

**D25E03**  
**Interagency Committee on School Construction**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$20,615	\$7,522	\$12,247	\$4,725	62.8%
Contingent & Back of Bill Reductions	0	0	-6,149	-6,149	
<b>Adjusted General Fund</b>	<b>\$20,615</b>	<b>\$7,522</b>	<b>\$6,098</b>	<b>-\$1,424</b>	<b>-18.9%</b>
<b>Adjusted Grand Total</b>	<b>\$20,615</b>	<b>\$7,522</b>	<b>\$6,098</b>	<b>-\$1,424</b>	<b>-18.9%</b>

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance before contingent reductions is \$4.7 million higher than the 2010 working appropriation. The change includes the reappearance of \$6.1 million in general funds for the Aging Schools Program; however, the Budget Reconciliation and Financing Act (BRFA) of 2010 proposes to eliminate these funds and replace them with general obligation (GO) bonds. Payments for the Technology in Maryland Schools wiring program decline by \$1.4 million.

***Personnel Data***

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>
Regular Positions	19.00	18.00	18.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>19.00</b>	<b>18.00</b>	<b>18.00</b>	<b>0.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	0.54	3.00%
Positions and Percentage Vacant as of 12/31/09	1.00	5.56%

- No changes in the level of regular or contractual personnel are budgeted in the allowance.

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

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## *Analysis in Brief*

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### **Major Trends**

***Number of Maintenance Surveys Drops:*** In fiscal 2007, 233 schools were surveyed, and in 2008 the number was 250. In fiscal 2009, the number of surveys dropped to 145 due to budget constraints. In response to an audit that raised questions about how schools are chosen to be surveyed, the agency reports that it has a policy that at least one school from each system is surveyed each year. Therefore, systems with few schools go through the survey cycle more quickly. **IAC should comment on why maintenance surveys are being reduced in fiscal 2011 when both full-time inspector positions are filled.**

***Maintenance Ratings Shift Downward Due to Large Number of Aging Urban Schools Surveyed:*** The overall distribution of maintenance ratings shifted downward from “good” and “superior” to “adequate” from fiscal 2007 to 2009 because a larger proportion of older urban schools was surveyed.

***20 School Systems Improve Their Standing in Relation to Statewide Average Facility Age; Facilities Are Newer Overall:*** From fiscal 2005 to 2009, 20 school systems improved their standing in terms of deviation from the State average age of facilities, while 4 systems had the same deviation. In considering school systems by age groups, 1 system was in the newest group (newer than 1990) in 2005, and 5 were in the newest group in 2009.

### **Issues**

***Expanded Use of Qualified Zone Academy Bonds Enabled \$5.4 Million in Spending in 2009, but Unexpended Balance Remains High:*** Chapter 707 of 2009 expanded the use of previously authorized Qualified Zone Academy Bonds (QZABs) for equipment and authorized the Maryland State Department of Education to allocate QZAB funds. Still, the unexpended balance is \$21.2 million. **QZABs are a less expensive way to fund school renovation and equipment expenses than GO bonds. The Department of Legislative Services (DLS) recommends replacing a portion of GO bonds with QZABs for the Aging Schools Program in fiscal 2011, which will be reflected in the capital budget analysis. The Interagency Committee on School Construction (IAC) should comment on plans for issuing the \$15.9 million American Recovery and Reinvestment Act of 2009 allocation of QZABs. IAC should also comment on what can be done to help local education agencies use QZAB funds.**

***Qualified School Construction Bonds Were Issued by the State and Three Local Jurisdictions in 2009:*** Maryland was authorized to issue \$50 million in Qualified School Construction Bonds (QSCBs) in 2009 and another \$50 million in 2010. Baltimore City, Baltimore County, and Prince George’s County also issued QSCBs. **IAC should comment on plans for the total \$100 million authorized in State QSCBs.**

***Montgomery County Owes the State \$3.2 Million in Proceeds from Sale or Lease of School Facilities:*** A December 2009 legislative audit report states that in two preceding audits at least \$3.2 million was identified that IAC should collect from Montgomery County as a portion of proceeds from the lease or sale of 17 former school properties. **DLS recommends reducing general funds to Montgomery County by \$3.2 million to collect what the county owes to IAC.**

## **Recommended Actions**

1. Add budget bill language to reduce Montgomery County general funds by \$3.2 million to account for school construction funds owed to the State.

## **Updates**

***Aging Schools Program Funds Are Drawn Down:*** Total funds available are \$13.4 million as of December 31, 2009, compared to \$18.3 million available as of December 31, 2008. This alleviates concerns about the program carrying a high level of unexpended funds. Provisions in the BRFA of 2009 make it less likely that funds available will grow dramatically in the near term. The program was rebased at \$6.1 million for fiscal 2010 and 2011, and an inflation factor will not restart until fiscal 2013.

*D25E03 – Interagency Committee on School Construction*

**D25E03**  
**Interagency Committee on School Construction**

***Operating Budget Analysis***

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**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 (BPW). The largest program that IAC administers is the *Capital Improvement Program* (CIP), which allocates funding to local education agencies (LEAs) for public school capital improvement projects. Eligible projects include renovations, additions, new schools, and systemic renovations. Local matching funds are required.

