

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 927 (Senator Raskin, *et al.*)
Budget and Taxation

Supplemental Public School Construction Matching Fund Program

This bill establishes the Supplemental Public School Construction Matching Fund Program to provide supplemental State funding for public school capital improvements in counties with at least 100,000 public school students and that consistently maintain a AAA bond rating with at least two of the three major rating agencies. The program must provide each qualifying county with up to \$20.0 million annually to help finance public school construction and capital improvement projects. The State funding is supplemental to and not intended to take the place of funding that would otherwise be appropriated for public school construction.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund revenues decrease by up to \$60.0 million due to the diversion of \$20.0 million in State lottery revenues for three qualifying counties beginning as soon as FY 2016 and continuing for 19 more years. General fund expenditures for the Public School Construction Program (PSCP) increase by \$188,100 in FY 2015 and by \$333,900 in FY 2016 to manage the program. General fund expenditures also increase in FY 2016 for the Maryland State Department of Education (MSDE) by \$68,900 and for the Department of General Services (DGS) by an indeterminate amount to review school designs and contract documents. Out-year expenditures for all three agencies reflect annualization, inflation, and the elimination of one-time or temporary costs.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Revenue	\$0	(\$60,000,000)	(\$60,000,000)	(\$60,000,000)	(\$60,000,000)
GF Expenditure	\$188,100	\$402,800	\$402,900	\$421,300	\$367,300
Net Effect	(\$188,100)	(\$60,402,800)	(\$60,402,900)	(\$60,421,300)	(\$60,367,300)

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

Local Effect: Local revenues for school construction costs or debt service increase annually by \$20.0 million, beginning in FY 2016, in Baltimore, Montgomery, and Prince George's counties. Local expenditures in those counties may increase to manage the increased volume of school construction projects, but a reliable estimate is not feasible.

Small Business Effect: Meaningful for small construction companies.

Analysis

Bill Summary: Funds provided by the program may be used to either (1) pay up to one-third of the cost of debt service on bonds issued by the counties to fund school construction and capital improvement projects or (2) pay the cost of public school construction and capital improvement projects at a ratio of \$1 of State money for every \$2 paid by a qualifying county. All funds provided by the State and qualifying counties are deposited into the Supplemental Public School Construction Fund established by the bill as a special, continuing, and nonlapsing fund.

The program is administered by the Department of Budget and Management (DBM). Before any funding is released under the program, (1) projects funded by the program must be approved by DBM and the Interagency Committee on School Construction (IAC) and (2) a memorandum of understanding (MOU) must be executed among DBM, IAC, and each qualifying county. The MOU must:

- identify the eligible costs and State and local cost-share percentages that are applicable to projects funded by the program;
- require each qualifying county that receives funding for debt service to deposit funds in the Supplemental Public School Construction Fund to pay at least two-thirds of the debt service issued by the county;
- require each qualifying county that receives funding for school construction costs to pledge to match every \$1 of State funding with \$2 of county funds and to identify the source of funding for the match; and
- include any other provisions necessary to implement the bill.

To be eligible for the program, each qualifying county must file an application with DBM by June 30, 2019, that includes:

- appropriate documentation of its qualifying status;
- a plan for each project for which the county is requesting funding;
- if the county is requesting assistance with debt service costs, a pledge to issue county bonds by June 30, 2020, that mature within 20 years; and

- if the county is requesting assistance with construction costs, a pledge to match each \$1 of State funds with \$2 of county funds.

State funds provided for debt service are pledged to that purpose and end when the bonds mature and are no longer outstanding. State Funds provided for construction costs end 20 years after funding is first provided. County bonds issued to provide the county share of funding required by the bill (1) are not a debt, liability, or pledge of faith and credit or the taxing power of the State; (2) may not give rise to any pecuniary liability of the State; and (3) are not directly, indirectly, or contingently a moral or other obligation of the State to levy or pledge any tax or to make an appropriation to pay the bond.

The Supplemental Public School Construction Fund is administered by the Treasurer, who must invest the money in the same manner as other State funds. Any investment earnings accrue to the fund. In addition to State and local funds specified in the bill, the fund consists of any additional money made available from any public source for the purposes established for the fund. Monies deposited in the fund are pledged for:

- debt service on qualifying county bonds;
- debt service reserves under a trust agreement;
- all reasonable charges and expenses related to county borrowing; and
- costs incurred for public school construction and capital improvement projects.

Each fiscal year, beginning July 1, 2016, the Comptroller must deposit \$20.0 million in proceeds from the State Lottery in the fund for *each* qualifying county that receives funding. Payments for each county must be made in two installments of \$10.0 million, with the first payment made no later than December 1 of each year.

Current Law: For a description of State support for public school construction funding, please see the **Appendix – State Funding for Public School Construction Projects**.

Chapter 647 of 2013 dedicated State and local funding sources to support a \$1.1 billion public school construction and revitalization initiative for Baltimore City. Specifically, it phased in requirements that the State, Baltimore City, and Baltimore City Public Schools each contribute \$20.0 million annually for approximately 15 years to pay debt service on bonds issued by the Maryland Stadium Authority (MSA) to finance the program. State general funds for the initiative are provided from proceeds of the State Lottery. Included in Chapter 647 was a requirement that Baltimore City, IAC, the Baltimore City Board of School Commissioners (BCBSC), and MSA enter into a four-party MOU to establish a framework for completion of the initiative. The MOU was completed and signed in September 2013 and the Board of Public Works approved the MOU in October 2013.

