

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1252 (Delegate Madaleno, *et al.*)
 Appropriations

Maryland Stadium Authority - Public School Facility Construction Financing Fund

This bill establishes a Public School Facility Construction Financing Fund to provide matching funds to local school systems for the construction of public school facilities. The Maryland Stadium Authority must issue \$600 million in revenue bonds for the construction of public school facilities between July 1, 2004 and June 30, 2006.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: General fund expenditures could increase by \$237,400 in FY 2005. Future year expenditures reflect annualization and inflation. Expenditures for debt service would total \$15.5 million in FY 2006, increasing to \$65.4 million by FY 2009. Revenues would not be affected.

| (in dollars) | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|----------------|-------------|----------------|----------------|----------------|----------------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 237,400 | 292,400 | 308,800 | 326,400 | 345,300 |
| Bond Exp. | 0 | 15,450,000 | 32,400,000 | 49,175,800 | 65,424,400 |
| Net Effect | (\$237,400) | (\$15,742,400) | (\$32,708,800) | (\$49,502,200) | (\$65,769,700) |

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

Bill Summary: The Public School Facility Construction Financing Fund is a continuing, nonlapsing fund consisting of: (1) appropriated revenues; (2) interest or investment earnings on fund revenue; (3) public and private revenues; and (4) proceeds from the sale of revenue bonds in the amount of \$600 million. Fund revenue cannot revert or be credited to the State's general fund or any other special fund.

Public school facilities include a building, parking facility, athletic facility, testing facility, or other facility in the State that is used by local boards of education for student educational purposes.

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 Capital Improvement Programs (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 the Board of Public Works (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 \$3.9 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.

State Fiscal Effect: The State’s fiscal 2005–2009 CIP includes \$501.6 million for public school construction projects. Of this amount, \$489.6 million will be general obligation bonds and \$12 million will be special fund revenues. Pursuant to this legislation, the Maryland Stadium Authority would be required to issue \$600 million in revenue bonds between July 1, 2004 and June 30, 2006. It is assumed that these revenue bonds would be in addition to the issuance of general obligation bonds specified in the State capital budget.

Annual debt service on the revenue bonds would total \$15.5 million in fiscal 2006, increasing to \$65.4 million in fiscal 2009, and declining to \$33.2 million in fiscal 2021. Interest payments on the \$600 million bond issuance would total \$315.3 million. This estimate assumes the Maryland Stadium Authority would receive an “A” bond rating and a 5.15% to 5.9% annual interest rate over a 15-year period. **Exhibit 1** shows the projected State debt service costs for the additional bond issuance in fiscal 2006 through 2009. **Appendix 2** shows the amortization table for the additional bond issuance by the Maryland Stadium Authority using an “A” bond rating. Typically, authorized debt is issued over several years when projects come online. However, this legislation requires the \$600 million in bonds to be issued in a two-year period.

Exhibit 1
Potential Increase in State Debt Service Costs
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> |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Interest Rate | 5.15% | 5.65% | 5.9% | 5.9% | 5.9% |
| Years to Maturity | 15 | 15 | 15 | 15 | 15 |
| Additional Bond Issuance | \$300.0 | \$300.0 | \$0 | \$0 | \$0 |
| Debt Service Costs | 0 | \$15.5 | \$32.4 | \$49.2 | \$65.4 |

The debt service cost on the issuance of \$600 million in revenue bonds would be approximately \$25 million higher than the cost of issuing general obligation bonds. **Appendix 3** shows the amortization table for additional general obligation bond issuance using the State's AAA bond rating.

