

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

House Bill 1193 (Delegate Hixson, *et al.*)
 Appropriations

Supplemental Public School Construction Matching Fund Program

This bill establishes the Supplemental Public School Construction Matching Fund Program to provide \$20.0 million of supplemental State funding from State Lottery revenues annually to each qualifying county for up to 20 years to assist with funding the cost of public school construction and capital improvement projects. Qualifying counties are those with at least 140,000 students and AAA bond ratings from at least two of the credit rating agencies.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: General fund revenues decrease by \$20.0 million beginning in FY 2017, and special fund revenues for the Department of Budget and Management (DBM) increase by the same amount due to the payment of State Lottery revenues to the Supplemental Public School Construction Fund for one qualifying county. Special fund expenditures by DBM increase by \$20.0 million beginning in FY 2017 for the grant payment to the one qualifying county. General fund expenditures by the Public School Construction Program (PSCP) increase by \$65,600 beginning in FY 2016 to hire a contractual project manager for three years to oversee the program’s operation. Out-year expenditures reflect annualization, inflation, and the termination of the contractual position after three years. **This bill establishes a mandated appropriation beginning in FY 2017.**

| (\$ in thousands) | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-------------------|----------|--------------|--------------|--------------|--------------|
| GF Revenue | \$0 | (\$20,000.0) | (\$20,000.0) | (\$20,000.0) | (\$20,000.0) |
| SF Revenue | \$0 | \$20,000.0 | \$20,000.0 | \$20,000.0 | \$20,000.0 |
| GF Expenditure | \$65.6 | \$77.6 | \$80.9 | \$0 | \$0 |
| SF Expenditure | \$0 | \$20,000.0 | \$20,000.0 | \$20,000.0 | \$20,000.0 |
| Net Effect | (\$65.6) | (\$20,077.6) | (\$20,080.9) | (\$20,000.0) | (\$20,000.0) |

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

Local Effect: Counties that meet the bill's criteria and pledge the appropriate matching funds may each receive \$20.0 million annually in additional State funds for school construction projects. As funding for the program does not begin until FY 2017, it is assumed that qualifying counties are not eligible for funding until then. Only Montgomery County currently qualifies for funding under the bill, and it is not anticipated that other counties will qualify in the foreseeable future. Montgomery County expenditures for school construction also increase by up to \$40.0 million to provide matching funds for State grants.

Small Business Effect: Minimal for small construction companies.

Analysis

Bill Summary: Each year beginning in fiscal 2017, the Comptroller must provide \$20.0 million for each qualifying county from the proceeds of the State Lottery to the Supplemental Public School Construction Fund established by the bill. Payment to the fund must be made in two installments, with at least \$10.0 million paid by December 1 of each year. Money in the fund is pledged to the purposes of the program, and no part of the fund may revert or be credited to the general fund or any other fund in the State.

DBM administers the program and provides each qualifying county with \$20.0 million annually to pay either (1) one-third of the cost of debt service on bonds issued by the county for public school construction or capital improvement projects or (2) one-third of the cost of public school construction or capital improvement projects. A qualifying county that receives funding must make specified certifications regarding its eligibility for and use of the funds.

If the county uses the State funds to pay debt service on locally issued bonds, the bonds must mature within 20 years of their issuance, and funding terminates when the bonds are no longer outstanding. If the county uses the State funds to help fund capital construction or improvements, the funding ends no later than 20 years from when it was first received.

Bonds issued by counties to provide local matching funds under the program (1) are not a debt, liability, or pledge of the 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.

School construction or capital improvement projects funded by the program must be approved by DBM and the Interagency Committee on School Construction (IAC) before any funds are released. DBM, IAC, and each participating county must enter into a memorandum of understanding (MOU) with specified terms regarding procedures for

approving projects for funding. Restrictions on costs that are eligible for State funding do not apply to projects funded by the program, and the local cost-share percentages that normally apply to school construction do not apply to projects funded by the program.

