

D06E0202
Public School Construction – PAYGO

Public School Construction Program

| | | | |
|----------------------|--------------------|------------------------|--|
| PAYGO SF | \$2,400,000 | Recommendation: | Delete, Strike Contingent Reduction |
| Bond Premiums | \$6,108,986 | | Delete Bond Premiums |

Program Description: The State began providing incentive aid for school construction in 1947 and in 1971 established the Public School Construction Program (PSCP). The program was established to provide State contributions toward school construction costs in an attempt to give property tax relief to local governments and equalize educational facilities across the State.

Chapter 327 of 1996 requires the Maryland Stadium Authority (MSA) to transfer \$24 million to the Public School Construction Fund by making annual payments of \$2.4 million between fiscal 2001 and 2010. After this fiscal year, MSA will no longer be required to continue these payments. These funds appear in the Public School Construction Program appropriation as special funds and are more flexible than general obligation bonds.

Impact of Cost Containment on the Fiscal 2010 Allowance

Section 12 of the Budget Reconciliation and Financing Act of 2009 (BRFA) deletes the special fund payments from MSA to the PSCP for fiscal 2010, eliminating the last year of funding as required under Section 10-652 of the Economic Development article. Since fiscal 2001, when payment was first required, MSA has been relieved of its statutory obligation in two additional fiscal years, fiscal 2002 and 2009. This puts MSA \$7.2 million below the total required \$24.0 million of payments to the Public School Construction Fund. The Governor has proposed \$260.0 million in bond funding for school construction for fiscal 2010. Although the \$2.4 million transfer from the Maryland Stadium Authority would augment this amount, requiring the payment would essentially eliminate the Maryland Stadium Authority's operating fund balance. This could necessitate the transfer of additional lottery receipts to fund the authority's debt service costs, thereby reducing general fund revenues. **Given the financial situation of the State, therefore, the Department of Legislative Services (DLS) recommends deleting the \$2.4 million in special funds for school construction.**

Section 11 of the BRFA eliminates all general funds for the Aging Schools Program in fiscal 2010. The Aging Schools Program is a mandated program which funds maintenance and updates to school facilities through the operating budget. The funding formula is outlined in Section 5-206 of the Education Article and is calculated off of a specific base amount for each school system inflated every year since fiscal 2006 using the Consumer Price Index. To backfill a portion of this reduction, Section 13 of the Maryland Consolidated Capital Bond and Loan of 2009 authorizes \$6.1 million in bond premiums to be transferred from the State and Local Facilities Loan Fund to the school construction program for the Aging Schools Program. Bond premiums are deposited in the

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Annuity Bond Fund primarily to cover debt service payments under current law. The BRFA also would level-fund the Aging Schools Program at \$6.1 million in fiscal 2011 before returning to the statutory formula in fiscal 2012. **Exhibit 1** shows the proposed allocation by county for fiscal 2010 and 2011, along with the 2009 working appropriation.

Exhibit 1
Proposed Aging Schools Allocation
Fiscal 2009-2011

| <u>Local Education Agencies</u> | <u>Fiscal 2009 Working</u> | <u>Fiscal 2010 Allowance</u> | <u>Fiscal 2011 Estimate</u> |
|-------------------------------------|--------------------------------|----------------------------------|---------------------------------|
| Allegany | \$177,829 | \$97,791 | \$97,791 |
| Anne Arundel | 920,214 | 506,038 | 506,038 |
| Baltimore City | 2,523,893 | 1,387,924 | 1,387,924 |
| Baltimore County | 1,589,753 | 874,227 | 874,227 |
| Calvert | 69,632 | 38,292 | 38,292 |
| Caroline | 91,057 | 50,074 | 50,074 |
| Carroll | 249,604 | 137,261 | 137,261 |
| Cecil | 174,616 | 96,024 | 96,024 |
| Charles | 91,057 | 50,074 | 50,074 |
| Dorchester | 69,632 | 38,292 | 38,292 |
| Frederick | 332,091 | 182,622 | 182,622 |
| Garrett | 69,632 | 38,292 | 38,292 |
| Harford | 395,296 | 217,379 | 217,379 |
| Howard | 159,618 | 87,776 | 87,776 |
| Kent | 69,632 | 38,292 | 38,292 |
| Montgomery | 1,095,902 | 602,651 | 602,651 |
| Prince George's | 2,199,301 | 1,209,426 | 1,209,426 |
| Queen Anne's | 91,057 | 50,074 | 50,074 |
| St. Mary's | 91,057 | 50,074 | 50,074 |
| Somerset | 69,632 | 38,292 | 38,292 |
| Talbot | 69,632 | 38,292 | 38,292 |
| Washington | 245,319 | 134,904 | 134,904 |
| Wicomico | 193,898 | 106,627 | 106,627 |
| Worcester | 69,632 | 38,292 | 38,292 |
| Total | \$11,108,990 | \$6,108,986 | \$6,108,986 |