IAC also administers the Technology in Maryland Schools (TIMS) program within the CIP, the Aging Schools Program, and the federal Qualified Zone Academy Bond (QZAB) program. Employees of the Maryland State Department of Education (MSDE), the Department of General Services (DGS), 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 has the following goals:

- to promote physical learning environments that support the educational goals of MSDE and LEAs;
- to promote well-maintained, safe physical environments in which to teach and learn; and
- to promote equity in the quality of school facilities throughout the State.

**Performance Analysis: Managing for Results**

**Number of Maintenance Surveys Drops**

One of IAC's major goals is to promote well-maintained, safe physical environments in schools. To work toward this goal, PSCP hired two full-time inspectors in fiscal 2007 and established an objective to conduct maintenance surveys in at least 230 schools each year. At this rate, each of Maryland's 1,459 public schools can be inspected once every six years. Prior to fiscal 2007, school inspections were conducted by DGS, which usually completed about 100 maintenance surveys each year. Neither Maryland statute nor the Code of Regulations define a minimum number of schools to be surveyed each year.

In fiscal 2007, 233 schools were surveyed, and in 2008 the number was 250, according to IAC annual reports titled *Maintenance of Maryland's Public School Buildings*. In fiscal 2009, the number of surveys dropped to 145. Survey results by county are in **Appendix 2**. IAC reports that the surveys were reduced because of budget constraints.

It should be noted that the number of schools indicated in IAC maintenance reports may differ from Managing for Results (MFR) submissions because the data were generated at different points in the fiscal year. Furthermore, the MFR data did not count schools that are re-surveyed due to “not adequate” or “poor” scores, whereas the maintenance reports counted the re-surveys. IAC reports that it plans to use the same data set for both purposes next year.

A December 2009 legislative audit raised questions about how IAC chooses schools to be surveyed. The auditors found that surveys for 269 (21%) of the 1,255 currently operating schools had not been conducted for periods ranging from 6 to 18 years. IAC reports that its survey list beginning in fiscal 2007 was compiled from MSDE records based on the oldest inspection dates, but it is IAC policy that at least 1 school from each LEA is surveyed each year. This means that LEAs with few schools will go through the survey cycle more quickly than larger systems.

**IAC should comment on why maintenance surveys are being reduced in fiscal 2011 when both full-time inspector positions are filled.**

### **Maintenance Ratings Shift Downward Due to Large Number of Aging Urban Schools Surveyed**

As shown in **Exhibit 1**, the overall distribution of maintenance ratings shifted downward from “good” and “superior” to “adequate” from fiscal 2007 to 2009. No schools received a “poor” rating in these years. IAC reports that the shift toward “adequate” in 2009 occurred because a larger proportion of urban schools was surveyed, and these facilities tend to be older, are more difficult to maintain, and have more deficiencies than newer schools.

The fiscal 2009 surveys revealed substantial deficiencies in site utilities, roofing, ventilation equipment, electrical service, and fire and safety equipment. Many good and superior ratings were related to interior appearance, electrical service equipment, windows, and hot water distribution.

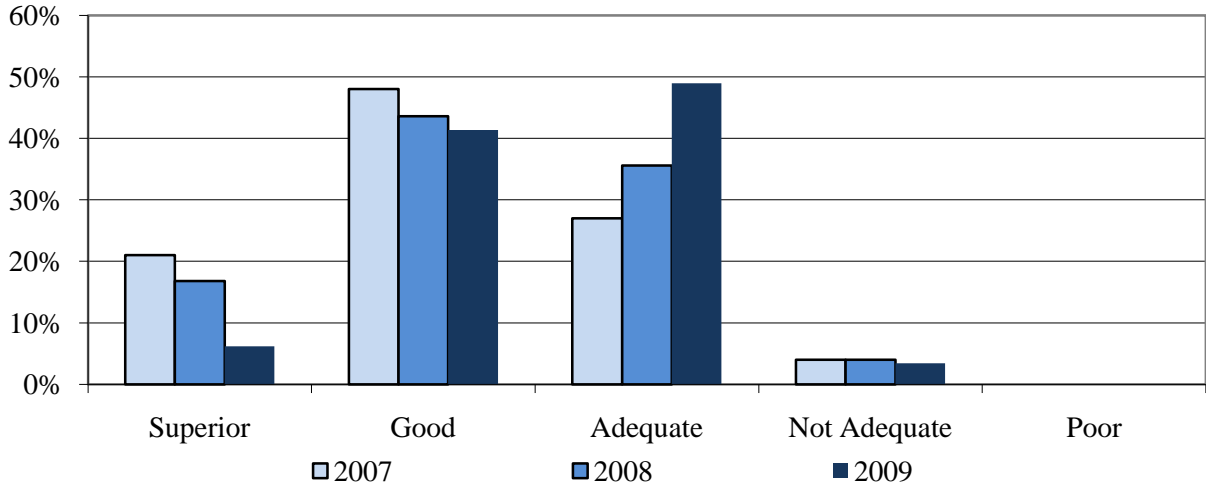
IAC reports that the most pressing need in existing schools appears to be funding for mid-size refurbishment and repair projects such as partial replacement of roofs, sidewalk and driveway surfaces; correction of hardware deficiencies; and replacement of playground equipment.

