,856	156,500	50.5%
2004	310,087	116,500	37.6%
2005	378,253	100,000	26.4%
1988-2005	\$4,938,838	\$2,468,488	50.0%

Local Fiscal Effect: State funding for local school construction and improvement projects would increase depending upon the aggregate amount of local requests to IAC and the amount specified in the State’s CIP. The actual allocation of State school construction funding would still be determined by IAC. Therefore, it is not assured that a local school system will receive 50% of its request.

Small Business Effect: State funding for public school construction could increase significantly over current levels specified in the State’s CIP. This will have a positive impact on architectural, engineering, construction, and service firms throughout Maryland. As of calendar 2002, there were 17,000 construction firms in Maryland employing 165,725 individuals. Construction workers earned a total of \$6.8 billion in

wages which average to approximately \$800 per week. The construction industry accounts for approximately 7% of total employment in Maryland. In addition, there are 5,750 licensed architects and 13,500 professional engineers in Maryland.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Board of Public Works, Public School Construction Program, Maryland State Department of Education, Department of Legislative Services

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mh/ljm

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Appendix 1
Cost Estimates to Bring Facilities Up to Current
Standards for New Construction

<u>Local School System</u>	<u>Estimated Cost</u>
Allegany	\$71,426,000
Anne Arundel	336,458,000
Baltimore City	570,599,000
Baltimore	408,845,000
Calvert	102,911,000
Caroline	5,435,000
Carroll	135,297,000
Cecil	46,873,000
Charles	178,419,000
Dorchester	33,816,000
Frederick	203,625,000
Garrett	20,142,000
Harford	204,666,000
Howard	168,727,000
Kent	1,180,000
Montgomery	279,307,000
Prince George's	778,225,000
Queen Anne's	9,666,000
St. Mary's	52,530,000
Somerset	9,030,000
Talbot	18,989,000
Washington	93,827,000
Wicomico	69,993,000
Worcester	54,122,000
Total Cost	\$3,854,108,000

Note: Costs reported by local school systems in July 2004 dollars and includes both State and local costs.
Source: Public School Construction Program

Appendix 2
Summary of Fiscal 2005 CIP
December 31, 2003
(Appeals Heard on January 28, 2004)
(\$ in thousands)

<u>County</u>	<u>FY 2005 Budget Request</u>	<u>FY 2005 Allocation</u>	<u>% of Request Funded</u>	<u># of Projects Requested*</u>	<u># of Projects Approved*</u>	<u>% of Requested Projects Approved</u>
Allegany	\$125	\$125	100.0%	2	2	100.0%
Anne Arundel	20,090	4,237	21.1%	28	5	17.9%
Baltimore City	38,239	7,721	20.2%	45	13	28.9%
Baltimore	30,688	5,150	16.8%	12	4	33.3%
Calvert	7,423	3,127	42.1%	6	4	66.7%
Caroline	269	269	100.0%	1	1	100.0%
Carroll	13,055	3,968	30.4%	10	8	80.0%
Cecil	8,246	8,246	100.0%	14	12	85.7%
Charles	12,545	3,423	27.3%	5	3	60.0%
Dorchester	991	991	100.0%	4	4	100.0%
Frederick	47,056	6,057	12.9%	22	8	36.4%
Garrett	1,640	598	36.5%	3	2	66.7%
Harford	18,847	2,437	12.9%	9	6	66.7%
Howard	52,604	4,300	8.2%	47	15	31.9%
Kent	555	555	100.0%	1	1	100.0%
Montgomery	59,741	6,310	10.6%	49	9	18.4%
Prince George's	33,293	6,474	19.4%	20	8	40.0%
Queen Anne's	359	338	94.2%	2	2	100.0%
St. Mary's	8,317	2,683	32.3%	5	3	60.0%
Somerset	7,600	600	7.9%	5	4	80.0%
Talbot	0	0	N/A	2	2	100.0%
Washington	4,369	2,375	54.4%	3	3	100.0%
Wicomico	7,413	3,993	53.9%	5	5	100.0%
Worcester	4,788	1,500	31.3%	4	1	25.0%
Total	\$378,253	\$75,477	20.0%	304	125	41.1%

*Includes both planning and funding requests.