Source: Department of Legislative Services

Issues

1. Bond Premiums Not Necessary for the Aging Schools Program Due to Influx of Federal Dollars and High Encumbrances in the Program

The American Recovery and Reinvestment Act of 2009 includes \$22.0 billion for a new tax credit bond program for school construction and \$1.4 billion to extend the existing Qualified Zones Academy Bonds (QZAB) program. With Maryland already a QZAB recipient, it is likely that the State will also benefit from the new program.

Aging School Program's Funds Remain Unspent

At the close of fiscal 2008, school systems were still holding \$10.3 million from fiscal 2007 and 2008 and were allocated \$11.1 million in fiscal 2009. **Exhibit 2** shows the total funds available through the Aging Schools Program by county.

If the Governor's proposed contingent reduction is adopted and bond premiums are used to supplement the program, the funds available to the counties in the Aging Schools Program would increase to \$24.4 million, in addition to the likely funds from the federal stimulus package. **DLS recommends striking Section 13 of the Maryland Consolidated Capital Bond and Loan Act of 2009. DLS further recommends that the BRFA be amended so that the Aging Schools Program be re-based at \$6.1 million beginning in fiscal 2011.**

Exhibit 2
Aging Schools Program Encumbrances

| <u>Local Education Agencies</u> | <u>Prior Year Encumbrances</u> | <u>Fiscal 2009 Working Appropriation</u> | <u>Total</u> |
|---------------------------------|--------------------------------|--|---------------------|
| Allegany | \$153,212 | \$177,829 | \$331,041 |
| Anne Arundel | 615,464 | 920,214 | 1,535,678 |
| Baltimore City | 1,521,370 | 2,523,893 | 4,045,263 |
| Baltimore County | 1,298,719 | 1,589,753 | 2,888,472 |
| Calvert | 74,872 | 69,632 | 144,504 |
| Caroline | 78,385 | 91,057 | 169,442 |
| Carroll | 306,388 | 249,604 | 555,992 |
| Cecil | 143,757 | 174,616 | 318,373 |
| Charles | 18,911 | 91,057 | 109,968 |
| Dorchester | 50,872 | 69,632 | 120,504 |
| Frederick | 217,082 | 332,091 | 549,173 |
| Garrett | 45,872 | 69,632 | 115,504 |
| Harford | 306,629 | 395,296 | 701,925 |
| Howard | 84,630 | 159,618 | 244,248 |
| Kent | 55,872 | 69,632 | 125,504 |
| Montgomery | 0 | 1,095,902 | 1,095,902 |
| Prince George's | 1,627,808 | 2,199,301 | 3,827,109 |
| Queen Anne's | 97,910 | 91,057 | 188,967 |
| St. Mary's | 46,910 | 91,057 | 137,967 |
| Somerset | 56,872 | 69,632 | 126,504 |
| Talbot | 97,872 | 69,632 | 167,504 |
| Washington | 122,780 | 245,319 | 368,099 |
| Wicomico | 147,490 | 193,898 | 341,388 |
| Worcester | 49,872 | 69,632 | 119,504 |
| ASP Supplemental | 3,054,424 | 0 | 3,054,424 |
| Total | \$10,273,973 | \$11,108,990 | \$18,328,538 |

ASP: Aging Schools Program

Source: Public School Construction Program

Recommended Actions

1. Delete Section 13 of the Maryland Consolidated Capital Bond and Loan Act of 2009.