### **Twenty School Systems Improve Their Standing in Relation to Statewide Average Facility Age; Facilities Are Newer Overall**

In fiscal 2007, IAC established a goal for the PSCP to promote equity in the quality of school facilities throughout the State. The accompanying objective is to improve, or at least hold constant, each LEA’s deviation from the statewide average age of square footage of school facilities. The baseline statewide average, determined in 2005, was 24 years old (constructed in 1981).

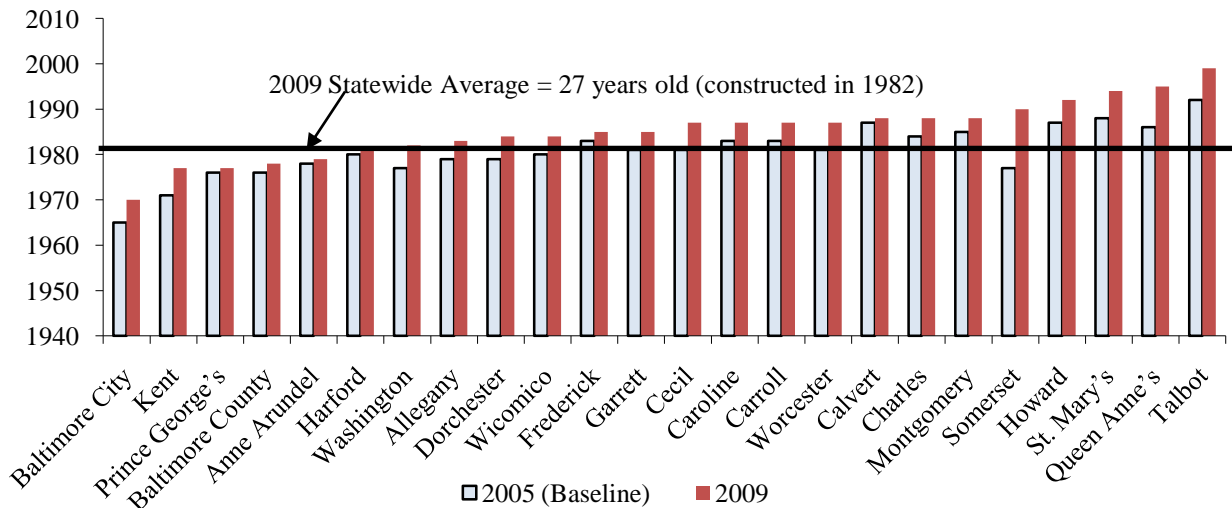
In fact, from fiscal 2005 to 2009, 20 LEAs improved their standing in terms of deviation from the State average age, while 4 LEAs (Calvert, Anne Arundel, Harford, and Prince George’s counties) had the same deviation. **Exhibit 2** shows the average year of construction by LEA for fiscal 2005 (the baseline year) and 2009, the most recently completed survey. The oldest schools are in

**Exhibit 1  
Maintenance Survey Ratings  
Fiscal 2007-2009**



Source: Interagency Committee on School Construction, *Maintenance of Maryland's Public School Buildings*, Fiscal 2009

**Exhibit 2  
Average Construction Year  
Fiscal 2005 and 2009**



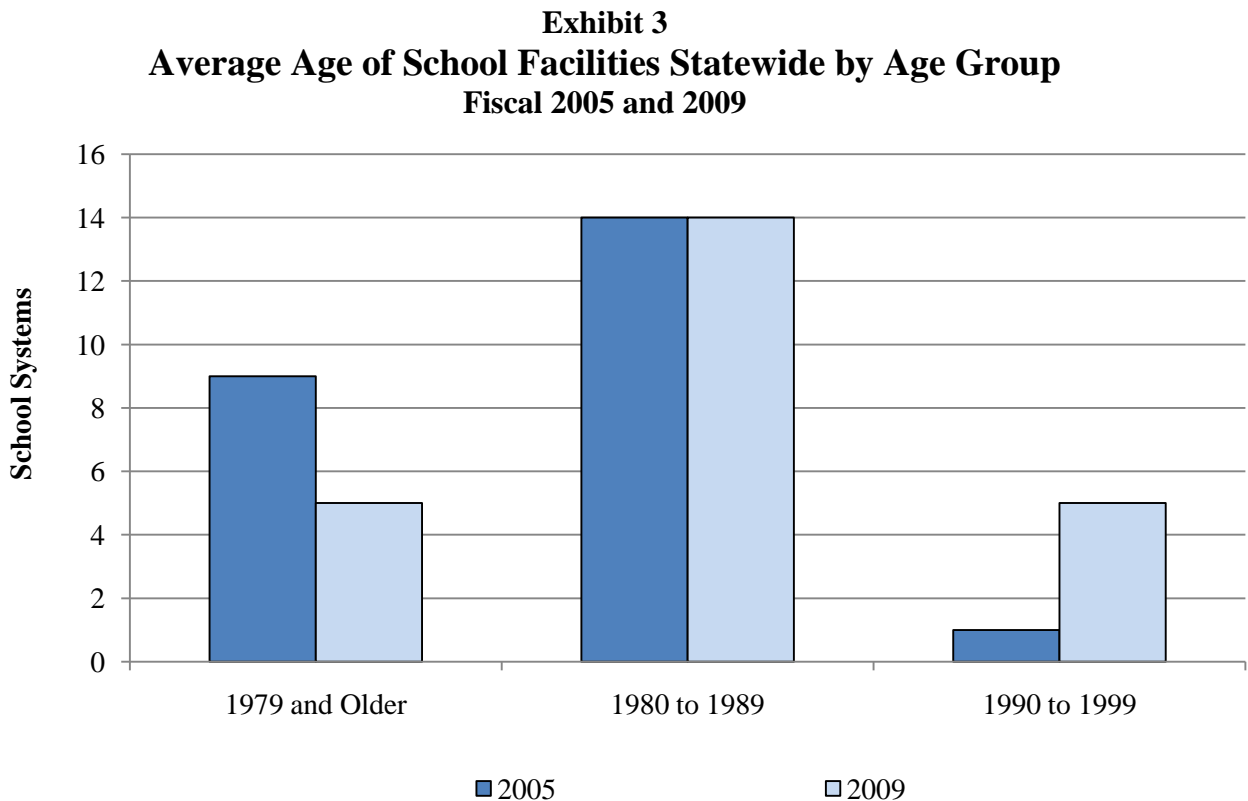
Source: Interagency Committee on School Construction for Fiscal 2005 and Governor's Budget Books for Fiscal 2009 data