Potential Problems with State Funding in Excess of \$250 Million

Together with the specified funding under this legislation and the State's CIP, funding for public school construction projects would total \$400 million in both fiscal 2005 and 2006. This amount is higher than the total local funding requests for those fiscal years. **Appendix 4** provides a summary of the capital program requests for local boards of education in fiscal 2005 through 2009. This sizeable funding level could overburden the school construction process. For example, PSCP observed a deterioration of competition in the bidding process for school construction projects when funding levels exceeded \$250 million. Contractors, having ample work, either did not submit a bid or submitted bids that were higher than usual. In addition, some specialty trades did not have sufficient workers to meet the increased demand. If such historical problems recur due to the bill, inadequately trained employees could be performing skilled work, with a significant deterioration of quality. Also, with many projects being built concurrently, long delays in the delivery of equipment and materials could occur.

Administrative Costs

Existing staffing at MSDE and PSCP is adequate to manage an annual school construction program between \$175 million and \$187 million. Pursuant to this legislation, these agencies would have to process and review \$600 million in projects in fiscal 2005 and 2006. This could require one additional position at MSDE and four additional positions at PSCP. Accordingly, general fund expenditures would increase by \$237,400 in fiscal 2005, which reflects a 120-day start-up delay. Future year expenditures increase to \$292,400 in fiscal 2006 and \$345,300 in fiscal 2009, which reflects annualization and inflation. **Exhibit 2** shows the estimated costs by agency.

Exhibit 2
Estimated Administrative Costs

| | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> |
|--------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| MSDE | \$56,500 | \$70,100 | \$73,900 | \$78,000 | \$82,300 |
| PSCP | <u>180,900</u> | <u>222,300</u> | <u>234,900</u> | <u>248,400</u> | <u>263,000</u> |
| Total | \$237,400 | \$292,400 | \$308,800 | \$326,400 | \$345,300 |

Local Fiscal Effect: Significant increase in State funding for local school construction and improvement projects. **Appendix 5** shows the maximum amount of State bond proceeds for each local school system and a comparison of the local matching requirement under the legislation and current BPW regulations.

Small Business Effect: State funding for public school construction could increase significantly over current levels specified in the State's CIP. This would 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): Maryland Stadium Authority, Public School Construction Program, Department of Legislative Services

Fiscal Note History: First Reader - March 9, 2004
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 | <u>54,122,000</u> |
| 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
Public School Construction Program
Cost of Authorizing \$600 Million in Revenue Bonds
Based on an “A” Bond Rating
 (\$ in millions)

| Fiscal Year | Debt Authorized | Debt Issued | Debt Service | Debt Outstanding |
|------------------------|----------------------------|------------------------|-------------------------|-----------------------------|
| 2005 | \$300.0 | \$300.0 | \$0.0 | \$300.0 |
| 2006 | 300.0 | 300.0 | 15.5 | 600.0 |
| 2007 | 0.0 | 0.0 | 32.4 | 600.0 |
| 2008 | 0.0 | 0.0 | 49.2 | 583.2 |
| 2009 | 0.0 | 0.0 | 65.4 | 549.3 |
| 2010 | 0.0 | 0.0 | 65.4 | 513.6 |
| 2011 | 0.0 | 0.0 | 65.4 | 476.0 |
| 2012 | 0.0 | 0.0 | 65.4 | 436.3 |
| 2013 | 0.0 | 0.0 | 65.4 | 394.5 |
| 2014 | 0.0 | 0.0 | 65.4 | 350.4 |
| 2015 | 0.0 | 0.0 | 65.4 | 304.0 |
| 2016 | 0.0 | 0.0 | 65.4 | 255.1 |
| 2017 | 0.0 | 0.0 | 65.4 | 203.5 |
| 2018 | 0.0 | 0.0 | 65.4 | 149.1 |
| 2019 | 0.0 | 0.0 | 65.4 | 91.8 |
| 2020 | 0.0 | 0.0 | 65.4 | 31.4 |
| 2021 | 0.0 | 0.0 | 33.2 | 0.0 |
| 2022 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2023 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2024 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2025 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2026 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2027 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2028 | 0.0 | 0.0 | 0.0 | 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 | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | 0.0 |
| Total | \$600.0 | \$600.0 | \$915.3 | |