State funding provided to local school systems by the program is supplemental to and does not take the place of funding that otherwise would be appropriated for public school construction projects from any other source

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 designated State and local funding sources to support a \$1.1 billion public school construction and revitalization initiative for Baltimore City, administered by the Maryland Stadium Authority (MSA). Chapter 647 requires the State to contribute \$20.0 million annually to the initiative for up to 30 years using general fund revenues from the State Lottery. It also required MSA, IAC, Baltimore City, and the Baltimore City Board of School Commissioners to enter into an MOU that established the program's parameters and processes.

Background: As shown in **Exhibit 1**, only Montgomery County has public school enrollment that exceeds 140,000, and current enrollment projections do not have any other county meeting the bill's threshold in the foreseeable future. Montgomery County has a AAA bond rating from all three rating agencies, so it meets both of the bill's criteria for funding under the matching program.

Exhibit 1
Public School Enrollment as of 9/30/14

| <u>County</u> | <u>Enrollment</u> |
|-------------------|-------------------|
| Allegany | 8,382 |
| Anne Arundel | 78,201 |
| Baltimore City | 79,769 |
| Baltimore | 107,495 |
| Calvert | 15,454 |
| Caroline | 5,323 |
| Carroll | 25,254 |
| Cecil | 14,975 |
| Charles | 25,572 |
| Dorchester | 4,644 |
| Frederick | 40,055 |
| Garrett | 3,660 |
| Harford | 36,670 |
| Howard | 53,275 |
| Kent | 1,990 |
| Montgomery | 152,334 |
| Prince George's | 121,952 |
| Queen Anne's | 7,547 |
| St. Mary's | 17,246 |
| Somerset | 2,716 |
| Talbot | 4,472 |
| Washington | 21,877 |
| Wicomico | 14,114 |
| Worcester | 6,271 |
| Total | 849,257 |

Source: Maryland State Department of Education; Department of Legislative Services

State Fiscal Effect: General fund revenues decrease by \$20.0 million annually beginning in fiscal 2017 due to the annual diversion of lottery revenues that would otherwise go to the general fund to the Supplemental Public School Construction Fund.

Assuming that a qualifying county provides the 2:1 funding match for all 20 years, the bill leverages between \$1.0 billion and \$1.2 billion in funding over 20 years for school construction projects in a qualifying county. If a qualifying county uses the State funds to

pay for direct construction costs and provides the necessary matching funds, it results in \$60.0 million in funding for each of 20 years, or \$1.2 billion. If the qualifying county uses the State funds to pay for debt service on locally issued bonds, the Department of Legislative Services estimates that \$60.0 million in annual debt service payments leverages roughly \$1.0 billion in general obligation bond revenue for the qualifying county. In either case, the level of funding generated by the bill dramatically increases the number of school construction projects that come before IAC for approval.

Although the bill requires DBM to administer the program, given its lack of experience with school construction, it is likely that DBM’s role will be limited to ensuring that proper funding is provided and that qualifying counties follow the proper procedures to have school construction projects approved by IAC. These tasks can be carried out with existing budgeted resources. By contrast, PSCP is likely to see a substantial increase in its workload. Based on current experience with the Baltimore City program, anywhere between 20 and 50 additional projects, depending on their scope and size, likely require IAC review and approval over a short period of time so that construction work can begin on multiple projects. Substantial time and effort is also required to establish an MOU; although some elements of the Baltimore City MOU can be easily replicated, other elements have to be tailored to local circumstances. These tasks require the addition of a contractual project manager for three years to steer the program through its early stages. Once proper procedures have been established and most of the new projects have been reviewed and approved, PSCP can handle remaining demands with existing resources.