Source: Fiscal 2005 Public School Construction *Capital Improvement Program*

Appendix 3
Summary of Capital Program Requests – Fiscal 2005 through 2009
(\$ in thousands)

<u>County</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Total</u>	<u>Percent of Total</u>
Allegany	\$125	\$14,000	\$5,594	\$4,953	\$0	\$24,672	1.5%
Anne Arundel	20,090	19,411	9,763	15,020	11,414	75,698	4.5%
Baltimore City	38,239	100,982	109,904	45,974	63,686	358,785	21.1%
Baltimore	30,688	20,000	20,000	22,516	22,516	115,720	6.8%
Calvert	7,423	449	9,565	7,948	16,510	41,895	2.5%
Caroline	269	7,243	145	4,474	8,663	20,794	1.2%
Carroll	13,055	1,404	24,771	22,441	4,748	66,419	3.9%
Cecil	8,246	474	6,414	5,633	14,786	35,553	2.1%
Charles	12,545	9,149	10,831	17,078	733	50,336	3.0%
Dorchester	991	612	11,969	9,065	326	22,963	1.4%
Frederick	47,056	7,623	39,208	12,967	40,916	147,770	8.7%
Garrett	1,640	753	375	3,200	5,228	11,196	0.7%
Harford	18,847	13,804	11,382	15,113	18,165	77,311	4.6%
Howard	52,604	14,607	2,963	846	0	71,020	4.2%
Kent	555	2,430	2,025	380	850	6,240	0.4%
Montgomery	59,741	53,809	36,103	27,831	19,844	197,328	11.6%
Prince George's	33,293	27,237	26,080	52,273	41,258	180,141	10.6%
Queen Anne's	359	9,547	5,325	5,083	4,574	24,888	1.5%
St. Mary's	8,317	7,034	0	0	22,553	37,904	2.2%
Somerset	7,600	13,275	640	544	0	22,059	1.3%
Talbot	0	3,000	3,000	2,444	0	8,444	0.5%
Washington	4,369	3,589	3,000	4,426	6,112	21,496	1.3%
Wicomico	7,413	8,098	13,744	21,079	12,732	63,066	3.7%
Worcester	4,788	8,813	3,378	64	58	17,101	1.0%
Total	\$378,253	\$347,343	\$356,179	\$301,352	\$315,672	\$1,698,799	100.0%

Source: Fiscal 2005 Public School Construction Program *Capital Improvement Program*

Appendix 4
Public School Construction Program
Cost of Authorizing Additional GO Bonds
For the Current State's Fiscal 2005-2009 CIP
(\$ in millions)

<u>Fiscal Year</u>	<u>Debt Authorized</u>	<u>Debt Issued</u>	<u>Debt Service</u>	<u>Debt Outstanding</u>
2005	\$0.0	\$0.0	\$0.0	\$0.0
2006	73.7	22.8	0.0	22.8
2007	78.1	42.6	1.2	65.5
2008	50.7	50.0	3.5	115.5
2009	57.8	57.3	7.6	171.5
2010	0.0	42.9	13.0	210.7
2011	0.0	26.2	18.1	230.3
2012	0.0	13.2	22.7	233.5
2013	0.0	5.2	25.8	225.7
2014	0.0	0.0	27.5	210.6
2015	0.0	0.0	28.2	193.9
2016	0.0	0.0	28.5	176.0
2017	0.0	0.0	28.5	157.1
2018	0.0	0.0	28.5	137.2
2019	0.0	0.0	28.5	116.2
2020	0.0	0.0	28.5	94.1
2021	0.0	0.0	28.5	70.8
2022	0.0	0.0	26.0	48.6
2023	0.0	0.0	21.4	29.9
2024	0.0	0.0	15.9	15.7
2025	0.0	0.0	9.6	6.9
2026	0.0	0.0	4.9	2.4
2027	0.0	0.0	2.0	0.5
2028	0.0	0.0	0.6	0.0
2029	0.0	0.0	0.0	0.0
2030	0.0	0.0	0.0	0.0
2031	0.0	0.0	0.0	0.0
2032	0.0	0.0	0.0	0.0
2033	0.0	0.0	0.0	0.0
Total	\$260.3	\$260.3	\$399.2	

Source: Department of Legislative Services, February 2004