Source: Department of Legislative Services, March 2004

Appendix 3
Public School Construction Program
Cost of Authorizing \$600 Million in GO Bonds
Based on the State's AAA Bond Rating
 (\$ in millions)

| Fiscal Year | Debt <u>Authorized</u> | Debt <u>Issued</u> | Debt <u>Service</u> | Debt <u>Outstanding</u> |
|------------------------|-----------------------------------|-------------------------------|--------------------------------|------------------------------------|
| 2005 | \$300.0 | \$300.0 | \$0.0 | \$300.0 |
| 2006 | 300.0 | 300.0 | 14.3 | 600.0 |
| 2007 | 0.0 | 0.0 | 30.0 | 600.0 |
| 2008 | 0.0 | 0.0 | 47.2 | 582.8 |
| 2009 | 0.0 | 0.0 | 63.9 | 548.1 |
| 2010 | 0.0 | 0.0 | 63.9 | 511.7 |
| 2011 | 0.0 | 0.0 | 63.9 | 473.4 |
| 2012 | 0.0 | 0.0 | 63.9 | 433.3 |
| 2013 | 0.0 | 0.0 | 63.9 | 391.1 |
| 2014 | 0.0 | 0.0 | 63.9 | 346.9 |
| 2015 | 0.0 | 0.0 | 63.9 | 300.4 |
| 2016 | 0.0 | 0.0 | 63.9 | 251.6 |
| 2017 | 0.0 | 0.0 | 63.9 | 200.4 |
| 2018 | 0.0 | 0.0 | 63.9 | 146.6 |
| 2019 | 0.0 | 0.0 | 63.9 | 90.1 |
| 2020 | 0.0 | 0.0 | 63.9 | 30.8 |
| 2021 | 0.0 | 0.0 | 32.4 | 0.0 |
| 2022 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2023 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2024 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2025 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2026 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2027 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2028 | 0.0 | 0.0 | 0.0 | 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 | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | 0.0 |
| Total | \$600.0 | \$600.0 | \$890.4 | |

Source: Department of Legislative Services, March 2004

Appendix 4
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>% 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 5
Distribution of \$600 Million in Bond Proceeds

| <u>County</u> | <u>Maximum Bond Funding</u> | <u>HB 1252 State Share</u> | <u>Current State Share</u> |
|----------------------|--|---------------------------------------|---------------------------------------|
| Allegany | \$10,000,000 | 70% | 75% |
| Anne Arundel | 55,000,000 | 40% | 50% |
| Baltimore City | 65,000,000 | 90% | 90% |
| Baltimore | 70,000,000 | 50% | 50% |
| Calvert | 8,000,000 | 60% | 55% |
| Caroline | 8,000,000 | 75% | 75% |
| Carroll | 15,000,000 | 60% | 65% |
| Cecil | 10,000,000 | 65% | 70% |
| Charles | 15,000,000 | 60% | 65% |
| Dorchester | 2,000,000 | 65% | 70% |
| Frederick | 30,000,000 | 60% | 65% |
| Garrett | 3,000,000 | 60% | 70% |
| Harford | 30,000,000 | 60% | 65% |
| Howard | 35,000,000 | 45% | 50% |
| Kent | 3,000,000 | 40% | 50% |
| Montgomery | 90,000,000 | 40% | 50% |
| Prince George's | 90,000,000 | 90% | 75% |
| Queen Anne's | 5,000,000 | 50% | 55% |
| St. Mary's | 12,000,000 | 60% | 70% |
| Somerset | 7,500,000 | 75% | 80% |
| Talbot | 1,500,000 | 40% | 50% |
| Washington | 15,000,000 | 60% | 65% |
| Wicomico | 15,000,000 | 70% | 70% |
| Worcester | <u>5,000,000</u> | 40% | 50% |
| Total | \$600,000,000 | | |