

D25E03
Interagency Committee on School Construction

Operating Budget Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$999	\$956	\$983	-\$16	\$1,074	\$90
Contractual Services	63	110	30	-32	56	25
Grants	10,338	10,414	15,080	4,742	15,652	572
Contingent & Back of Bill Reductions	0	0	0	0	-6	-6
Adjusted Grand Total	\$11,400	\$11,480	\$16,094	\$4,694	\$16,776	\$682
General Funds	11,374	11,408	16,094	4,720	16,781	688
Contingent & Back of Bill Reductions	0	0	0	0	-6	-6
Adjusted General Funds	\$11,374	\$11,408	\$16,094	\$4,720	\$16,776	\$682
Special Funds	1	50	0	-1	0	0
Reimbursable Funds	24	22	0	-24	0	0
Adjusted Grand Total	\$11,400	\$11,480	\$16,094	\$4,694	\$16,776	\$682
Annual % Change		0.7%	40.2%		4.2%	

- The Governor's allowance for the Interagency Committee on School Construction increases by \$681,991, or 4.2% over the fiscal 2004 working appropriation.
- Operating expenses, including personnel, increase by \$110,000, after accounting for the removal of approximately \$6,000 in funding for matching deferred compensation contributions through budget reconciliation legislation.
- An increase of \$2.2 million in the appropriation to repay lease agreements under the Technology in Maryland Schools program is offset by transferring \$1.6 million in Aging Schools Program funding to the general obligation (GO) bond program.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	17.0	17.0	17.0	0.0	17.0	0.0
Contractual FTEs	0.0	0.4	0.0	0.0	0.0	0.0
Total Personnel	17.0	17.4	17.0	0.0	17.0	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	0.26	1.50%
Positions Vacant as of 12/31/03	0.00	0.00%

- The allowance contains no personnel changes.
- The agency had no vacancies as of December 31, 2003.

Analysis in Brief

Major Trends

The Public School Construction Program (PSCP) Performs Groundbreaking Survey of School Facilities Statewide: As part of the work of the Task Force to Study Public School Facilities, the PSCP conducted a statewide survey to determine how well facilities meet current standards and the estimated costs of bringing all facilities to current standards.

Issues

Governor Shifts Aging Schools Program Funds to GO Bonds: The Governor’s allowance shifts \$1.6 million in Aging Schools Program funds to the GO bond program. **The Interagency Committee on School Construction (IAC) should comment on how it developed the estimate of \$1.6 million in capital eligible funding and whether shifting funding into the GO bond program will have any programmatic impact or decrease the flexibility this program was created to provide.**

Repayment of Money Borrowed for School Wiring Continues: The Governor’s allowance includes a \$2.2 million increase for the repayment of monies borrowed to wire all Maryland schools for technology. Prior year appropriations have been significantly larger than actual or expected expenditures. **The IAC should comment on how it develops its assumptions and funding projections and how it can assure the budget committees that the entire \$6.9 million will be necessary in fiscal 2005.**

Recommended Actions

	<u>Funds</u>
1. Reduce funds for computer maintenance contracts.	\$ 25,000
2. Reduce funding for Technology in Maryland Schools lease payments.	500,000
Total Reductions	\$ 525,000

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Interagency Committee on School Construction

Operating Budget Analysis

Program Description

The Interagency Committee on School Construction (IAC) administers the Public School Construction Program (PSCP) under the authority of the Board of Public Works. IAC analyzes local agency requests for capital improvement projects to public school buildings. IAC also assists local school systems in planning, designing, and constructing primary and secondary educational facilities that support Smart Growth, the Technology in Maryland Schools (TIMS) program, and the Aging Schools Program. IAC also administers the federal Qualified Zone Academy Bond and School Renovation programs. Additionally, employees of the Maryland State Department of Education (MSDE), the Department of General Services, and the Maryland Department of Planning support the activities of the PSCP and provide technical assistance to the public school systems.

In administering the PSCP, IAC seeks to achieve the following goals:

- promote physical learning environments that support the educational goals of MSDE and local education agencies;
- promote safe physical environments in which to teach and learn;
- support State goals for community redevelopment, environmental protection, and preservation of the State's natural resources; and
- ensure the judicious use of State funds for school construction projects.

Performance Analysis: Managing for Results

PSCP Performs Groundbreaking Survey of School Facilities Statewide

As part of the work of the Task Force to Study Public School Facilities, the PSCP undertook a first-of-its kind survey of school facilities in the State. The survey assessed schools against 31 current standards for new construction of public schools. The standards ranged from air quality and student capacity to physical education and health services facilities. Data were collected directly from local school systems through the local facilities planners. The PSCP stresses that not meeting the standards does not represent a hazard to human safety, and that all buildings met all standards in place at the time that they were built. The PSCP also stresses that the list of standards, while comprehensive, is not exhaustive, and that school systems may also have other needs and priorities. The results of this survey should be considered as a "snapshot in time" of school facilities needs with the understanding that future projects will remedy these needs while others may arise.

