

Department of Legislative Services  
2013 Session

**FISCAL AND POLICY NOTE**

Senate Bill 303

(Senator Glassman)

Budget and Taxation

---

**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, 2013.

---

**Fiscal Summary**

**State Effect:** None. The Public School Construction Program (PSCP) 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:** For a description of State funding for PSCP, please see the **Appendix – State Funding for Public School Construction Projects**.

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 the Interagency Committee on School Construction only upon project completion.

**Background:** Based on the State share of approved school construction and capital improvement projects as of December 31, 2012, the State is obligated to pay \$455.2 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 PSCP 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. Prince George's County forward funded several projects that can only be reimbursed with State pay-as-you-go funds due to this requirement (totaling \$11.8 million).

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 advised 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 87 of 2012, SB 625 of 2011, and SB 285 of 2009 (similar bills) all received hearings in the Senate Budget and Taxation Committee, but no further action was taken on any of the bills.

**Cross File:** None.

**Information Source(s):** Allegany, Harford, and Talbot counties; Maryland State Department of Education; Maryland Association of Counties; Public School Construction Program; Department of Legislative Services

**Fiscal Note History:** First Reader - February 11, 2013  
mlm/rhh

---

Analysis by: Michael C. Rubenstein

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

## 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, SB 787/HB 1230) 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 will be conducted prior to fall 2013 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, the Public School Construction Program funding increased from

\$125.9 million in fiscal 2005 to \$253.8 million in fiscal 2006, and it 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 since fiscal 2006, by county.

---

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

<b><u>County</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>	<b><u>FY 2015</u></b>
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)

<b>County</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>Total FY 06-13</b>
Allegany	\$12,000	\$18,650	\$412	\$0	\$0	842	603	741	\$33,248
Anne Arundel	19,457	22,675	27,827	27,420	25,020	26,200	27,400	33,300	209,299
Baltimore City	21,523	39,436	52,665	41,000	27,733	28,559	32,000	42,600	285,516
Baltimore	25,218	35,053	52,250	40,985	28,000	29,000	32,000	43,300	285,806
Calvert	3,437	2,723	12,644	7,824	8,181	8,450	6,907	7,018	57,184
Caroline	4,699	2,935	2,426	8,100	6,000	3,767	86	350	28,363
Carroll	7,434	8,282	8,219	11,741	10,520	8,444	8,905	12,748	76,293
Cecil	8,656	8,271	9,533	2,674	1,538	1,744	2,414	1,514	36,344
Charles	8,267	10,200	13,170	11,704	8,898	8,335	8,630	8,000	77,204
Dorchester	656	872	6,137	10,400	6,469	5,436	3,502	0	33,472
Frederick	11,910	17,942	18,728	14,759	16,226	14,000	16,300	19,092	128,957
Garrett	1,507	1,235	6,243	3,020	666	0	333	0	13,004
Harford	8,287	11,096	16,238	14,751	16,253	13,835	16,206	14,512	111,177
Howard	15,273	17,808	23,206	18,265	18,262	18,290	22,936	32,490	166,530
Kent	2,000	3,479	1,335	0	388	0	0	0	7,202
Montgomery	30,431	40,040	52,297	53,312	28,350	30,183	33,000	43,106	310,720
Prince George's	29,833	37,425	52,250	41,000	28,200	29,500	31,348	40,375	289,931
Queen Anne's	6,897	3,000	3,925	4,951	3,947	5,750	5,195	0	33,665
St. Mary's	3,271	5,495	9,806	7,266	4,028	6,600	3,064	2,314	41,844
Somerset	14,300	12,022	5,153	0	6,000	6,000	3,257	0	46,732
Talbot	2,422	2,405	2,038	0	436	344	0	0	7,645
Washington	6,431	4,478	8,970	9,368	7,965	7,970	8,400	9,000	62,582
Wicomico	7,616	4,178	8,143	12,960	13,170	9,975	1,597	10,808	68,447
Worcester	2,241	6,872	8,213	5,483	403	0	0	0	23,212
MD School for the Blind								2,800	2,800
Bond Premium		6,100							6,100
Statewide						500	47,500	25,100	73,100
<b>Total</b>	<b>\$253,766</b>	<b>\$322,672</b>	<b>\$401,828</b>	<b>\$346,983</b>	<b>\$266,653</b>	<b>\$263,724</b>	<b>\$311,583</b>	<b>\$349,167</b>	<b>\$2,516,376</b>
<b>Over \$250 million</b>	<b>\$3,766</b>	<b>\$72,672</b>	<b>\$151,828</b>	<b>\$96,983</b>	<b>\$16,653</b>	<b>\$13,724</b>	<b>\$61,583</b>	<b>\$99,167</b>	<b>\$516,376</b>

Note: \$25.0 million of the statewide allocation in fiscal 2013 is for the Energy Efficiency Initiative and is to be distributed based on local requests and need for funding to replace inefficient systems.