

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 1146 (Senator Serafini)
 Budget and Taxation

Public Schools - School Construction - Approval, Design, and Funding

This bill requires the Board of Public Works (BPW) to adopt regulations directing the Interagency Committee on School Construction (IAC) to develop standard design models for elementary, middle, and high schools that satisfy specified criteria and that are subject to BPW approval. IAC must also establish per pupil allocations for each standard design and establish timelines for decisions by State agencies involved in the public school construction approval process. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: General fund expenditures increase by approximately \$13.7 million in FY 2019 only to develop the standard school design models. No effect on revenues.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	13,667,500	0	0	0	0
Net Effect	(\$13,667,500)	\$0	\$0	\$0	\$0

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

Local Effect: Expenditures for architectural and engineering (A&E) services likely decrease for local school systems that elect to use the State-developed prototype school designs, as discussed below. Otherwise, the bill has no effect on local school system revenues or expenditures for public school construction.

Small Business Effect: Minimal.

Analysis

Bill Summary: The standard design models must (1) use standardized educational specifications that incorporate existing State-rated capacity (SRC) guidelines and (2) allow local school systems to designate up to 20% of the overall square footage for any educational programming needs.

The standard per pupil funding levels must be based on criteria that include:

- the fulfillment of a standardized set of needs for elementary, middle, and high schools, considering existing SRC guidelines;
- current statewide per pupil average cost for school construction, as established by IAC for each school type; and
- an independent industry index established in consultation with industry experts.

Current Law: For an overview of State support for public school construction projects, please see the **Appendix – State Funding for Public School Construction**.

State-rated capacity means the number of students that the IAC or its designee determines that an individual school has the physical capacity to enroll. The determination of SRC is based on the building's square footage, configuration, and number and type of instructional spaces.

Statute expresses legislative intent that the State encourage local school systems to reuse recently used school designs when it is educationally appropriate and cost effective to do so. A number of school districts, most notably Anne Arundel County, use prototype designs to build a substantial percentage of their public schools. The reuse of prototype designs allow these districts to save money on the design of their schools, which is a local cost that is not eligible for State reimbursement. However, even with the use of prototype designs, every project requires unique adjustments to conform the designs to the available space and size requirements.

State Fiscal Effect: BPW and IAC can develop the regulations and revise the school construction project approval timelines with existing resources.

The development of standard design models (prototypes) requires IAC to contract with one or more A&E firms to design the prototypes. IAC and Anne Arundel County Public Schools advise that the industry standard for A&E costs is that they typically comprise 6% to 8% of the total cost of a project. The Department of Legislative Services believes that the additional work needed to make the designs adaptable, as required by the bill, means that the cost will be closer to 8%. Therefore, assuming an average cost of

\$30.0 million for an elementary school, \$40 million for a middle school, and \$100 million for a high school, the cost of developing three prototypes is approximately \$13.6 million.

IAC also requires a contractual employee to manage and oversee the work of the A&E contractors and develop the standard funding levels for each level of prototype in collaboration with local school systems. Therefore, general fund expenditures increase by \$67,546 in fiscal 2019, which reflects the bill's July 1, 2018 effective date, as IAC advises that it can extend the employment of an existing contractual employee without a start-up delay. This estimate reflects the cost of hiring one contractual employee to manage the development of the prototypes and funding levels. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. The contractual position terminates June 30, 2019.

