

Department of Legislative Services  
Maryland General Assembly  
2007 Session

FISCAL AND POLICY NOTE

House Bill 1132  
Appropriations

(Delegate G. Clagett)

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Elementary and Secondary Education - Public School Construction - State  
Funding

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This bill requires that any excess State funds committed to a public school construction project that is completed at a cost that is less than the approved total cost revert to the county school board to fund other approved school construction or improvement projects in that county.

The bill takes effect July 1, 2007.

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Fiscal Summary

**State Effect:** The bill codifies capital budget bill language that has been in effect since fiscal 2006, so there is no immediate fiscal effect. However, the State would forego future reversions of excess State funds for local school construction projects that would be available for other approved projects statewide. Instead, those funds would be retained by local school systems for approved projects.

**Local Effect:** No net change in revenues for school construction, but local school systems would have greater discretion over excess State school construction funds that could be applied to a larger number of school construction or improvement projects.

**Small Business Effect:** None.

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## Analysis

**Current Law:** The State pays at least 50% of eligible costs of school construction and renovation projects, based on a funding formula that takes into account each local school system's ability to pay. **Exhibit 1** shows the current State share of eligible school construction costs for all Maryland jurisdictions. Local school systems have sole responsibility for procuring school construction contracts and are responsible for all costs of a school construction project that exceed the State's maximum approved funding for a project.

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### Exhibit 1 State Share of Eligible School Construction Costs Fiscal 2006-2008

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

\*For fiscal 2006-2008, the State match for Prince George's County is 75% for funding allocated up to \$35 million and 69% for funding allocated in excess of \$35 million.

Source: Public School Construction Program

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Subject to the final approval of the Board of Public Works (BPW), the Interagency Committee on School Construction (IAC) manages State review and approval of local school construction projects. Each year, local systems develop and submit to IAC a facilities master plan that includes an analysis of future school facility needs based on the current condition of school buildings and projected enrollment. Subsequently, each local

school system submits a capital improvement plan to IAC that includes projects for which it seeks planning approval, projects for which it seeks funding approval, and projects that the local system has forward funded. Based on its assessment of the relative merit of all the project proposals it receives, and subject to the projected level of school construction funds available, IAC determines which projects to recommend to BPW for State funding. By December 31 of each year, IAC recommends to BPW projects comprising 75% of the preliminary school construction allocation announced by the Governor for the upcoming year. Local school systems may then appeal IAC recommendations directly to BPW. In May following the legislative session, IAC recommends projects comprising the remaining 25% of the preliminary allocation and any additional funds that may have been included in the capital budget bill for school construction.

Prior to fiscal 2006, school construction projects whose final costs were below the total cost approved by IAC had to return any excess State funds to IAC. Those funds were placed in a contingency reserve fund and were available for other approved school construction projects throughout the State. The capital budgets for fiscal 2006 and 2007 allowed local school systems to retain any excess State funds for school construction projects that finished under budget or were not allocated to specific projects. In practice, IAC placed those funds in its contingency reserve fund, but credited them to each county school board, which in turn could apply those funds toward any other approved school construction or improvement project. Since fiscal 2007, those funds could also be used for aging school projects subject to the local school construction match required.

**Background:** Of the \$17.6 million in IAC's contingent reserve account as of March 15, 2007, \$11.3 million is credited to local school boards from reversions of excess State funds for school construction projects funded in fiscal 2006 and 2007. **Exhibit 2** shows the amount of funds reverted and held in reserve for each county.

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**Exhibit 2**  
**Reverted School Construction Funds Held in Reserve**

Anne Arundel	\$545,272
Baltimore	3,724,606
Baltimore City	2,254,205
Calvert	181,317
Caroline	102,236
Carroll	1,140,443
Cecil	5,238
Charles	136,653
Dorchester	11,100
Frederick	1,068,598
Garrett	296,456
Harford	374,875
Kent	248,124
Montgomery	212,894
Prince George's	102,817
Washington	893,000
<b>Total</b>	<b>\$11,297,837</b>

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**State Fiscal Effect:** The bill makes permanent a policy that has been in place for the last two fiscal years, so there is no immediate fiscal impact on the State. However, if the current policy is not renewed in the fiscal 2008 capital budget, excess State funds from school construction projects that finish under budget would revert to the statewide contingency fund. The amount of future foregone reversions to the State cannot be reliably estimated because it is dependent on the number, location, and size of school construction projects that finish under budget. Experience from fiscal 2006 and 2007 indicates that the amount of foregone revenue to the State could be as high as \$11 million over two years.

It is not clear if the bill would apply to current school construction projects that first received funding before fiscal 2006, but would not be completed until after the bill's effective date. If it did apply to those projects, the amount of foregone reversions could be greater because those projects are not currently subject to the provisions of the fiscal 2006 and 2007 capital budgets. However, of the \$115.0 million in State funds previously authorized for school construction projects, only \$5.4 million has not been spent, so it is

assumed that the vast majority of fiscal 2005 school construction projects have been completed.

IAC and the Public School Construction Program can carry out the bill's provisions with existing resources.

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### **Additional Information**

**Prior Introductions:** HB 1663 of 2006 received an unfavorable report from the Appropriations Committee.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 18, 2007  
mll/rhh

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