Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 884 (Senator McFadden)
Budget and Taxation

Primary and Secondary Education - Deficiencies in Schools Correction Fund

This bill establishes a Deficiencies in Schools Correction Fund to provide additional money to schools for school building renovation and construction in order to remedy deficiencies that impact student health, safety, and achievement. The Governor must include a minimum of $250 million annually for the fund in the fiscal 2007 through 2011 State budgets.

The bill takes effect July 1, 2005 and terminates June 30, 2012.

Fiscal Summary

State Effect: General obligation (GO) bond revenues and expenditures could increase by an estimated $75.0 million in FY 2007 to issue a portion of the additional debt authorization that would be contributed to the fund. Annuity Bond Fund (ABF) expenditures could increase by an estimated $3.9 million in FY 2008 to pay debt service on the bonds. General fund expenditures would increase by an estimated $123,100 in FY 2008 to add personnel to manage additional school construction projects. Future year estimates reflect the projected schedule of bond issuances from increased authorizations, associated debt service paid with general or ABF funds, and salary increases and inflation in the administrative costs.

($ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Bond Rev.	$0	$75.0	$120.0	$135.0	$142.5
GF Expenditure	0	0	.1	.1	.1
SF Expenditure	0	0	3.9	10.5	0
GF/SF Exp.	0	0	0	0	22.1
Bond Exp.	0	75.0	120.0	135.0	142.5
Net Effect	$0	$0	($4.0)	($10.6)	($22.2)

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

Local Effect: Local school construction revenues and expenditures would increase by an estimated $75.0 million in FY 2007 and by an estimated $142.5 million in FY 2010.

Small Business Effect: Potential meaningful. Significant increases in school construction funding would benefit many sectors of the construction business.

Analysis

Bill Summary: The Governor may meet the $250 million minimum funding level for the Deficiencies in Schools Correction Fund through general fund support, the authorization of new State debt, or a combination of the two. Based on health and safety and educational program support criteria, the Interagency Committee on School Construction (IAC) must provide recommendations to the Board of Public Works (BPW) by December 1 of each year for school renovation and construction projects that are eligible for allocations from the fund. BPW must administer the fund.

Current Law: State funding for public school construction is discretionary. IAC and BPW evaluate proposed school construction and renovation projects based on a number of factors, including health and safety needs and potential impact on student achievement.

Background: In addition to restructuring and enhancing State primary and secondary education operating aid, the Bridge to Excellence in Public Schools Act of 2002 established a Task Force to Study Public School Facilities. The task force was charged with examining the adequacy of Maryland's public school facilities and their capacity to sustain the enhanced educational programs that the Bridge to Excellence Act supports.

At the task force's request, the Maryland State Department of Education, the Public School Construction Program (PSCP), and the local school systems collaborated to conduct an assessment of the conditions of the State's existing public schools based on 31 minimum facility standards. The assessment concluded that $3.85 billion was needed to meet the State's school capacity needs and bring existing school facilities up to standards. The State's share of this cost was estimated at $2.0 billion, and the task force recommended that the needs be addressed, to the greatest extent possible, over the next eight years. The Public School Facilities Act of 2004 (Chapters 306 and 307) established the achievement of the recommendation as a State goal. To accomplish the goal, $250 million per year in school construction funding would be needed. **Exhibit 1** shows the amount of funding needed in each local school system to address the deficiencies identified by the assessment. The need for additional school construction funding was further evidenced by the $595 million in requests for school construction funding submitted by local school systems for fiscal 2006.

Exhibit 1
School Facilities Assessment Results
Fiscal 2004 Dollars
($ in Thousands)

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

In fall 2004, the Capital Debt Affordability Committee (CDAC) reviewed the affordability of issuing additional debt for public school construction. CDAC concluded that the additional debt was affordable based on the State's accepted criteria, but recommended that alternative funding mechanisms and new revenue streams be explored fully before the additional debt is authorized. The proposed fiscal 2006 State budget includes a total of $157.6 million in funding for school construction, $155.2 million in GO bonds and $2.4 million in special funds.

State Fiscal Effect: From fiscal 2007 to 2010, $100 million per year is included in the proposed fiscal 2006 Capital Improvement Program (CIP) for public school construction, so an additional $150 million per year would be needed to reach the proposed funding level. As specified in the bill, the additional funding could be provided through general funds, additional debt authorization, or both. It is assumed that the additional funding would be provided entirely by issuing additional GO bonds. Beginning in fiscal 2008, once a significant number of projects supported with the additional funding would be in progress, additional positions at PSCP would be required to process the additional school construction projects.

School Construction Funding

The bill would require the authorization of $250 million per year in debt for the Deficiencies in Schools Correction Fund. Based on past experience with debt authorization for public school construction, the full authorized amounts would not be spent immediately. Instead, the additional funding would be phased in over several years until a maximum of $250 million in GO bonds, or $150 million in additional bonds, would be issued.