Contractual Position	1
Salary and Fringe Benefits	\$62,031
Operating Expenses	5,515
Total FY 2019 State Expenditures	\$67,546

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Local Fiscal Effect: The bill does not require that local school systems use the prototype designs, nor does it require that future school construction funding decisions be based on the standard funding levels developed for each prototype design. Moreover, it leaves in place all current law related to State funding of school construction projects. Therefore, it appears that the prototypes and funding levels tied to them are discretionary options available to local school systems that wish to save money on A&E costs by using a State-developed design. To the extent that a local school system elects to use a prototype design, it may experience reduced A&E costs for school construction projects. Otherwise, the bill has no effect on local revenues or expenditures for public school construction projects.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Anne Arundel, Charles, and Montgomery counties; Public School Construction Program; Board of Public Works; Department of Legislative Services

Fiscal Note History: First Reader - March 12, 2018
mm/rhh

Analysis by: Michael C. Rubenstein

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

Appendix – State Funding for Public School Construction

School Construction Review and Approval Process

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 to BPW on which projects to fund. 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.

Eligible School Construction Costs

IAC establishes a range of appropriate per student, square foot allocations for elementary, middle, and high schools as well as for special education students, career and technology students, and specialized programs. IAC also establishes, on an annual basis, a *cost per square foot* that is applicable to major school construction projects. For fiscal 2019, the cost per square foot is \$302 for new construction *without* site development (up from \$293 in fiscal 2018) and \$360 for new construction *with* site development (up from \$348.67 in fiscal 2018). In general, multiplying the cost per square foot allocation by the allowable

square feet (based primarily on the State-rated capacity of a building) yields the maximum allowable cost that is subject to the State/local cost-share formula.

The cost of acquiring land may not be considered an eligible construction cost and may not be paid by the State. Otherwise, BPW regulations specify public school construction-related costs that are eligible and ineligible for State funding. In general, the following costs are included among eligible expenses:

- construction of a new facility, a renovation of a new facility, an addition to an existing facility, or a replacement of an existing building or building portion (*i.e.*, “bricks and mortar”);
- building and site development;
- modular construction that meets specified standards;
- State-owned relocatable facilities and temporary facilities that are required to be on site during construction; and
- built-in equipment and furnishings.

Beginning in fiscal 2018, BPW approved the use of State funding for window air-conditioning units and associated electrical upgrades, installation, and security in schools where more than one-half of the classrooms are not temperature controlled.

Among the major items that explicitly are *not* eligible for State funding (besides site acquisition) are (1) architectural, engineering, and other consulting fees; (2) master plans and feasibility studies; (3) projects or systemic renovations for buildings and systems that have been replaced, upgraded, or renovated within the last 15 years; and (4) movable equipment and furnishings.

State Share of Eligible Costs

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 was completed in 2014. The most recent recalculation was completed in 2017. IAC recommended updating the formula for the next three years, but BPW approved new cost shares *only* for fiscal 2019, which held harmless several jurisdictions that otherwise would have experienced a decrease in State support based on the 2017 recalculation of the formula. **Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2017 through 2019, as approved by BPW.

Exhibit 1
State Share of Eligible School Construction Costs
Fiscal 2017-2019

County	FY 2017	FY 2018	FY 2019
Allegany	83%	83%	85%
Anne Arundel	50%	50%	50%
Baltimore City	93%	93%	93%
Baltimore	52%	52%	56%
Calvert	53%	53%	53%
Caroline	80%	80%	81%
Carroll	59%	59%	59%
Cecil	63%	63%	66%
Charles	61%	61%	61%
Dorchester	76%	76%	76%
Frederick	64%	64%	64%
Garrett	50%	50%	50%
Harford	63%	63%	63%
Howard	55%	55%	55%
Kent	50%	50%	50%
Montgomery	50%	50%	50%
Prince George's	63%	63%	70%
Queen Anne's	50%	50%	51%
St. Mary's	58%	58%	58%
Somerset	100%	100%	100%
Talbot	50%	50%	50%
Washington	71%	71%	71%
Wicomico	97%	97%	97%
Worcester	50%	50%	50%
MD School for the Blind	93%	93%	93%

Source: Interagency Committee on School Construction

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. The State achieved the \$2.0 billion target ahead of schedule, and Public School Construction Program (PSCP) funding has remained above the \$250.0 million target each year since. **Exhibit 2** shows annual State public school construction funding from fiscal 2010 through 2018, by county.

