

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 726

(Senator Madaleno, *et al.*)

Budget and Taxation

Education - State Funding - Operating and Capital Funds

This bill mandates funding for the Geographic Cost of Education Index (GCEI) formula beginning in fiscal 2016. The bill also requires \$403 million in funding for public school construction or capital improvement costs in fiscal 2016. In subsequent fiscal years, this “capital aid target amount” increases annually by the lesser of 5% or the percentage increase in the projected school construction costs per square foot for new construction with site development, as approved by the Interagency Committee on School Construction (IAC). If the costs per square foot measure does not increase, the capital aid target amount is equal to the prior fiscal year capital aid target amount.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: Public School Construction Program (PSCP) funding increases by \$153 million over the amount projected in the *Capital Improvement Program* (CIP) in FY 2016 and, assuming 4% annual growth in the capital aid target amount, by \$203.3 million in FY 2019. Total capital budget spending is not affected because increased allocations to PSCP are fully offset by decreased funding for other capital projects. The GCEI formula has been fully funded since FY 2010 so it is assumed this provision has no fiscal impact. **This bill establishes a mandated appropriation beginning in FY 2016.**

Local Effect: Funding for school construction increases beginning in FY 2016, but only to the extent that local governments are able to provide required matching funding to meet the increase in available funding. Funding for other local capital expenditure priorities may be significantly reduced.

Small Business Effect: Small businesses that are involved with school construction and renovation may benefit. Small businesses involved with construction otherwise addressed by the CIP may be adversely affected.

Analysis

Current Law/Background:

Geographic Cost of Education Index

The GCEI formula is established in statute but is not mandated. The foundation program equals the annual per pupil foundation amount multiplied by a county's full-time equivalent enrollment. The GCEI formula multiplies the foundation program for each county by the county's predetermined adjustment factor (which for 11 counties is zero and for 13 counties is above this amount).

GCEI is a discretionary component of the State aid formulas that provides additional funding to local school systems where educational resource costs are above the State average. Since funding for the program began in fiscal 2009, the State has provided funding through GCEI to 13 local school systems each year, and it has been fully funded each year since fiscal 2010. The Governor's proposed fiscal 2015 budget includes \$132.7 million for GCEI as shown in **Exhibit 1**.

The Bridge to Excellence in Public Schools Act (Chapter 288 of 2002) restructured the State's public school finance system and increased State aid to public schools by an estimated \$1.3 billion over six fiscal years (fiscal 2003-2008). Chapter 288 included language that required the development of a Maryland-specific GCEI that would be available to adjust State aid beginning in fiscal 2005. Chapter 288 did not, however, provide a specific formula or funding level for the cost adjustments, and as a result, language in the bill did not constitute a legal mandate for GCEI funding. Chapter 430 of 2004 established a formula for GCEI, but unlike the rest of the major State aid programs, the formula was not mandated. The statutory GCEI formula phased in from fiscal 2006 to 2010, but the phase-in schedule was not followed. Instead, the formula received no funding through fiscal 2008 and was phased in at 30% in fiscal 2009 and 100% in each subsequent year.

The Maryland State Department of Education, in consultation with the Department of Budget and Management and the Department of Legislative Services, must contract with a public or private entity to conduct a study of the adequacy of education funding in the State. The study must be conducted in phases, with the first phase beginning no later than June 30, 2014, and the final phase being completed by December 1, 2016. Chapter 1

of the first special session of 2012 requires the GCEI formula to be updated using the most current methodology by September 1, 2016. The formula was previously updated in 2009, but the statutory formula has not been altered to reflect the updated figures.

Exhibit 1
Governor's Proposed GCEI Funding
Fiscal 2015

County	Amount
Allegany	\$0
Anne Arundel	9,406,830
Baltimore City	22,862,898
Baltimore	5,727,153
Calvert	2,279,425
Caroline	0
Carroll	2,492,094
Cecil	0
Charles	3,501,859
Dorchester	0
Frederick	6,498,588
Garrett	0
Harford	0
Howard	5,312,701
Kent	136,857
Montgomery	34,394,095
Prince George's	39,276,765
Queen Anne's	563,799
St. Mary's	231,734
Somerset	0
Talbot	0
Washington	0
Wicomico	0
Worcester	0
Total	\$132,684,798

Public School Construction

The cost per square foot that will be applicable to major school construction projects is established by the IAC in July of the calendar year in which applications are submitted one year before approved projects are likely to be solicited by a local education agency. The figure is based on bids received for new school construction in the prior six-month period, cost information derived from industry sources, and the anticipated cost escalation factors used by other State agencies, particularly the Department of General Services. The figure may be adjusted by the IAC to reflect market conditions. In recent years the annual increase in this measure has been approximately 4%.

The Governor's proposed fiscal 2015 capital budget includes \$275 million for PSCP. The State's *Capital Improvement Program* includes \$250 million in each of fiscal 2016 through 2019 to fund school construction. For a description of State support for public school construction funding, please see the **Appendix – State Funding for Public School Construction Projects**. The fiscal 2014 capital budget, as enacted, provided \$325.0 million for PSCP.

State Fiscal Effect: PSCP funding increases from the planned amount of \$250 million to \$403 million in fiscal 2016, an increase of \$153 million. Assuming a 4% increase annually in the square foot measure specified by the bill, the increase amounts to \$169.1 million in fiscal 2017, \$185.9 million in fiscal 2018, and \$203.3 million in fiscal 2019.

