

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

Senate Bill 636 (Senator Raskin)
 Budget and Taxation

Primary and Secondary Education - School Construction - Green School Buildings Fund

This bill establishes a Green School Buildings Fund to help local school systems finance extra costs associated with designing, building, or renovating schools that result in life-cycle savings. Beginning in fiscal 2009, the Governor must include at least \$1.0 million for the fund in either the proposed operating or capital budgets. The Board of Public Works (BPW) administers the fund and must adopt regulations establishing criteria and processes for the disbursement of funds to local school systems.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: General obligation (GO) bond or general fund PAYGO expenditures would increase by at least \$1.0 million annually beginning in FY 2009 to capitalize the Green School Buildings Fund. General fund expenditures could increase by \$49,000 in FY 2009 for BPW to administer the Green School Buildings Fund. Future year increases reflect annualization and inflation.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	49,100	39,900	41,900	44,000
Other Exp.	0	1,000,000	1,000,000	1,000,000	1,000,000
Net Effect	\$0	(\$1,049,100)	(\$1,039,900)	(\$1,041,900)	(\$1,044,000)

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

Local Effect: Local school system revenues for school construction could increase by at least \$1.0 million to offset costs related to designing and constructing school buildings that generate life-cycle cost savings.

Small Business Effect: Potentially meaningful, to the extent that contractors and subcontractors are small businesses.

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.

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

Subject to the final approval of BPW, 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 total projected school construction allocation projected to be available. Local school districts may then appeal the IAC recommendations directly to BPW. In May following the legislative session, IAC recommends projects comprising the remaining 25% of the projected allocation and any additional funds for school construction in the enacted capital budget bill. IAC recommends projects comprising the remaining 25% of the projected allocation.

Background: At least three school systems in the State have “green” school buildings either in the planning, design, or operational stages. Montgomery County has one school that opened in fall 2006 that has earned a silver rating from the U.S. Green Building Council’s (USGBC) Leadership in Energy and Environmental Design (LEED) program. St. Mary’s County has a green school in the design stage, and Harford County has one school in the planning stage.

Innovations in school design that result in life-cycle savings include but are not limited to:

- geothermal heating and cooling systems that take advantage of the earth’s natural temperature to heat and cool buildings;
- installing additional insulation, such as triple-paned windows; and
- increasing day lighting by, for instance, installing skylights.

Each of these innovations involves an upfront cost premium during the design and construction stages. As normal construction costs escalate, the construction cost gap between green buildings and traditional buildings has been narrowing. Most estimates indicate that construction costs for green buildings are 3% to 5% higher than construction costs for traditional buildings. Over time, however, green buildings could generate sufficient operational savings or cost avoidance to recover the construction cost premium. This can take an average of 7 to 10 years.

State Fiscal Effect: The bill requires the Governor to capitalize the Green School Buildings Fund through the operating or capital budget. Since the fund is for capital projects, it is assumed that State GO bonds would be issued to make the required appropriation. It is also assumed that the GO bonds would be within the State's capital debt affordability limit and would not increase debt further.

The fiscal 2008 *Capital Improvement Program* includes \$385.8 million in GO bonds for public school construction in fiscal 2008 and \$250.0 million annually in fiscal 2009 through 2012. Additional special funds of \$2.4 million are provided in fiscal 2008 through 2010. In total, approximately \$1.4 billion in State funding for school construction is planned over the next five years. To the extent the Governor utilizes the planned funding for school construction to capitalize the Green School Buildings Fund, total school construction expenditures would not increase.

General fund expenditures could increase by an estimated \$49,054 in fiscal 2009, which accounts for the fund not receiving money until fiscal 2009. This estimate reflects the cost of hiring 0.5 administrator position to manage the Green School Buildings Fund. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses:

Salary and Fringe Benefits	\$36,255
Operating Expenses	<u>12,799</u>
Total FY 2009 Administrative Costs	\$49,054

Future year expenditures reflect: (1) a full salary with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses

Local Fiscal Effect: Local school systems that wish to design and build green school buildings will have access to at least \$1.0 million in State funds to offset the 3% to 5% cost premium associated with green building design and construction costs. Regulations developed by BPW will determine whether those funds are subject to the State/local cost sharing formula.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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