Baltimore City, with an average construction date of 1970, or 39 years old. Schools in Kent, Prince George’s, Baltimore, Anne Arundel, and Harford counties are also below the 2009 statewide average.

Talbot County has the newest schools, with an average construction date of 1999, or 10 years old. The average age of Talbot County’s schools changed dramatically in fiscal 2009 because the St. Michael’s Elementary/Middle/High School renovation project was completed, and with only nine schools in the system, any new or renovated square footage has a sizeable effect.

In considering the statewide age of schools, the State has made progress in making them newer. Although the average age of schools has increased since fiscal 2005, Maryland has gained a year in the effort to reduce the age. From 2005 to 2009, 4 years elapsed, but the schools aged only 3 years more. In 2005, the average age was 24 years, and in 2009 the average age was 27.

**Exhibit 3** shows the number of school systems by three different age groups: 1979 and older, 1980 to 1989, and 1990 to 1999 (the youngest age of a school system in Maryland). In 2005, 9 school systems were in the oldest group, but in 2009 the number declined to 5. One school system was in the newest group in 2005, and the number increased to 5 in 2009. There were 14 school systems in the middle group at both points in time.



Source: Interagency Committee on School Construction for fiscal 2005 data, Governor's Budget Books for fiscal 2009 data

## **Fiscal 2010 Actions**

### **Impact of Cost Containment Includes Furloughs and Travel Reductions**

The IAC fiscal 2010 working appropriation is \$35,711 less in general funds than the 2010 legislative appropriation. The budget was reduced by \$34,447 for the agency's share of the statewide employee furlough plan, and another \$1,264 was reduced from across-the-board travel reductions by BPW.

### **Federal Stimulus Fund Expands Bond Programs**

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), the federal government authorized funds to support school facilities and operations. The QZAB program was extended by \$1.4 billion nationwide, and \$22 billion was allocated to a new tax credit bond program called Qualified School Construction Bonds (QSCB). Issues 1 and 2 of this analysis discuss the status of these funds in Maryland.

## **Proposed Budget**

As shown in **Exhibit 4**, the fiscal 2011 allowance including contingent and across-the-board reductions is \$1.4 million less than the 2010 working appropriation.

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**Exhibit 4**  
**Proposed Budget**  
**Interagency Committee on School Construction**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Total</b>
2010 Working Appropriation	\$7,522	\$7,522
2011 Allowance	<u>12,247</u>	<u>12,247</u>
Amount Change	\$4,725	\$4,725
Percent Change	62.8%	62.8%
Contingent Reductions	-\$6,149	-\$6,149
Adjusted Change	-\$1,424	-\$1,424
Adjusted Percent Change	-18.9%	-18.9%

**Where It Goes:**

**Personnel Expenses**

Salary adjustments .....	-\$7
Employees' retirement .....	17
Employee and retiree health insurance .....	6

**Other Changes**

Technology in Maryland Schools wiring program lease payments .....	-1,415
Replacement computer equipment .....	-15
Travel .....	-5
Phone expenses .....	-5

**Total** **-\$1,424**

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

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*D25E03 – Interagency Committee on School Construction*

Before contingent reductions, the fiscal 2011 allowance is \$4.7 million higher than the 2010 working appropriation. The most significant change is the reappearance of \$6.1 million in general funds for the Aging Schools Program. The Budget Reconciliation and Financing Act (BRFA) of 2009 specified that general funds for the Aging Schools Program should be set at \$6.1 million in fiscal 2010 and 2011. The program returns to its base funding of \$10.37 million in fiscal 2012, with no increase for inflation until 2013. However, the 2009 BRFA also allowed these general funds to be deleted and replaced with general obligation (GO) bonds for fiscal 2010. The BRFA of 2010 calls for a similar action, deleting \$6.1 million in Aging Schools Program general funds (through a contingent reduction in the budget) and replacing them with GO bonds for fiscal 2011.

Among other changes in the allowance, payments for the TIMS wiring program are in the final years, declining by \$1.4 million. Personnel expenses increase slightly, including \$17,000 for employees' retirement and \$6,000 for health insurance, but these will be offset by reductions in travel, phone, and computer replacement expenses.