The additional debt service payments would begin in fiscal 2008 at $3.9 million and would increase each year through fiscal 2018, when the payments would peak for five years at $82.1 million. Increases in debt service payments would continue through fiscal 2030. **Exhibit 2** shows projections of the bill's impact on State debt and debt service. To the extent that reprogramming within the current CIP or funding through the operating budget occurs, the additional debt service costs would be less.

Exhibit 2
Fiscal Impact of Additional Public School Construction Funding
Fiscal 2007 to 2030
($ in Millions)

Fiscal Year	Debt Authorized	Debt Issued	Debt Service	Debt Outstanding
2007	$150.0	$75.0	$0.0	$75.0
2008	150.0	120.0	3.9	195.0
2009	150.0	135.0	10.5	330.0
2010	150.0	142.5	22.1	468.3
2011	150.0	150.0	36.5	607.4
2012	0.0	75.0	52.2	663.5
2013	0.0	30.0	64.1	665.7
2014	0.0	15.0	73.9	643.3
2015	0.0	7.5	78.9	607.2
2016	0.0	0.0	80.9	559.5
2017	0.0	0.0	81.7	508.5
2018	0.0	0.0	82.1	454.2
2019	0.0	0.0	82.1	397.0
2020	0.0	0.0	82.1	336.6
2021	0.0	0.0	82.1	272.9
2022	0.0	0.0	82.1	205.8
2023	0.0	0.0	74.0	143.1
2024	0.0	0.0	60.9	90.1
2025	0.0	0.0	46.1	48.9
2026	0.0	0.0	30.4	21.2
2027	0.0	0.0	14.0	8.4
2028	0.0	0.0	5.8	3.1
2029	0.0	0.0	2.5	0.8
2030	0.0	0.0	0.8	0.0
Total	**$750.0**	**$750.0**	**$1,150.0**	

State debt service is paid by the ABF, which is currently supported exclusively with State property tax revenues. Based on current projections of ABF revenues and the fiscal 2006 CIP, the increase in debt service expenditures resulting from the bill would exceed the projected ABF balance beginning in fiscal 2010. This could result in the use of general funds to support some of the State's debt service at that time.

Public School Construction Program Administrative Expenses

General fund expenditures for administrative costs could increase by an estimated $123,078 in fiscal 2008, which assumes that any additional workload associated with the first year of increased funding for public school construction could be handled with existing PSCP personnel and resources. Once a significant number of additional projects are approved and have begun, two additional positions at PSCP would be required to manage the additional projects. From fiscal 2000 to 2002, when funding for school construction exceeded the levels proposed by the bill, PSCP performed school construction activities without the benefit of additional personnel. However, PSCP advises that adding staff would allow the State to maintain its present level of services without a reduction in quality. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$110,541
Start-up and Ongoing Operating Expenses	12,537
Total FY 2008 State Expenditures	**$123,078**

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Supplemental Budget No. 1 proposes a $200,000 general fund appropriation for the Department of General Services to contract for design review of local public school construction projects.

Local Fiscal Effect: Local school revenues from State school construction funding would increase, as would local expenditures to pay the local school construction costs for projects that are requested by the local jurisdictions and approved by the State. Local school construction expenses include costs in which the State does not participate and a required local match of State funding for costs that are shared.

Costs that are not eligible for a State match account for approximately 15% of total project expenses and include site acquisition and architectural and engineering costs. Required local matches of State funding range from 3% to 50% of eligible costs, based on a formula that uses wealth and needs to calculate State and local shares. The fiscal 2006 to 2008 State share of eligible project costs for each local school system is shown in

Exhibit 3. The estimated local share of the $3.85 billion need identified by the Task Force to Study Public School Facilities is $1.85 billion.

Exhibit 3
State Share of Eligible School Construction Costs
Fiscal 2006 to 2008

Allegany	90%	Harford	65%
Anne Arundel	50%	Howard	58%
Baltimore City	97%	Kent	50%
Baltimore	50%	Montgomery	50%
Calvert	69%	Prince George's*	75%/69%
Caroline	89%	Queen Anne's	70%
Carroll	65%	St. Mary's	72%
Cecil	70%	Somerset	97%
Charles	70%	Talbot	50%
Dorchester	77%	Washington	65%
Frederick	72%	Wicomico	81%
Garrett	70%	Worcester	50%

*The State will provide 75% of eligible school construction costs for the first $35 million per year it provides to Prince George's County and 69% of the eligible costs for any funding above $35 million.

Local jurisdictions are only required to provide local matches for projects that they have requested, so the bill does not mandate any additional local spending.

Additional Information

Prior Introductions: None.

Cross File: HB 1561 (Delegate Haynes, *et al.*) – Appropriations.

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

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mp/rhh

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