Therefore, general fund expenditures increase by \$65,572 in fiscal 2016, which accounts for a 90-day start-up delay from the bill’s July 1, 2015 effective date. This estimate reflects the cost of hiring one contractual project manager for three years to oversee the development of the required MOU and manage the review and approval of projects seeking funding under the program. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses; the position terminates at the end of fiscal 2018, after which it is assumed that most projects will have been reviewed and approved.

| | |
|---|-----------------|
| Position | 1 |
| Salaries and Fringe Benefits | \$59,198 |
| Operating Expenses | <u>6,374</u> |
| Total FY 2016 State Expenditures | \$65,572 |

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses; expenditures end in fiscal 2018 with the termination of the contractual project manager.

Additional Information

Prior Introductions: None.

Cross File: SB 228 (Senator King, *et al.*) - Budget and Taxation.

Information Source(s): Baltimore, Carroll, Harford, Montgomery, and Queen Anne's counties; Board of Public Works; Department of Budget and Management; Public School Construction Program; Department of Legislative Services

Fiscal Note History: First Reader - March 16, 2015
md/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) requires that the cost-share formula be recalculated every three years. The first recalculation occurred in 2007, the second recalculation occurred in 2010, and the third, begun in 2013, was completed in 2014. **Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2015, which was determined by the 2010 recalculation, and for fiscal 2016 through 2018, as determined by the 2014 recalculation. Reductions in the State shares for Allegany, Cecil, and St. Mary's counties are phased in over two years because of the magnitude of the reductions.

Exhibit 1
State Share of Eligible School Construction Costs
Fiscal 2015-2018

| <u>County</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Allegany | 93% | 88% | 83% | 83% |
| Anne Arundel | 50% | 50% | 50% | 50% |
| Baltimore City | 93% | 93% | 93% | 93% |
| Baltimore | 50% | 52% | 52% | 52% |
| Calvert | 56% | 53% | 53% | 53% |
| Caroline | 78% | 80% | 80% | 80% |
| Carroll | 58% | 59% | 59% | 59% |
| Cecil | 69% | 64% | 63% | 63% |
| Charles | 63% | 61% | 61% | 61% |
| Dorchester | 69% | 76% | 76% | 76% |
| Frederick | 60% | 64% | 64% | 64% |
| Garrett | 50% | 50% | 50% | 50% |
| Harford | 63% | 63% | 63% | 63% |
| Howard | 60% | 55% | 55% | 55% |
| Kent | 50% | 50% | 50% | 50% |
| Montgomery | 50% | 50% | 50% | 50% |
| Prince George's | 62% | 63% | 63% | 63% |
| Queen Anne's | 50% | 50% | 50% | 50% |
| St. Mary's | 64% | 59% | 58% | 58% |
| Somerset | 82% | 100% | 100% | 100% |
| Talbot | 50% | 50% | 50% | 50% |
| Washington | 71% | 71% | 71% | 71% |
| Wicomico | 96% | 97% | 97% | 97% |
| Worcester | 50% | 50% | 50% | 50% |
| Maryland School for the Blind | 93% | 93% | 93% | 93% |

Source: Public School Construction Program

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 2007 through 2015, by county.

The Governor's proposed fiscal 2016 budget includes \$250.0 million in general obligation bonds and \$30.0 million in pay-as-you-go general funds for PSCP. The fiscal 2016 *Capital Improvement Program* includes \$250.0 million annually for the program in fiscal 2017 through 2020.

Exhibit 2
State Public School Construction Funding
Fiscal 2007-2015
(\$ in Thousands)