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services (DLS) has estimated the distribution of selected actions relating to employee furloughs and health insurance.

## ***Issues***

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### **1. Expanded Use of Qualified Zone Academy Bonds Enabled \$5.4 Million in Spending in 2009, but Unexpended Balance Remains High**

QZABs were created under the federal Tax Reform Act of 1997 as a new type of debt instrument to finance education projects. Through fiscal 2009, Maryland allowed QZAB proceeds to be used only for renovation and repair (brick-and-mortar) projects as part of the Aging Schools Program. Chapter 707 of 2009 expanded the use of previously authorized QZABs for equipment, which is an authorized use under section 1397E of the Internal Revenue Service code. Chapter 707 also authorized MSDE to allocate QZAB funds to LEAs.

At this point, Maryland has two federal QZAB allocations that have not been issued. In 2008, the State received an allocation of \$4.5 million, and this allocation will expire if it is not issued by December 31, 2010. Legislation has been introduced by the Administration (Senate Bill 202; House Bill 171) to issue the 2008 funds. In 2009, Maryland's allocation was \$15.9 million, and bonds for these funds must be issued by December 31, 2011. The 2009 allocations were higher nationwide because ARRA included \$1.4 billion to expand the program.

### **Background**

QZAB funds may be used in schools located in a federal Enterprise or Empowerment Zone, or where at least 35% of the student population qualifies for free or reduced price meals (FRPM). The State does not pay interest on QZAB issuances. Instead, the State repays the principal only, and the bondholder receives a federal tax credit in lieu of interest payments each year until the bond matures.

QZABs are issued with the full faith and credit of the State. Therefore, QZABs are considered State debt. For purposes of calculating State debt affordability, QZABs are included in the State's general obligation bond debt outstanding and debt service. Note that the Public Debt analysis (X00A) for the 2010 session will evaluate the cost-effectiveness of QZABs as well as QSCBs, which are discussed below.

Maryland first authorized the sale of QZABs in Chapter 322 of 2000. Funds are distributed to counties based on the school systems' percentage of pre-1960 or pre-1970 (after 2004) square footage and the percentage of FRPM students enrolled in the school. Additional issuances were authorized by Chapter 139 of 2001, Chapter 55 of 2003, Chapter 431 of 2005, and Chapter 585 of 2007.

Federal law requires that QZAB projects receive a 10% private sector match, which may be in the form of cash; in-kind goods such as equipment or technology; services such as help developing curriculum; and internships or field trips. While Maryland law authorizes QZABs to be spent on brick-and-mortar projects and equipment, federal law also allows spending on curriculum development and training for teachers and other school personnel.

## **Unexpended QZABs Total \$21.2 Million; School Systems Have Reverted \$3 Million**

QZAB funds continue to grow faster than they are being spent. As shown in **Exhibit 5**, another \$5.6 million in QZABs was issued in 2009, reflected as original proceeds. Expenditures through 2009 totaled \$29.0 million. This compares to \$23.6 million that IAC reported as expended by the end of 2008; therefore, \$5.4 million was spent during 2009. Unexpended funds totaled \$21.3 million at the end of 2009. IAC reports that all but \$94,200 of the funds are encumbered. **Exhibit 6** shows QZAB data by LEA.

LEAs continue to use QZABs for brick-and-mortar projects, IAC reports. The main effect of the 2009 expansion has been spending on computer equipment by MSDE. As of December 2009, MSDE approved \$2.7 million to purchase technology equipment for 21 schools among three LEAs receiving support from The Breakthrough Center. This center is part of MSDE's Division of Leadership Development and helps low-performing schools gain coordinated support from MSDE and LEAs. The private sector match for the technology equipment was in the form of a discount on the purchase price.

IAC reports that school systems continue to have difficulties in securing the 10% private sector match in order to use QZAB funds. The Treasurer's Office reports that there is no strict deadline for spending the 2001 to 2007 proceeds, although BPW expressed an expectation that each issuance would be spent within five years. A change in federal rules affected the 2008 and 2009 issuances, and will affect future issuances, in that proceeds must be spent within three years. If they are not spent, the State has to call bonds in an amount equal to the unexpended proceeds, and the funds would no longer be available. Meanwhile, LEAs have been operating under a State provision that their QZAB allocations from 2008 and 2009 issuances must be spent within two years or be reverted so they may be reallocated to another LEA. As of December 2009, \$3 million in QZABs had been reverted.

**QZABs are a less expensive way to fund school renovation and equipment expenses than general obligation bonds. DLS recommends replacing a portion of the GO bonds with QZABs for the Aging Schools Program in fiscal 2011, which will be reflected in the capital budget analysis. IAC should comment on plans for issuing the \$15.9 million ARRA allocation of QZABs. IAC should also comment on what may be done to help LEAs use QZAB funds.**

## **2. Qualified School Construction Bonds Were Issued by the State and Three Local Jurisdictions in 2009**

ARRA included \$22 billion nationwide for a new bond program called QSCBs. QSCBs operate the same as QZABs in that the State repays only the principal amount borrowed, and the bondholder receives a federal tax credit in lieu of interest payments. Like QZABs, QSCBs may be used for renovation projects, but they are different in that they also may be used for new construction and a portion may be used to acquire land. QSCBs do not require a 10% private sector match.

