

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 946 (Delegate Barkley)
 Appropriations

Public School Construction - Mandated Funding

This bill requires the Governor to include at least \$250 million for public school construction in the State operating or capital budget each fiscal year.

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

Fiscal Summary

State Effect: General obligation (GO) bond revenues and expenditures could increase by an estimated \$46.2 million in FY 2006 to issue a portion of the additional debt authorization that would be required to meet the \$250 million funding level for school construction. Annuity Bond Fund (ABF) expenditures could increase by an estimated \$2.3 million in FY 2007 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.	\$46.2	\$102.7	\$129.2	\$139.6	\$147.1
GF Expenditure	0	0	.2	.2	.2
SF Expenditure	0	2.3	7.7	0	0
GF/SF Exp.	0	0	0	17.4	30.8
Bond Exp.	46.2	102.7	129.2	139.6	147.1
Net Effect	\$0	(\$2.3)	(\$7.9)	(\$17.6)	(\$31.0)

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 \$46.2 million in FY 2006 and by up \$150 million annually beginning in FY 2007.

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

Analysis

Current Law: State funding for public school construction is discretionary.

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 ambitious 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.

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 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.

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

State Fiscal Effect: The proposed fiscal 2006 State budget includes \$157.6 million for public school construction, meaning an additional \$92.4 million would be needed to meet the \$250 million minimum funding level established by the bill. 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. The additional funding could be provided through the operating budget, by reprogramming within the current CIP, or by issuing additional GO bonds. 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 funding for public school construction. However, 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 2007 at \$2.3 million and would increase each year through fiscal 2020, when the payments would peak at \$125.0 million. Increases in debt service payments would continue through fiscal 2032. **Exhibit 2** shows projections of the bill’s impact on State debt and debt service. To the extent that CIP reprogramming 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 2006 to 2032
(\$ in Millions)

Fiscal Year	Debt Authorized	Debt Issued	Debt Service	Debt Outstanding
2006	\$92.4	\$46.2	\$0.0	\$46.2
2007	150.0	102.7	2.3	148.9
2008	150.0	129.2	7.7	278.2
2009	150.0	139.6	17.4	415.2
2010	150.0	147.1	30.8	553.8
2011	150.0	150.0	46.0	687.9
2012	150.0	150.0	61.8	813.5
2013	150.0	150.0	78.1	929.7
2014	0.0	75.0	94.6	960.9
2015	0.0	30.0	106.9	936.5
2016	0.0	15.0	116.8	885.9
2017	0.0	7.5	121.7	820.2
2018	0.0	0.0	123.8	741.3
2019	0.0	0.0	124.6	657.3
2020	0.0	0.0	125.0	568.4
2021	0.0	0.0	125.0	474.6
2022	0.0	0.0	120.1	380.6
2023	0.0	0.0	109.0	292.6
2024	0.0	0.0	94.8	213.9
2025	0.0	0.0	79.5	146.1
2026	0.0	0.0	63.3	90.8
2027	0.0	0.0	46.9	48.9
2028	0.0	0.0	30.4	21.2
2029	0.0	0.0	14.0	8.4
2030	0.0	0.0	5.8	3.1
2031	0.0	0.0	2.5	0.8
2032	<u>0.0</u>	<u>0.0</u>	<u>0.8</u>	0.0
Total	\$1,142.4	\$1,142.4	\$1,749.5	

State debt service is paid by the ABF, which is currently supported only 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 2009. 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 two years 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, but 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	<u>12,537</u>
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.

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 State's share of eligible project costs for fiscal 2006 to 2008 are 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: None.

Information Source(s): *Task Force to Study Public School Facilities Final Report* (February 2004), Maryland Department of Planning, Department of General Services, Public School Construction Program, Department of Legislative Services

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