

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1055
 Appropriations

(Delegate Barkley, *et al.*)

Public School Construction – Minimum Annual Funding Level

This bill requires the Governor to include at least \$200 million for public school construction in the State capital budget for each fiscal year. Of this amount, \$100 million may not be included as part of the estimate of total new State debt authorized for the fiscal year recommended by the Capital Debt Affordability Committee (CDAC).

Fiscal Summary

State Effect: Annuity Bond Fund expenditures for debt service costs could increase by \$1.6 million in FY 2007 and by \$43.8 million by FY 2016. Revenues would not be affected.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
Bond Exp.	0	0	1,627,500	4,707,500	10,610,000
Net Effect	\$0	\$0	(\$1,627,500)	(\$4,707,500)	(\$10,610,000)

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

Local Effect: State funding for local school construction and improvement projects would increase by approximately \$100 million over the amount specified in the State’s current Capital Improvement Program (CIP).

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 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. The task force was directed 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. 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. **Exhibit 1** shows the level of State funding for school construction since fiscal 1988.

Exhibit 1
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%

Capital Debt Affordability

CDAC was established in 1978 to review annually the size and condition of the State's debt and to submit to the Governor and the General Assembly an estimate of the maximum amount of new general obligation debt and the amount of academic revenue bonds that prudently may be authorized for the next fiscal year. The committee continues to support the long-standing Capital Debt Affordability criteria and guidelines, which limit outstanding debt to no more than 3.2% of annual State personal income and annual debt service to no more than 8% of State revenue.

In conjunction with its 2003 recommendations, the committee conducted its usual affordability analysis to assess the risk that subsequent events might absorb the projected

unused debt capacity. The results of this analysis made clear that the State retains significant reserve capacity under the adopted CDAC prudent-debt guidelines. However, the CDAC analysis did not consider exclusion of \$100 million annually in general obligation debt authorization.

State Fiscal Effect: Pursuant to this legislation, the Governor must include at least \$200 million for public school construction projects in the State capital budget each year. This amount is significantly higher than the current State commitment for public school construction. The fiscal 2005-2009 capital improvement program includes \$501.6 million for the public school construction program. 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 would have to issue \$400 million in additional bonds in fiscal 2006 through 2013. Annual debt service would total \$1.6 million in fiscal 2007, increasing to \$43.8 million in fiscal 2016, and declining to \$1.0 million in fiscal 2028. Interest payments on the \$400 million bond issuance would total \$213.6 million. This estimate assumes a 5.25% to 5.5% annual interest rate over a 15-year period and a phased-in issuance stream. **Exhibit 2** 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. 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 provided in subsequent CIPs.

Exhibit 2
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		15	15	15	15
Additional Bond Issuance	\$0	\$31.0	\$56.0	\$76.0	\$91.0
Debt Service Costs	\$0	\$0	\$1.6	\$4.7	\$10.6

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 \$16.6 million in fiscal 2007, \$46.7 million in fiscal 2008, and \$68.6 million in fiscal 2009.

Administrative Costs

The Maryland State Department of Education (MSDE) advises that existing staffing is adequate to manage an annual school construction program of up to \$187 million. PSCP advises that staffing is adequate to manage an annual school construction program of up to \$175 million. Due to the bill's mandatory funding level, PSCP advises that one additional position at an annualized cost of \$68,000 would be needed to review project applications and to process contract, reimbursement, and change order requests. The Department of Legislative Services believes that existing staffing at MSDE and PSCP is adequate to handle the bill's funding mandate. Staffing at PSCP has remained constant in recent years even when school construction funding exceeded the \$250 million level in fiscal 2000 through 2002.

Small Business Effect: State funding for public school construction could increase significantly over the 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): Board of Public Works, Maryland State Department of Education, Public School Construction Program, Department of Budget and Management, Department of Legislative Services

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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
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	100.0	31.0	0.0	31.0
2007	100.0	56.0	1.6	87.0
2008	100.0	76.0	4.7	163.0
2009	100.0	91.0	10.6	252.3
2010	0.0	69.0	18.7	316.4
2011	0.0	44.0	26.6	351.1
2012	0.0	24.0	34.0	360.3
2013	0.0	9.0	39.1	350.0
2014	0.0	0.0	42.0	327.1
2015	0.0	0.0	43.3	301.8
2016	0.0	0.0	43.8	274.5
2017	0.0	0.0	43.8	245.7
2018	0.0	0.0	43.8	215.4
2019	0.0	0.0	43.8	183.4
2020	0.0	0.0	43.8	149.6
2021	0.0	0.0	43.8	114.0
2022	0.0	0.0	40.5	79.8
2023	0.0	0.0	34.3	49.9
2024	0.0	0.0	26.0	26.6
2025	0.0	0.0	16.0	12.1
2026	0.0	0.0	8.4	4.3
2027	0.0	0.0	3.6	0.9
2028	0.0	0.0	1.0	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	0.0	0.0	0.0	0.0
Total	\$400.0	\$400.0	\$613.6	

Source: Department of Legislative Services, February 2004