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**Exhibit 5**  
**Expenditures of QZAB Bond Proceeds through December 31, 2009**

	<u>Original Proceeds</u>	<u>Interest Income Earned</u>	<u>Proceeds Plus Interest</u>	<u>Expenditures from Bond Proceeds</u>	<u>Unexpended Balance</u>	<u>% Expended</u>
2001/2002 QZAB	\$18,098,000	\$1,320,422	\$19,418,422	\$19,319,816	\$98,606	99.49%
2004 QZAB	9,043,000	930,000	9,973,000	5,613,184	4,359,816	56.28%
2006 QZAB	4,378,000	313,000	4,691,000	682,588	4,008,412	14.55%
2007 QZAB	4,986,000	112,000	5,098,000	1,167,538	3,930,462	22.90%
2008 QZAB	5,563,000	0	5,563,000	1,983,085	3,579,915	35.65%
2009 QZAB <sup>1</sup>	5,563,000	0	5,563,000	241,861	5,321,139	4.35%
<b>Total</b>	<b>\$47,631,000</b>	<b>\$2,675,422</b>	<b>\$50,306,422</b>	<b>\$29,008,072<sup>2</sup></b>	<b>21,298,350<sup>3</sup></b>	<b>57.66%</b>

QZAB: Qualified Zone Academy Bond

<sup>1</sup> Issued in December 2009.

<sup>2</sup> As of December 31, 2008, expenditures totaled \$23.6 million.

<sup>3</sup> Of the total unexpended funds, \$21,204,171 is encumbered and \$94,179 is unencumbered.

Source: Interagency Committee on School Construction

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**Exhibit 6**  
**Use of QZAB Bond Proceeds through December 31, 2009**  
**By Local Education Agency**  
**(\$ in Thousands)**

	<u>Total</u> <u>Appropriations<sup>(1)</sup></u>	<u>Reverted</u> <u>Appropriations<sup>(2)</sup></u>	<u>Current</u> <u>Appropriation<sup>(3)</sup></u>	<u>Expenditures<sup>(4)</sup></u>	<u>Unexpended</u> <u>Balance</u>
Allegany County	\$1,083	\$28	\$1,055	\$828	\$227
Anne Arundel County	2,891	205	2,686	2,184	502
Baltimore County	9,767	495	9,272	6,002	3,270
Calvert County	0	0	0	0	0
Caroline County	379	1	378	299	79
Carroll County	0	0	0	0	0
Cecil County	506	68	437	437	0
Charles County	650	1	649	618	31
Dorchester County	855	0	855	125	730
Frederick County	916	2	914	871	43
Garrett County	241	0	241	211	30
Harford County	621	0	621	621	0
Howard County	485	0	485	485	0
Kent County	1,233	3	1,230	198	1,032
Montgomery County	5,721	394	5,327	5,126	201
Prince George's County	9,675	758	8,917	3,886	5,031
Queen Anne's County	0	0	0	0	0
St. Mary's County	339	0	339	339	0
Somerset County	67	6	61	61	0
Talbot County	211	9	202	202	0
Washington County	1,368	81	1,287	616	671
Wicomico County	376	115	261	261	0
Worcester County	188	13	175	175	0
Baltimore City	15,507	800	14,707	5,349	9,357
State Bond Sale Expense	112	0	112	112	0
Unencumbered Funds	94	0	94	0	94
<b>Totals</b>	<b>\$53,284</b>	<b>\$2,977</b>	<b>\$50,306</b>	<b>\$29,008</b>	<b>\$21,298</b>

QZAB: Qualified Zone Academy Bond

1) Total appropriations include new authorizations and recycled prior year authorizations as approved for each local education agency by the Board of Public Works.

2) Includes a \$41,839 reversion of interest by Montgomery County.

3) As of fiscal 2010, the Maryland State Department of Education (MSDE) is authorized to award QZAB funds for equipment. Current appropriations include the following amounts approved by MSDE as of December 2009: \$1 million for Baltimore County, \$700,000 for Dorchester County, and \$1 million for Kent County.

4) Includes expenditures of interest earnings.

Source: Interagency Committee on School Construction

The bonds are allocated to states based on their share of Title I funds. Maryland was authorized to issue \$50.0 million in 2009 and another \$50.0 million in 2010. Some additional QSCB funds are allocated directly to the 100 largest school systems nationwide with the highest populations of school age children living below the poverty level. Maryland has three eligible school systems: Baltimore City received a \$58.1 million authorization, Baltimore County received a \$19.4 million authorization, and Prince George’s County received a \$25.1 million authorization.

### **Locals Plan to Use Some Funds as Match for State-supported Projects**

The State issued its full \$50.0 million in QSCBs in 2009. The Governor’s fiscal 2010 capital budget allocates these QSCBs to public school construction in place of GO bonds. Baltimore County issued its \$19.4 million, and Prince George’s County issued its \$25.1 million. Note that Baltimore and Prince George’s counties reverted small amounts of their authority (less than \$25,000 each) because the issuance amounts must be an integral multiple of \$40,000 for tax credit calculation purposes. Baltimore City issued \$50.8 million and needs legislation to increase its bonding authority before it can issue the remaining \$7.3 million of its authorization, which it had to revert.