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The survey identified schools that did not meet the standard for each of the 31 standards. Two of the standards with the largest percentage of schools not meeting the standard, health services (84%) and air quality (63%), have recently been updated. Unless schools or systems have been renovated since the standard changed, it is unlikely that they would meet the standard. Significant percentages of schools also did not meet current standards for fine arts (48%); pre-kindergarten and kindergarten classrooms (42%); student capacity¹ (35%); human comfort² (34%); and accessibility of programs and services to students, faculty, and parents with disabilities (33%).

The survey also revealed that facilities needs vary greatly statewide. Some systems met almost all the standards systemwide, others had only a few of their schools meet certain standards, and still others had problems meeting many of the standards in many of their schools.

The facilities survey also provided a cost estimate to bring all facilities up to current standards. This total was approximately \$3.85 billion in State and local funds. A rough estimate of the total State cost is \$1.9 billion. The survey grouped the various standards into four categories: building and site factors, student capacity, education programs, and support services. Perhaps not surprisingly, student capacity needs were the largest portion of the estimated costs, at \$1.54 billion, or 40% of the total. Building and site factors, including such items as human comfort, acoustics, and air quality, were estimated at \$1.33 billion, or 34% of the total estimated costs. Education program needs were estimated at \$765 million, or 20% of the total, and support services were estimated at \$215 million, or 6% of the total costs. **Appendix 4** provides county by county estimates of total needs. The full results of the survey and cost estimates can be found on the Department of Legislative Services' web site under the Task Force to Study Public School Facilities.

This survey identified for the first time the magnitude and nature of school facilities needs statewide. The survey provided perspective on the impact of current school construction funding on existing and emerging needs as well as a starting point for the task force to consider while crafting its recommendations for future needs for public school construction initiatives and funding. The PSCP performed a professional and credible analysis of statewide school facilities needs that will inform and influence public school facility policy in the future.

Governor's Proposed Budget

The Governor's fiscal 2005 allowance increases by \$681,991, or 4.2% over the fiscal 2004 working appropriation, as shown in **Exhibit 1**.

¹ This standard was defined as having sufficient permanent classroom space to meet at least 95% of projected student enrollment in the 2007-2008 school year at current State or local standards of occupancy, even considering available capacity at adjacent schools.

² This standard was defined as providing adequate temperature and humidity levels for student learning at least 90% of the time that students are in learning and health spaces. This standard primarily reflects schools without air conditioning systems.

Exhibit 1
Governor's Proposed Budget
Interagency Committee on School Construction
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$11,408	\$16,094	\$16,781	\$688	4.3%
Contingent & Back of Bill Reductions	0	0	-6	-6	
Adjusted General Funds	\$11,408	\$16,094	\$16,776	\$682	4.2%
Special Funds	\$50	\$0	\$0	\$0	0.0%
Reimbursable Funds	\$22	\$0	\$0	\$0	0.0%
Adjusted Grand Total	\$11,480	\$16,094	\$16,776	\$682	4.2%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$43
Other fringe benefit adjustments	17
Increments and other compensation	14
Turnover adjustments	-8

Other Changes

Reimburse MSDE for computer services	25
Communications, travel, insurance, and office equipment.....	19
Transfer of funding for Aging Schools Program to general obligation (GO) bonds..	-1,600
Increase in lease repayment for the TIMS program	2,172

Total	\$682
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Note: Numbers may not sum to total due to rounding.

Impact of Cost Containment

The fiscal 2005 allowance reflects the elimination of \$5,706, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation language.

Operating Expenses

Personnel expenses increase by approximately \$66,000, due primarily to increases in health insurance costs. The allowance also includes for the first time a reimbursement to MSDE for computer network services and expenses incurred on behalf of the IAC. Other administrative expenses increase by \$19,000, for a total operating increase of approximately \$110,000, or 11.4%.

Program Expenses

The majority of changes in the Governor's allowance occur in the two major funding programs included in this budget code. The allowance reduces the general fund allocation in the Aging Schools Program (ASP) from \$10,370,000 to \$8,770,000 by transferring the remaining \$1.6 million in the program to the GO bond program. Further discussion of this program and the fund shift is included in *Issue 1*. The Governor's allowance also includes an increase of \$2.2 million for the repayment of funds borrowed for the TIMS program, for a total of \$6.9 million in this program. The disbursement of funds in this program will be further discussed in *Issue 2*.