Total capital budget spending, which is determined annually by the Governor and General Assembly through the capital budget process within limits set by the Capital Debt Affordability Committee, is not affected. To the extent that the allocation to the PSCP increases, fewer funds are available for other capital projects. The bill may cause delays in the completion of other projects currently projected to receive funding in the State's capital program. Based on PSCP funding of over \$250 million since fiscal 2006, exceeding \$400 million in fiscal 2008, IAC, PSCP, MSDE, Maryland Department of Planning, and the Department of General Services can handle increased funding under the bill using existing resources.

Since the GCEI formula has been fully funded since fiscal 2010, mandating funding has no fiscal impact based on the current statutory GCEI adjustment. To the extent that the required update of the GCEI calculation in 2016 results in additional funding that is codified in the formula, mandated funding for GCEI increases after fiscal 2017.

Local Fiscal Effect: Funding for school construction increases beginning in fiscal 2016, but only to the extent that local governments are able to provide required matching funding to meet the increase in available funding. Funding for other local capital expenditure priorities may be significantly reduced.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Board of Public Works, Department of Budget and Management, Maryland State Department of Education, Department of General Services, Maryland Association of Counties, Maryland Association of Boards of Education, Public School Construction Program, Department of Legislative Services

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ncs/rhh

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Appendix – State Funding for Public School Construction Projects

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. 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 and/or funding approval for the upcoming fiscal year, which may include projects that the local system has forward funded. In addition to approval from the local school board, the request for the upcoming fiscal year 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 executive and 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 makes recommendations for which projects to fund to BPW. By December 31 of each year, IAC must recommend to BPW projects comprising 75% of the preliminary school construction allocation projected to be available by the Governor for the upcoming fiscal year. Local school boards may then appeal the IAC recommendations directly to BPW. By March 1 of each year, IAC must recommend 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, no earlier than May 1.

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. The Public School Facilities Act (Chapters 306 and 307 of 2004) requires that the cost-share formula 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. The 2013 recalculation is currently in process and will be completed by spring 2014 for implementation beginning in fiscal 2016.

Chapters 306 and 307 also established the State's intent to provide \$2.0 billion of funding for school construction by fiscal 2013, an average of \$250.0 million each year for eight years. As a result, Public School Construction Program (PSCP) funding increased from \$125.9 million in fiscal 2005 to \$253.8 in fiscal 2006, and has remained above the

\$250.0 million target each year since, which resulted in significant increases in school construction assistance to local school boards. As a result, the State achieved the \$2.0 billion goal ahead of schedule. **Exhibit 2** shows annual State public school construction funding from fiscal 2006 through 2014, by county.

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

Exhibit 2
State Funding for Public School Construction
(\$ in Thousands)

County	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Allegany	\$12,000	\$18,650	\$412	\$0	\$0	842	727	1,999	2,496
Anne Arundel	19,457	22,675	27,827	27,420	25,020	26,200	32,400	33,349	34,870
Baltimore City	21,523	39,436	52,665	41,000	27,733	28,559	41,000	46,102	39,478
Baltimore	25,218	35,053	52,250	40,985	28,000	29,000	39,000	47,394	52,068
Calvert	3,437	2,723	12,644	7,824	8,181	8,450	7,317	7,129	5,577
Caroline	4,699	2,935	2,426	8,100	6,000	3,767	235	756	7,788
Carroll	7,434	8,282	8,219	11,741	10,520	8,444	9,079	15,211	4,874
Cecil	8,656	8,271	9,533	2,674	1,538	1,744	2,830	1,915	1,268
Charles	8,267	10,200	13,170	11,704	8,898	8,335	9,180	12,480	9,426
Dorchester	656	872	6,137	10,400	6,469	5,436	3,639	979	1,590
Frederick	11,910	17,942	18,728	14,759	16,226	14,000	16,532	19,254	20,163
Garrett	1,507	1,235	6,243	3,020	666	0	382	319	134
Harford	8,287	11,096	16,238	14,751	16,253	13,835	17,040	16,573	13,214
Howard	15,273	17,808	23,206	18,265	18,262	18,290	26,936	32,811	25,931
Kent	2,000	3,479	1,335	0	388	0	104	123	95
Montgomery	30,431	40,040	52,297	53,312	28,350	30,183	42,000	43,794	38,592
Prince George's	29,833	37,425	52,250	41,000	28,200	29,500	40,348	42,192	39,371
Queen Anne's	6,897	3,000	3,925	4,951	3,947	5,750	5,374	649	4,371
St. Mary's	3,271	5,495	9,806	7,266	4,028	6,600	3,354	3,172	7,472
Somerset	14,300	12,022	5,153	0	6,000	6,000	3,371	289	3,811
Talbot	2,422	2,405	2,038	0	436	344	135	35	634
Washington	6,431	4,478	8,970	9,368	7,965	7,970	8,571	9,117	8,494
Wicomico	7,616	4,178	8,143	12,960	13,170	9,975	1,864	11,290	13,327
Worcester	2,241	6,872	8,213	5,483	403	0	165	166	4,882
MD School for the Blind								2,800	6,063
Bond Premium		6,100							
Statewide						500		100	1,288
Total	\$253,766	\$322,672	\$401,828	\$346,983	\$266,653	\$263,724	\$311,583	\$349,997	\$347,277
Over \$250M	\$3,766	\$72,672	\$151,828	\$96,983	\$16,653	\$13,724	\$61,583	\$99,997	\$97,277