Baltimore City reports that it plans to use a portion of its funds for the local match required for state-supported partial renovation projects. Another portion of Baltimore City’s funds will be used for systemic renovation projects and some funds will be used for technology projects. Baltimore County reports that its funds will be used as the local match for two state-supported renovation projects. Prince George’s County reports that it will use its funds to replace local Board of Education GO bonds. **IAC should comment on plans for the total \$100 million authorized in State QSCBs.**

### **3. Montgomery County Owes the State \$3.2 Million in Proceeds from Sale or Lease of School Facilities**

A December 2009 legislative audit report states that in two preceding audits, at least \$3.2 million was identified that IAC should collect from Montgomery County as a portion of proceeds from the lease or sale of 17 former school properties. IAC records indicate that BPW approvals for recovering the funds had previously been obtained, with some dating back more than 20 years.

The county has disputed repayment of the funds, and IAC has referred the matter to legal counsel. **DLS recommends reducing general funds to Montgomery County by \$3.2 million to collect what the county owes to IAC.**

## ***Recommended Actions***

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1. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That \$3,200,000 in general funds shall be reduced from the Montgomery County share of funds allocated to Montgomery County and the municipalities in Montgomery County under program D15A05.16 State Aid for Police Protection Fund in the Governor’s Office of Crime Control and Prevention. These funds are owed to the Interagency Committee on School Construction as a portion of the proceeds from the lease or sale of 17 former school properties in which the State has a financial interest.

**Explanation:** A December 2009 legislative audit report stated that in two preceding audits, at least \$3.2 million was identified that the Interagency Committee on School Construction should collect from Montgomery County as a portion of proceeds from the lease or sale of 17 former school properties. The county has disputed repayment of the funds, and IAC has referred the matter to legal counsel. The funds should not be reduced from the Aid to Education program but from other State aid to the county because it is the county, not the local education agency, that has control of the properties.

## ***Updates***

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### **1. Aging Schools Program Funds Are Drawn Down**

The Aging Schools Program is a mandated program which funds maintenance and renovations to school facilities through the operating budget. The funding formula is outlined in Section 5-206 of the Education Article and is based on a specific base amount for each school system plus inflation using the Consumer Price Index.

DLS raised an issue in the 2009 session about high levels of funds available that were not being spent, and at this point funds have been drawn down. As shown in **Exhibit 7**, total funds available are \$13.4 million as of December 31, 2009. This compares to \$18.3 million in funds that were available as of December 31, 2008.

The BRFA of 2009 make it less likely that funds available will again grow dramatically, at least in the near term. The Aging Schools Program was “rebased” at \$6.1 million in fiscal 2010 and 2011, whereas the program received \$11.1 million in 2009, \$12.5 million in 2008, and \$15.1 million in 2007. Through 2009, funds were adjusted for inflation based on the Consumer Price Index from the second prior fiscal year, but the BRFA suspended this adjustment for 2010, 2011, and 2012. The program returns to a base funding of \$10.37 million in fiscal 2012. The inflation adjustment is set to return in 2013.

**Exhibit 7**  
**Aging Schools Program Encumbrances and Expenditures**  
**Fiscal 2009**

<b>Local Education Agency</b>	<b>Prior Year Encumbrances</b>	<b>Fiscal 2009 Expenditures</b>	<b>Unexpended Balance as of Dec. 31, 2009</b>	<b>Fiscal 2010 Working Appropriation</b>	<b>Total Unexpended</b>
Allegany	\$177,829		\$177,829	\$97,791	\$275,620
Anne Arundel	920,214	\$266,463	653,751	506,038	1,159,789
Baltimore City	2,523,893	746,481	1,777,412	1,387,924	3,165,336
Baltimore	1,589,753	268,920	1,320,833	874,227	2,195,060
Calvert	69,632	69,632		38,292	38,292
Caroline	91,057		91,057	50,073	141,130
Carroll	249,604	248,466	1,138	137,261	138,399
Cecil	174,616	103,521	71,095	96,024	167,119
Charles	91,057		91,057	50,073	141,130
Dorchester				38,292	38,292
Frederick	332,091	27,640	304,451	182,622	487,073
Garrett	69,632		69,632	38,292	107,924
Harford	395,296	283,994	111,302	217,379	328,681
Howard	159,618		159,618	87,776	247,394
Kent	69,632	69,632		38,292	38,292
Montgomery	50,233	50,233		602,651	602,651
Prince George's	2,199,301	72,450	2,126,851	1,209,426	3,336,277
Queen Anne's	91,057	26,000	65,057	50,073	115,130
St. Mary's	91,057	91,057		50,073	50,073
Somerset	69,632	69,632		38,292	38,292
Talbot	69,632	69,632		38,292	38,292
Washington	245,319		245,319	134,904	380,223
Wicomico	193,898	193,898		106,627	106,627
Worcester	69,632	69,100	532	38,292	38,824
<b>Total</b>	<b>\$9,993,685</b>	<b>\$2,726,752</b>	<b>\$7,266,933</b>	<b>\$6,108,986</b>	<b>\$13,375,919</b>

Source: Interagency Committee on School Construction

## ***Current and Prior Year Budgets***

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2009</b>					
Legislative Appropriation	\$20,797	0	0	0	\$20,797
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	45	0	0	0	45
Cost Containment	-226	0	0	0	-226
Reversions and Cancellations	-1	0	0	0	-1
<b>Actual Expenditures</b>	<b>\$20,615</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$20,615</b>
<b>Fiscal 2010</b>					
Legislative Appropriation	\$7,558	0	0	0	\$7,558
Cost Containment	-36	0	0	0	-36
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$7,522</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$7,522</b>

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

**Fiscal 2009**

The fiscal 2009 budget closed at \$20.6 million, \$182,671 less than the legislative appropriation. Budget amendments including a cost-of-living adjustment for State employees and a transfer from the Contingency Fund increased the appropriation by \$44,624. These increases were offset by BPW cost containment reductions totaling \$226,216 which includes furloughs for State employees and reduction to the TIMS master lease payment program. The agency reverted \$1,079. This agency does not have any special or federal funds.