Issues

1. Governor Shifts Aging Schools Program Funds to GO Bonds

The ASP was created in 1997 as a more flexible funding mechanism than the regular school construction program. Annual funding totals \$10.37 million, of which each jurisdiction receives a statutory allocation based on the jurisdiction's proportion of pre-1960 square footage statewide. Jurisdictions can use ASP funding for smaller projects (minimum of \$10,000) and project types that are ineligible for capital funding (e.g., painting and carpeting), and there is no match requirement for ASP funds. Additionally, jurisdictions can submit ASP projects at any point in the fiscal year, whereas they can only apply for funding through the regular program on a yearly basis. Originally, the program was intended to sunset in fiscal 2004, but the Task Force to Study Public School Facilities recommended in its 2002 interim report that this program be made permanent. Chapter 388, Acts of 2003 effected this change.

Some projects funded through ASP would be eligible for capital funding; therefore, the Governor's allowance shifts some of this funding into the GO bond program to reduce general fund expenditures. The *Capital Improvement Program* does not appear to include any ASP funds in future years. **IAC should comment on how it developed the estimate of \$1.6 million in capital eligible funding and whether shifting funding into the GO bond program will have any programmatic impact or decrease the flexibility this program was created to provide.**

2. Repayment of Money Borrowed for School Wiring Continues

The State borrowed approximately \$50 million through a Master Lease Purchase Agreement with the Treasurer's office to wire all schools for technology by the end of fiscal 2002. The State had originally intended to repay the loans with Cigarette Restitution Funds (CRF), but the CRF monies were focused on health and social services programs, shifting the repayment of this loan to the general fund.

Under the program, local education agencies (LEAs) submit projects to IAC for approval and encumbrance of funds. When the LEAs complete the projects, they request reimbursement from IAC. IAC reimburses funds via a draw on the \$50 million available through the loan. This draw then creates a repayment obligation, spread over several fiscal years. The rate at which LEAs complete projects and request reimbursement affects the appropriations required to meet the lease repayment obligation. IAC indicates that of the \$50 million, approximately \$29.6 million in projects has been approved and encumbered. Of this, IAC has reimbursed approximately \$14.3 million, for which it currently has a loan repayment obligation.

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The Department of Budget and Management develops the allowance for the lease repayment based on actual obligations and IAC estimates of when LEAs will request reimbursement and how much they will request. As shown in **Exhibit 2**, the appropriation has far exceeded the need for funding for the past two and the current fiscal years. For fiscal 2004, IAC has agreed to revert any funds that are not required based on actual reimbursements and financing obligations, estimated at approximately \$2.9 million.

Exhibit 2
Appropriation vs. Expenditures for Lease Payments
Fiscal 2002 – 2004

	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004*</u>
Appropriation	\$787,000	\$1,893,000	\$4,710,043
Expenditure	0	49,738	1,786,603
Difference	\$787,000	\$1,843,262	\$2,923,440

*Fiscal 2004 expenditures estimated.

Source: Department of Budget and Management

The Governor's allowance includes \$6.9 million for fiscal 2005 lease repayments, an increase of \$2.2 million over the fiscal 2004 working appropriation. Given the estimated \$2.9 million reversion, the increase is effectively \$5.1 million. The projections used to develop this estimate indicate that IAC anticipates that LEAs will request reimbursement for the remainder of the loan, approximately \$35 million, in calendar 2004. This assumption seems optimistic, given that approximately \$20 million has not yet been approved or encumbered.

IAC should comment on why it believes the remaining \$35 million in loan funds will be expended in fiscal 2005, how it develops its assumptions and funding projections, and how it can assure the budget committees that the entire \$6.9 million will be necessary in fiscal 2005.

IAC should also comment on why it is taking so long for the LEAs to finish wiring the schools and to request reimbursement. Given the State's current fiscal constraints, perhaps the LEAs should be given a deadline for completing the wiring.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funds for computer maintenance contracts. The agency indicates these funds will be used to reimburse the Maryland State Department of Education for computer network and maintenance services provided on behalf of the Interagency Committee on School Construction. This entity is intended to be a cooperative, interagency undertaking, and these services should continue to be provided under the current arrangement.	\$ 25,000	GF
2. Reduce funding for Technology in Maryland Schools lease payments. The Department of Legislative Services (DLS) believes that the Interagency Committee on School Construction (IAC) estimates of obligations and funds necessary in fiscal 2005 are optimistic given past history in this program. DLS believes it is unlikely that the approximately \$20 million in funding that has not yet been encumbered will in fact be encumbered and expended in fiscal 2005 as assumed in IAC's projections. This reduction will allow for full funding of lease payments on all currently encumbered funds as well as a contingency for several million dollars in additional funds that may be encumbered and expended over the course of the fiscal year.	500,000	GF
Total General Fund Reductions	\$ 525,000	

Current and Prior Year Budgets

Current and Prior Year Budgets Interagency Committee on School Construction (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$11,444	\$1,893	\$0	\$0	\$13,337
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	57	0	0	82	139
Cost Containment	-93	0	0	0	-93
Reversions and Cancellations	0	-1,843	0	-60	-1,903
Actual Expenditures	\$11,408	\$50	\$0	\$22	\$11,480
Fiscal 2004					
Legislative Appropriation	\$16,094	\$0	\$0	\$0	\$16,094
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$16,094	\$0	\$0	\$0	\$16,094

Note: Numbers may not sum to total due to rounding.

