

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 24

(Senator Peters)

Budget and Taxation

Public Schools - State Aid for School Construction - Planning and Design Costs

This bill requires the Board of Public Works (BPW) to include planning and design costs associated with public school construction or capital improvements as approved public school construction costs and therefore makes them eligible for State funding. It further requires BPW to adopt regulations that define planning and design and that establish minimum specifications for their approval as eligible school construction costs.

The bill takes effect July 1, 2009, and applies only to the construction of new schools that have not initiated a request for proposals for the selection of an architectural and engineering consultant on or before that date.

Fiscal Summary

State Effect: None. The bill does not alter total State funding for school construction but may reduce the number of school construction projects that receive State funding. BPW can handle the bill's requirements with existing resources.

Local Effect: Increased State funding for planning and design costs related to local school construction projects allows reallocation of millions of dollars in local resources to other uses. However, some local school construction and renovation projects may be delayed due to fewer projects funded.

Small Business Effect: None. The bill is not expected to change materially the number of architectural and engineering firms hired to design school construction projects.

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 numerous factors including each local school system's wealth and ability to pay. Chapters 306 and 307 of 2004 (The Public School Facilities Act) require that the cost-share formulas be recalculated every three years. The first recalculation occurred in 2007 for use beginning in fiscal 2010. **Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2006 through 2009 and for the three years beginning in fiscal 2010, following the 2007 recalculation. New rates are being phased in over two or three years for Calvert, Dorchester, Garrett, Harford, Queen Anne's, and Somerset counties because the 2007 recalculation resulted in a reduction of 5% or more in the State share of school construction costs compared with the fiscal 2006 to 2009 levels.

Subject to the final approval of 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 for approval projects comprising 75% of the preliminary school construction allocation projected to be available. Local school districts may then appeal the IAC recommendations directly to BPW. By March 1 of each year, IAC recommends to BPW and the General Assembly projects comprising 90% of the allocation for school construction submitted in the Governor's capital budget. Following the legislative session, IAC recommends to BPW for approval projects comprising the remaining school construction funds included in the enacted capital budget.

Exhibit 1
State Share of Eligible School Construction Costs
Fiscal 2006-2012

<u>County</u>	<u>FY 2006-2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Allegany	90%	91%	91%	91%
Anne Arundel	50%	50%	50%	50%
Baltimore City	97%	94%	94%	94%
Baltimore	50%	50%	50%	50%
Calvert	69%	64%	61%	61%
Caroline	89%	86%	86%	86%
Carroll	65%	61%	61%	61%
Cecil	70%	75%	75%	75%
Charles	70%	77%	77%	77%
Dorchester	77%	72%	71%	71%
Frederick	72%	72%	72%	72%
Garrett	70%	65%	60%	59%
Harford	65%	60%	59%	59%
Howard	58%	61%	61%	61%
Kent	50%	50%	50%	50%
Montgomery	50%	50%	50%	50%
Prince George's	69-75%*	73%	73%	73%
Queen Anne's	70%	65%	60%	55%
St. Mary's	72%	75%	75%	75%
Somerset	97%	92%	88%	88%
Talbot	50%	50%	50%	50%
Washington	65%	73%	73%	73%
Wicomico	81%	87%	87%	87%
Worcester	50%	50%	50%	50%

*For fiscal 2006-2008, the State share for Prince George's County is 75% for funding allocated up to \$35 million, and 69% for funding allocated in excess of \$35 million as required in law. The split share expired in June 2008, and for fiscal 2009 the State share for Prince George's County is 69%.

Source: Public School Construction Program

The Code of Maryland Regulations (COMAR) identifies the following school construction costs as being eligible for State funding:

- construction of a new facility, including building and site development;
- additions to an existing facility, including building and site development and work to physically integrate the addition into the existing building;
- replacement of a building or portion of a building, including building and site development;
- modular construction that meets standards set forth in State regulations;
- renovation of a school building, including systemic renovations as defined in State regulations;
- State-owned relocatable classrooms;
- temporary facilities that are necessary during construction of a State-funded project;
- built-in equipment;
- off-site development costs required by State, local, or federal agencies; and
- emergency repairs as defined in State regulations.

COMAR also designates certain school construction costs as being ineligible for State funding, among them site acquisition costs; offsite development costs except those required by State, local, or federal agencies; and architectural, engineering, or other consultant fees, unless they are for innovative project designs.

Background: Project planning activities that determine the project scope and location are generally carried out by local school district staff, with the exception of feasibility studies to determine the viability of proposed building sites. Design work is typically carried out by architectural and engineering consultants. At its inception in 1971, the Public School Construction Program allowed State funds to be used to reimburse local school systems for design fees. A few years later, those costs became ineligible for State funding so that State resources could be used to fund a wider range of projects, specifically systemic renovations (*e.g.*, heating/cooling systems, windows, and roofs). In fiscal 2009, the Public School Construction Program funded 40 systemic renovations at a total cost of \$24.7 million.

The Governor's proposed capital budget includes \$260 million in general obligation bonds for school construction in fiscal 2010 and projects funding levels of \$250 million for each of the next four fiscal years.

State Fiscal Effect: Both the funding level for school construction and the configuration of funded projects in the *Capital Improvement Plan* (CIP) are determined annually, so a precise calculation of the fiscal effect of this bill is not feasible. However, an examination of the fiscal 2009 CIP can illustrate the potential effect of this bill.

In fiscal 2009, 25 school construction and renovation projects received planning approval from IAC and BPW. The combined total cost of those projects, including both State and local shares, was \$450 million. On average, planning and design costs account for approximately 5% of total school construction project costs. If this bill had been in effect in fiscal 2009, Legislative Services estimates that planning and design costs for those 25 projects would have totaled \$22.5 million. Assuming a composite State share of 65% of the cost of school construction projects, the State would have been responsible for \$14.6 million in planning and design costs. Those funds, equivalent to the cost of one new elementary school or as many as 21 systemic renovations, would not have been available to fund other local projects.

Local Fiscal Effect: Requiring the State to share in planning and design costs currently borne entirely by local school systems allows reallocation of local resources to other uses. The precise effect on counties cannot be estimated reliably because of the annual variation in school construction projects initiated by counties and in the State's share of those project costs, but the total savings is likely to be in the millions of dollars. At the same time, the number of school construction and renovation projects receiving State funds is likely to be reduced, which may cause some local school construction and renovation projects to be delayed.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mcp/rhh

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