**Fiscal 2010**

The fiscal 2010 working appropriation is \$35,711 less than the legislative appropriation. General fund reductions include \$34,447 in employee furloughs and \$1,264 in travel funds.

**Maintenance Survey Results  
Fiscal 2009**

<u>County</u>	<u>Number of Schools by Category</u>					<u>Total</u>
	<u>Superior</u>	<u>Good</u>	<u>Adequate</u>	<u>Not Adequate</u>	<u>Poor</u>	
Allegany	1	2	1			4
Anne Arundel	1	7	2			10
Baltimore City		3	27	5		35
Baltimore County	1	11	11			23
Calvert	1	1				2
Caroline			1			1
Carroll		3	1			4
Cecil	1	1				2
Charles		1	1			2
Dorchester			1			1
Frederick	1	3	1			5
Garrett	1					1
Harford		3	3			6
Howard	1	4				5
Kent		1				1
Montgomery	1	6	5			12
Prince George's		6	12			18
Queen Anne's			1			1
St. Mary's		2				2
Somerset			1			1
Talbot		1				1
Washington		2	2			4
Wicomico		1	1			2
Worcester		2				2
<b>Total</b>	<b>9</b>	<b>60</b>	<b>71</b>	<b>5</b>	<b>0</b>	<b>145</b>

Source: Interagency Committee on School Construction, *Maintenance of Maryland's Public School Buildings*, Fiscal 2009

## ***Audit Findings***

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Audit Period for Last Audit:	February 1, 2006 – March 25, 2009
Issue Date:	December 2009
Number of Findings:	4
Number of Repeat Findings:	2
% of Repeat Findings:	50%
Rating: (if applicable)	

***Finding 1:*** **IAC had not adequately pursued recovery of the State’s financial contribution in certain former school properties.**

***Finding 2:*** IAC had not timely inspected, as required, numerous public schools currently in use.

***Finding 3:*** **Administrative closeout procedures for completed school construction projects were not performed timely.**

***Finding 4:*** Adequate controls over cash receipts were lacking.

\*Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	19.00	18.00	18.00	0	0%
<b>Total Positions</b>	<b>19.00</b>	<b>18.00</b>	<b>18.00</b>	<b>0</b>	<b>0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 1,372,887	\$ 1,361,242	\$ 1,420,644	\$ 59,402	4.4%
02 Technical and Spec. Fees	-1,336	480	480	0	0%
03 Communication	11,794	12,265	7,167	-5,098	-41.6%
04 Travel	8,766	15,729	10,729	-5,000	-31.8%
07 Motor Vehicles	11,760	11,760	11,760	0	0%
08 Contractual Services	37,544	20,920	21,686	766	3.7%
09 Supplies and Materials	11,845	11,588	8,888	-2,700	-23.3%
10 Equipment – Replacement	7,174	591	591	0	0%
11 Equipment – Additional*	8,042,358	6,084,183	4,652,559	-1,431,624	-23.5%
12 Grants, Subsidies, and Contributions	11,107,907	0	6,108,990	6,108,990	N/A
13 Fixed Charges	3,993	3,231	3,509	278	8.6%
<b>Total Objects</b>	<b>\$ 20,614,692</b>	<b>\$ 7,521,989</b>	<b>\$ 12,247,003</b>	<b>\$ 4,725,014</b>	<b>62.8%</b>
<b>Funds</b>					
01 General Fund	\$ 20,614,692	\$ 7,521,989	\$ 12,247,003	\$ 4,725,014	62.8%
<b>Total Funds</b>	<b>\$ 20,614,692</b>	<b>\$ 7,521,989</b>	<b>\$ 12,247,003</b>	<b>\$ 4,725,014</b>	<b>62.8%</b>

\*These funds include master lease payments for the Technology in Maryland Schools program, which are administered by the Treasurer's Office.

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary  
Interagency Committee on School Construction**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 General Administration	\$ 1,487,866	\$ 1,467,383	\$ 1,498,125	\$ 30,742	2.1%
02 Aging Schools Program	19,126,826	6,054,606	10,748,878	4,694,272	77.5%
<b>Total Expenditures</b>	<b>\$ 20,614,692</b>	<b>\$ 7,521,989</b>	<b>\$ 12,247,003</b>	<b>\$ 4,725,014</b>	<b>62.8%</b>
General Fund	\$ 20,614,692	\$ 7,521,989	\$ 12,247,003	\$ 4,725,014	62.8%
<b>Total Appropriations</b>	<b>\$ 20,614,692</b>	<b>\$ 7,521,989</b>	<b>\$ 12,247,003</b>	<b>\$ 4,725,014</b>	<b>62.8%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.