

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 1323  
 Appropriations

(Delegate Kaiser, *et al.*)

Budget and Taxation

**Public School Construction - Creative Financing Study**

This bill requires the Interagency Committee on School Construction (IAC) to conduct a study and make recommendations on (1) developing creative means, financing or otherwise, to increase funding for public school construction; (2) creating more reliable revenue streams for public school construction; and (3) examining the use of lease payments for other alternative financing methods used by local school systems. IAC must solicit input from and collaborate with the State Treasurer’s Office, local school systems, and county governments. An interim report is due to the Governor and specified committees of the General Assembly by December 1, 2014, and a final report is due by September 1, 2015.

The bill takes effect July 1, 2014.

**Fiscal Summary**

**State Effect:** General fund expenditures by the Public School Construction Program (PSCP) increase by \$38,000 in FY 2015 only for contractual research support to conduct the study. No effect on revenues.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	38,000	0	0	0	0
Net Effect	(\$38,000)	\$0	\$0	\$0	\$0

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

**Local Effect:** Local school boards and governments can provide input to the study with existing resources.

**Small Business Effect:** None.

## Analysis

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

Except when prohibited by local law, a county may use alternative financing methods to finance or to speed delivery of, transfer risks of, or otherwise enhance the delivery of public school construction. “Alternative financing methods” includes sale-leaseback arrangements, lease-leaseback arrangements, public-private partnership agreements, performance-based contracting, and design-build arrangements. A county may also (1) engage in competitive negotiation rather than competitive bidding, in limited circumstances; (2) accept unsolicited proposals for the development of public schools in limited circumstances; and (3) use quality-based selection. Use of any of these alternative strategies is subject to regulations developed by the Board of Public Works.

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.

**State Expenditures:** PSCP lacks the staff and research expertise necessary to carry out the mandated study. Therefore, this analysis assumes that PSCP requires the assistance of a contractual research assistant with expertise in construction financing for one year to conduct the bulk of the research required by the bill. Given that a preliminary report is due by December 1, 2014, it is assumed that the research assistant begins work on the bill’s effective date in order to meet the initial reporting deadline. Also, since the final report is due September 1, 2015, it is assumed that all research for the study is completed by June 30, 2015, so the services of the research assistant are not needed after that. Therefore, general fund expenditures by PSCP increase by \$37,959 in fiscal 2015 to retain a contractual research assistant. The contractual position terminates at the end of fiscal 2015.

---

## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 927 (Senator Raskin, *et al.*) - Budget and Taxation.

**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

**Fiscal Note History:** First Reader - March 5, 2014  
mc/rhh Revised - House Third Reader - April 5, 2014

---

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) 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 Bond Premium		6,100						2,800	6,063
Statewide						500		100	1,288
<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>\$349,997</b>	<b>\$347,277</b>
<b>Over \$250M</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>\$99,997</b>	<b>\$97,277</b>

Note: Fiscal 2013 and 2014 include previously authorized funds that were unspent and re-allocated to other projects by the local school systems and IAC.