

Department of Legislative Services
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 87
Budget and Taxation

(Senator Glassman)

**State Payments of Public School Construction Costs - Remittance of
Reimbursement to County**

This bill requires that State reimbursements for forward-funded school construction or capital improvement projects be remitted directly to county governments instead of local school boards. It specifies that the county may use the State reimbursement funds only for required debt service payments related to public school construction or capital improvement projects.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: None. The Public School Construction Program can implement the bill with existing resources. No effect on revenues.

Local Effect: No net impact for counties receiving reimbursements since State funds generally replace local funds budgeted for debt service.

Small Business Effect: None.

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, and the second recalculation occurred in 2010. **Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2012, which was determined by the 2007 recalculation, and for fiscal 2013 through 2015, as determined by the 2010 recalculation.

Exhibit 1
State Share of Eligible School Construction Costs
Fiscal 2012-2015

<u>County</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Allegany	91%	93%	93%	93%
Anne Arundel	50%	50%	50%	50%
Baltimore City	94%	93%	93%	93%
Baltimore	50%	50%	50%	50%
Calvert	61%	56%	56%	56%
Caroline	86%	81%	78%	78%
Carroll	61%	58%	58%	58%
Cecil	75%	70%	69%	69%
Charles	77%	72%	67%	63%
Dorchester	71%	69%	69%	69%
Frederick	72%	67%	62%	60%
Garrett	59%	54%	50%	50%
Harford	59%	63%	63%	63%
Howard	61%	60%	60%	60%
Kent	50%	50%	50%	50%
Montgomery	50%	50%	50%	50%
Prince George's	73%	68%	63%	62%
Queen Anne's	55%	50%	50%	50%
St. Mary's	75%	70%	65%	64%
Somerset	88%	83%	82%	82%
Talbot	50%	50%	50%	50%
Washington	73%	71%	71%	71%
Wicomico	87%	96%	96%	96%
Worcester	50%	50%	50%	50%

Source: Public School Construction Program

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 SB 87/ Page 2

current condition of school buildings and projected enrollment. The master plan must be approved by the local school board. 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. In addition to approval from the local school board, the capital improvement plan must be approved by the county's governing body. Typically, the submission letter to IAC contains signatures of both the school board president and either the county council president or chair of the board of county commissioners.

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 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 projects comprising the remaining school construction funds included in the enacted capital budget for BPW approval.

A forward-funded project is one that has received planning approval from the State, but not funding approval, and is proceeding with local funds in anticipation of future State payment of the State share. A project receives forward-funded status from IAC only upon project completion.

Background: Based on the State share of approved school construction and capital improvement projects as of December 31, 2011, the State is obligated to pay \$341.6 million in future years to local school systems. This includes projects that have received only planning approval and may or may not be forward funded as well as projects that have received partial State funding.

State payments for school construction projects are normally paid to the local school board unless an agreement has been reached between the school board, county government, and the Public School Construction Program to pay the county directly. According to federal law, State bond proceeds can be used to cover the cost of local school construction projects only within 18 months of project completion.

In most cases, local school boards forward State reimbursement payments to the county to cover debt service and related project costs. Several years ago, the Harford County Board of Education advises that it retained its State reimbursement for six forward-funded projects, and that it received approval from the county executive and

county council to use those proceeds for additional capital projects when additional funding from the county for school construction projects was not available.

Local Fiscal Effect: Counties receiving reimbursements for forward-funded projects will be required to use the funds for required debt-service payments on school construction projects. This limits the counties' flexibility in using the funds, but since the debt service payments are required, a county will be able to use county funds budgeted for school construction debt service for other purposes, resulting in no net impact unless a county's debt service payments are less than the reimbursement amount. In that case, a county may pay down principal on school construction debt, reducing future required debt service payments.

Additional Information

Prior Introductions: SB 625 of 2011 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 285 of 2009, a similar bill, was also heard by the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): Carroll, Cecil, Harford, Queen Anne's, and St. Mary's counties, Maryland State Department of Education, Maryland Association of Counties, Public School Construction Program, Department of Legislative Services

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