The Governor's proposed fiscal 2019 budget includes \$309.0 million in general obligation (GO) bonds and \$4.9 million in general funds for PSCP and an additional \$40.0 million in GO bonds for a supplemental grant program for school systems that have high enrollment growth or a large number of relocatable classrooms, as established by statute. The fiscal 2019 *Capital Improvement Program* includes \$280.0 million annually for PSCP in fiscal 2020 through 2023 and \$40.0 million annually for the supplemental grant program.

Exhibit 2
State Public School Construction Funding
Fiscal 2010-2018
(\$ in Thousands)

County	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY2015	FY 2016	FY 2017	FY 2018
Allegany	\$0	842	\$727	\$1,999	\$2,496	\$6,597	\$10,837	\$24,242	12,873
Anne Arundel	25,020	26,200	32,400	33,349	34,870	36,200	39,419	42,598	36,829
Baltimore City	27,733	28,559	41,000	46,102	39,478	35,329	36,788	37,500	37,303
Baltimore	28,000	29,000	39,000	47,394	52,068	34,561	42,177	45,775	45,186
Calvert	8,181	8,450	7,317	7,129	5,577	2,653	1,500	9,964	14,575
Caroline	6,000	3,767	235	756	7,788	0	2,902	36	1,646
Carroll	10,520	8,444	9,079	15,211	4,874	3,915	6,415	3,418	3,853
Cecil	1,538	1,744	2,830	1,915	1,268	8,194	4,723	6,650	6,730
Charles	8,898	8,335	9,180	12,480	9,426	8,200	12,817	8,951	10,516
Dorchester	6,469	5,436	3,639	979	1,590	768	179	5,009	10,975
Frederick	16,226	14,000	16,532	19,254	20,163	15,901	21,000	21,295	19,564
Garrett	666	0	382	319	134	0	0	0	1,567
Harford	16,253	13,835	17,040	16,573	13,214	12,791	9,309	8,732	13,592
Howard	18,262	18,290	26,936	32,811	25,931	20,772	27,820	31,206	21,066
Kent	388	0	104	123	95	817	615	0	0
Montgomery	28,350	30,183	42,000	43,794	38,592	39,950	45,708	50,128	59,194
Prince George's	28,200	29,500	40,348	42,192	39,371	38,539	41,729	44,675	49,625
Queen Anne's	3,947	5,750	5,374	649	4,371	5,112	0	249	2,455
St. Mary's	4,028	6,600	3,354	3,172	7,472	11,876	7,015	1,273	815
Somerset	6,000	6,000	3,371	289	3,811	2,752	2,222	1,771	14,720
Talbot	436	344	135	35	634	0	308	0	0
Washington	7,965	7,970	8,571	9,117	8,494	7,467	8,404	4,847	2,592
Wicomico	13,170	9,975	1,864	11,290	13,327	10,991	7,440	10,373	11,847
Worcester	403	0	165	166	4,882	0	72	0	0
MD School for the Blind				2,800	6,063	14,733	8,616	6,000	9,376
Statewide		500		100	500	660	175	300	500
Total	\$266,653	\$263,724	\$311,583	\$349,997	\$347,277	\$318,778	\$338,190	\$364,992	\$387,399
Amount Over \$250M	\$16,653	\$13,724	\$61,583	\$99,997	\$97,277	\$68,778	\$88,190	\$114,992	\$137,399

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. Fiscal 2016-2018 include funds allocated for the Enrollment Growth and Relocatable Classroom program totaling \$20 million in fiscal 2016, \$40 million in fiscal 2017, and \$62.5 million in fiscal 2018. Fiscal 2017 total for Baltimore County includes \$5 million withheld by the Board of Public Works and later reauthorized by the General Assembly in fiscal 2018.

Source: Interagency Committee on School Construction; Department of Legislative Services