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Fiscal 2003

The fiscal 2003 legislative appropriation decreased by a total of \$1.8 million. The reversion of \$1.8 million CRF for TIMS funding was offset by increases of \$57,000 and \$82,000 in general and reimbursable funds respectively. The general fund increase was a transfer from the Board of Public Works contingency account to support the contract of the Public School Construction consultant. Cost containment reduced the IAC appropriation by approximately \$93,000.

Fiscal 2004

The fiscal 2004 appropriation has not been amended.

**Object/Fund Difference Report
Interagency Committee on School Construction**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	17.00	17.00	17.00	0	0%
02 Contractual	0.40	0	0	0	0.0%
Total Positions	17.40	17.00	17.00	0	0%
Objects					
01 Salaries and Wages	\$ 905,719	\$ 941,268	\$ 1,013,864	\$ 72,596	7.7%
02 Technical & Spec Fees	9,926	480	480	0	0%
03 Communication	5,441	5,680	9,463	3,783	66.6%
04 Travel	7,009	7,379	10,999	3,620	49.1%
07 Motor Vehicles	12,303	12,430	11,608	-822	-6.6%
08 Contractual Services	109,875	30,345	55,545	25,200	83.0%
09 Supplies & Materials	11,614	6,941	6,941	0	0%
10 Equip - Replacement	0	591	591	0	0%
11 Equip - Additional	2,369	5,112	15,112	10,000	195.6%
12 Grants, Subsidies, Contracts	10,413,738	15,080,043	15,652,261	572,218	3.8%
13 Fixed Charges	1,689	3,474	4,576	1,102	31.7%
Total Objects	\$ 11,479,683	\$ 16,093,743	\$ 16,781,440	\$ 687,697	4.3%
Funds					
01 General Fund	\$ 11,407,787	\$ 16,093,743	\$ 16,781,440	\$ 687,697	4.3%
03 Special Fund	49,738	0	0	0	0.0%
09 Reimbursable Fund	22,158	0	0	0	0.0%
Total Funds	\$ 11,479,683	\$ 16,093,743	\$ 16,781,440	\$ 687,697	4.3%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
Interagency Committee on School Construction**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 General Administration	\$ 1,065,945	\$ 1,013,700	\$ 1,013,700	-4.9%	\$ 1,129,179	11.4%
02 School Facilities Program	10,413,738	15,080,043	15,080,043	44.8%	15,652,261	3.8%
Total Expenditures	\$ 11,479,683	\$ 16,093,743	\$ 16,093,743	40.2%	\$ 16,781,440	4.3%
General Fund	\$ 11,407,787	\$ 16,093,742	\$ 16,093,743	41.1%	\$ 16,781,440	4.3%
Special Fund	49,738	-\$ 0	0	-100.0%	0	0.0%
Federal Fund	0	-\$ 0	0	0.0%	0	0.0%
Total Appropriations	\$ 11,457,525	\$ 16,093,743	\$ 16,093,743	40.5%	\$ 16,781,440	4.3%
Reimbursable Fund	\$ 22,158	\$ 0	\$ 0	-100.0%	\$ 0	0.0%
Total Funds	\$ 11,479,683	\$ 16,093,743	\$ 16,093,743	40.2%	\$ 16,781,440	4.3%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Cost Estimates to Bring Facilities Up to Current Standards
for New Construction***
(\$ in Thousands)

<u>School System</u>	<u>Estimated Cost</u>
Allegany	\$71,426
Anne Arundel	336,458
Baltimore City	570,599
Baltimore County	408,845
Calvert	102,911
Caroline	5,435
Carroll	135,297
Cecil	46,873
Charles	178,419
Dorchester	33,816
Frederick	203,625
Garrett	20,142
Harford	204,666
Howard	168,727
Kent	1,180
Montgomery	279,307
Prince George's	778,225
Queen Anne's	9,666
St. Mary's	52,530
Somerset	9,030
Talbot	18,989
Washington	93,827
Wicomico	69,993
Worcester	54,122
Total Cost**	\$3,854,108

*Costs reported by local school systems in July 2004 dollars.

**Includes both State and local costs.

Source: Public School Construction Program