Each month, after payments to lottery winners and agents and to the State Lottery for operating expenses, the Comptroller must make payments from the State Lottery Fund to:

- the Maryland Stadium Facilities Fund (an amount not to exceed \$20.0 million in any fiscal year);
- after June 30, 2014, the Baltimore City Public School Construction Financing Fund (an amount equal to \$20.0 million in each fiscal year); and
- the State's general fund.

Additionally, after June 30, 2014, the Comptroller must deposit 10% of the money that remains in the State Lottery Fund from the proceeds of ticket sales from instant ticket lottery machines by veterans' organizations into the Maryland Veterans Trust Fund.

In fiscal 2013, the State Lottery generated \$1.8 billion in total from ticket sales. Approximately \$526.0 million was deposited in the general fund after payments were made to lottery winners, agents, and the Maryland Stadium Facilities Fund. Under Chapter 647, \$20.0 million in annual lottery revenues are slated for the Baltimore City public school construction initiative beginning in the fiscal year in which bonds are issued, which is now expected to be fiscal 2016.

Background: The basis for the Baltimore City construction initiative under Chapter 647 is a 10-Year Plan developed by Baltimore City Public Schools for the closure, replacement, or renovation of every building owned by BCBSC, which was issued in November 2012. The 10-Year Plan includes vacating 26 buildings, substantially renovating or replacing 49 buildings, and renovating 87 buildings (including 22 with additions). Phase 1 of the plan, projected to cost about \$1.1 billion and last about six years, addresses the bulk of the \$1.4 billion of the system's most pressing deficiencies, including constructing 15 new or replacement buildings, renovating 30 to 35 school buildings, and closing at least 26 schools or buildings.

Three counties (Baltimore, Montgomery, and Prince George's) currently meet the bill's criteria for funding. Besides Baltimore City, the next largest county is Anne Arundel with 76,000 students. It is not expected to reach the 100,000 student threshold in the foreseeable future.

State Revenues: General fund revenues decrease by \$60.0 million annually, beginning in fiscal 2016, due to \$20.0 million in lottery revenues being diverted for each of the three eligible counties. This assumes that the three qualifying counties submit applications shortly after the bill takes effect. This effect continues for 20 years total.

State Expenditures: Although the bill requires DBM to manage the program, DBM has no current role or experience managing school construction projects. It is assumed that

DBM will delegate the bulk of the day-to-day management of the program to IAC and PSCP, which manage school construction for BPW; IAC also is a signatory on the Baltimore City MOU. DBM can handle any remaining responsibilities that it retains for itself with existing budgeted resources.

For the Baltimore City initiative, IAC and PSCP hired a program manager to coordinate the agency’s activity with regard to the MOU, coordination with Baltimore City Public Schools, and review of school designs. Given the size and scope of this project, and the involvement of three different local jurisdictions with extensive school construction needs, PSCP requires additional staff to carry out the same functions. Specifically, PSCP requires a program manager, assistant program manager, accountant, and office assistant to handle the increased workload. Additional expenditures for an information technology consultant to update the capital improvement database that PSCP uses to track project completion are also necessary.

General fund expenditures by PSCP increase by \$188,140 in fiscal 2015, which accounts for a 90-day start-up delay given the bill’s July 1, 2014 effective date, and by \$333,889 in fiscal 2016. This estimate reflects the cost of hiring one program manager in fiscal 2015 to manage program start-up and the negotiation of MOUs with eligible counties and three additional staff described above to manage and coordinate PSCP’s ongoing interactions with the three jurisdictions. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

	<u>FY 2015</u>	<u>FY 2016</u>
New Positions	1	3
Salaries and Fringe Benefits	\$79,735	\$313,588
Contractual information technology	100,000	0
Other Operating Expenses	<u>8,405</u>	<u>20,301</u>
Total State Expenditures	\$188,140	\$333,889

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

In addition, general fund expenditures for MSDE increase by \$68,913 in fiscal 2016 to hire one contractual architect for three years to review school design plans for educational adequacy.

It is assumed most of the funding requests for the program will occur within the first three years, so the architect is needed for only that period of time. General fund expenditures also increase for the Department of General Services to outsource its design development and contract review function for IAC, but a reliable estimate is not feasible because expenditures are on a per-project basis and the total number of projects cannot be reliably estimated.

Small Business Effect: Small construction and related companies likely benefit from a dramatic increase in school construction projects in the Baltimore-Washington metropolitan area that result from the bill.

Additional Information

Prior Introductions: None.

Cross File: HB 1323 (Delegate Kaiser, *et al.*) - Appropriations.

Information Source(s): Public School Construction Program; Charles, Frederick, and Montgomery counties; State Lottery and Gaming Control Agency; Maryland Association of Counties; Department of General Services; Department of Legislative Services

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mc/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)

<u>County</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
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