| <u>County</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> | <u>FY2015</u> |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Allegany | \$18,650 | \$412 | \$0 | \$0 | 842 | \$727 | \$1,999 | \$2,496 | \$6,597 |
| Anne Arundel | 22,675 | 27,827 | 27,420 | 25,020 | 26,200 | 32,400 | 33,349 | 34,870 | 36,200 |
| Baltimore City | 39,436 | 52,665 | 41,000 | 27,733 | 28,559 | 41,000 | 46,102 | 39,478 | 35,329 |
| Baltimore | 35,053 | 52,250 | 40,985 | 28,000 | 29,000 | 39,000 | 47,394 | 52,068 | 34,561 |
| Calvert | 2,723 | 12,644 | 7,824 | 8,181 | 8,450 | 7,317 | 7,129 | 5,577 | 2,653 |
| Caroline | 2,935 | 2,426 | 8,100 | 6,000 | 3,767 | 235 | 756 | 7,788 | 0 |
| Carroll | 8,282 | 8,219 | 11,741 | 10,520 | 8,444 | 9,079 | 15,211 | 4,874 | 3,915 |
| Cecil | 8,271 | 9,533 | 2,674 | 1,538 | 1,744 | 2,830 | 1,915 | 1,268 | 8,194 |
| Charles | 10,200 | 13,170 | 11,704 | 8,898 | 8,335 | 9,180 | 12,480 | 9,426 | 8,200 |
| Dorchester | 872 | 6,137 | 10,400 | 6,469 | 5,436 | 3,639 | 979 | 1,590 | 768 |
| Frederick | 17,942 | 18,728 | 14,759 | 16,226 | 14,000 | 16,532 | 19,254 | 20,163 | 15,901 |
| Garrett | 1,235 | 6,243 | 3,020 | 666 | 0 | 382 | 319 | 134 | 0 |
| Harford | 11,096 | 16,238 | 14,751 | 16,253 | 13,835 | 17,040 | 16,573 | 13,214 | 12,791 |
| Howard | 17,808 | 23,206 | 18,265 | 18,262 | 18,290 | 26,936 | 32,811 | 25,931 | 20,772 |
| Kent | 3,479 | 1,335 | 0 | 388 | 0 | 104 | 123 | 95 | 817 |
| Montgomery | 40,040 | 52,297 | 53,312 | 28,350 | 30,183 | 42,000 | 43,794 | 38,592 | 39,950 |
| Prince George's | 37,425 | 52,250 | 41,000 | 28,200 | 29,500 | 40,348 | 42,192 | 39,371 | 38,539 |
| Queen Anne's | 3,000 | 3,925 | 4,951 | 3,947 | 5,750 | 5,374 | 649 | 4,371 | 5,112 |
| St. Mary's | 5,495 | 9,806 | 7,266 | 4,028 | 6,600 | 3,354 | 3,172 | 7,472 | 11,876 |
| Somerset | 12,022 | 5,153 | 0 | 6,000 | 6,000 | 3,371 | 289 | 3,811 | 2,752 |
| Talbot | 2,405 | 2,038 | 0 | 436 | 344 | 135 | 35 | 634 | 0 |
| Washington | 4,478 | 8,970 | 9,368 | 7,965 | 7,970 | 8,571 | 9,117 | 8,494 | 7,467 |
| Wicomico | 4,178 | 8,143 | 12,960 | 13,170 | 9,975 | 1,864 | 11,290 | 13,327 | 10,991 |
| Worcester | 6,872 | 8,213 | 5,483 | 403 | 0 | 165 | 166 | 4,882 | 0 |
| MD School for the Blind | | | | | | | 2,800 | 6,063 | 14,733 |
| Bond Premium | 6,100 | | | | | | | | |
| Statewide | | | | | 500 | | 100 | 500 | 660 |
| Total | \$322,672 | \$401,828 | \$346,983 | \$266,653 | \$263,724 | \$311,583 | \$349,997 | \$347,277 | \$318,778 |
| Amount Over \$250M | \$72,672 | \$151,828 | \$96,983 | \$16,653 | \$13,724 | \$61,583 | \$99,997 | \$97,277 | \$68,778 |

Note: Includes new general obligation bonds, pay-as-you-go funds, and reallocated funds that were previously authorized. Counties receiving \$0 did not request any eligible projects to be funded in that year.

Source: Department of Legislative Services