

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 565
 Appropriations

(Delegate Haynes, *et al.*)

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 2008 through 2012 State budgets.

The bill takes effect July 1, 2006 and terminates June 30, 2013.

Fiscal Summary

State Effect: General obligation (GO) bond expenditures could increase by an estimated \$48.8 million in FY 2008 to issue a portion of the additional debt authorization that would be contributed to the fund. General fund expenditures would increase by an estimated \$125,600 in FY 2009 to add personnel to manage additional school construction projects. Future year estimates reflect the projected schedule of bond issuances from increased authorizations and salary increases and inflation in the administrative costs.

| (\$ in millions) | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------------|---------|-----------|-----------|-----------|-----------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 0 | .13 | .12 | .13 |
| Other Exp. | 0 | 48.80 | 78.08 | 87.84 | 93.92 |
| Net Effect | \$0 | (\$48.80) | (\$78.21) | (\$87.96) | (\$94.05) |

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 \$48.8 million in FY 2008 and by an estimated \$93.9 million in FY 2011. Local school construction expenditures would increase to provide the local shares for projects that are requested and approved.

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. All projects approved for funding are subject to the State and local cost-share formula used for public school construction projects. BPW must administer the new 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. IAC is staffed by personnel from the Public School Construction Program (PSCP), the Department of General Services, the Maryland State Department of Education (MSDE), and the Maryland Department of Planning.

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, MSDE, 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. **Exhibit 1** shows the amount of funding needed in each local school system to address the deficiencies identified by the assessment.

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 |

The proposed fiscal 2007 capital budget includes \$261.3 million in general obligation (GO) bonds and PAYGO for public school construction. An additional \$19.6 million is proposed to be reallocated from the school construction contingency fund, bringing the Governor's proposed total funding to \$280.9 million in fiscal 2007. Initial fiscal 2007 school construction allocations amounting to \$210.7 million were approved by BPW in January 2006, and the remaining \$70.2 million in proposed State funds will be allocated to the school systems prior to the start of fiscal 2007.

State Fiscal Effect: The proposed fiscal 2007 Capital Improvement Program assumes \$152.4 million annually from fiscal 2008 to 2010 and \$150 million in fiscal 2011 for public school construction. In addition to these amounts, this bill would require \$97.6 million annually from fiscal 2008 to 2010 and \$100 million in fiscal 2011. 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 will be provided entirely by issuing additional GO bonds. Beginning in fiscal 2009, once a significant number of projects supported with the additional funding would be in progress, additional IAC staff positions 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 approximately \$100 million in additional bonds per year, would be issued.

It is assumed that the additional GO bonds would be within the State's capital debt affordability limit and would not increase debt service costs further. However, if the additional bonds are outside the debt affordability limit, increased debt service payments would begin in fiscal 2009 at an estimated \$2.7 million. The payments would increase each year through fiscal 2019, when they would peak for five years at \$54.1 million. **Exhibit 2** shows projections of the additional State debt and debt service costs that would result from this bill.

Exhibit 2
Fiscal Impact If Additional Debt Authorizations are Required to Fund Additional School Construction
Fiscal 2008 to 2031
(\$ in Millions)

| <u>Fiscal Year</u> | <u>Additional Debt Authorized</u> | <u>Debt Issued</u> | <u>Debt Service</u> | <u>Debt Outstanding</u> |
|--------------------|-----------------------------------|--------------------|---------------------|-------------------------|
| 2008 | \$97.6 | \$48.8 | \$0.0 | \$48.8 |
| 2009 | 97.6 | 78.1 | 2.7 | 126.9 |
| 2010 | 97.6 | 87.8 | 7.0 | 214.7 |
| 2011 | 100.0 | 93.9 | 14.5 | 306.0 |
| 2012 | 100.0 | 99.5 | 23.9 | 398.4 |
| 2013 | 0.0 | 49.8 | 34.2 | 435.9 |
| 2014 | 0.0 | 19.9 | 42.1 | 437.7 |
| 2015 | 0.0 | 10.0 | 48.6 | 423.2 |
| 2016 | 0.0 | 5.0 | 51.9 | 399.6 |
| 2017 | 0.0 | 0.0 | 53.2 | 368.3 |
| 2018 | 0.0 | 0.0 | 53.8 | 334.8 |
| 2019 | 0.0 | 0.0 | 54.1 | 299.1 |
| 2020 | 0.0 | 0.0 | 54.1 | 261.5 |
| 2021 | 0.0 | 0.0 | 54.1 | 221.9 |
| 2022 | 0.0 | 0.0 | 54.1 | 180.0 |
| 2023 | 0.0 | 0.0 | 54.1 | 135.9 |
| 2024 | 0.0 | 0.0 | 48.7 | 94.6 |
| 2025 | 0.0 | 0.0 | 40.1 | 59.7 |
| 2026 | 0.0 | 0.0 | 30.5 | 32.5 |
| 2027 | 0.0 | 0.0 | 20.2 | 14.1 |
| 2028 | 0.0 | 0.0 | 9.3 | 5.6 |
| 2029 | 0.0 | 0.0 | 3.8 | 2.1 |
| 2030 | 0.0 | 0.0 | 1.6 | 0.5 |
| 2031 | <u>0.0</u> | <u>0.0</u> | <u>0.5</u> | 0.0 |
| Total | \$492.8 | \$492.8 | \$756.9 | |

State debt service is paid by the Annuity Bond Fund (ABF), which is currently supported exclusively with State property tax revenues. If property tax revenues are insufficient to cover the additional debt service required by this bill, the ABF would have to be supplemented with additional general funds. The need for supplemental general funds will be determined by the total amount of debt authorized by the Governor and the General Assembly and the property tax rate set by BPW.

Interagency Committee on School Construction Administrative Expenses

General fund expenditures for administrative costs could increase by an estimated \$125,622 in fiscal 2009, which assumes that any additional workload associated with the first year of increased funding for public school construction could be handled with existing personnel and resources. Once a significant number of additional projects are approved and have begun, two additional IAC staff positions will be required to manage the additional projects. From fiscal 2000 to 2002 and in fiscal 2006, funding for school construction met or exceeded the levels proposed by the bill, and IAC staff performed school construction activities without the benefit of additional personnel. However, PSCP advises that adding staff will 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 | \$112,759 |
| Start-up and Ongoing Operating Expenses | <u>12,863</u> |
| Total FY 2009 State Expenditures | \$125,622 |

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 project 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: Similar cross filed bills were introduced last year as SB 884/HB 1561. The Senate Budget and Taxation Committee took no action on SB 884, and the House Appropriations Committee gave HB 1561 an unfavorable report.

Cross File: None.

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

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Analysis by: Mark W. Collins

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

