

DE0202A
Public School Construction
Board of Public Works

Public School Construction Program (Statewide)

General Obligation Bonds	\$240,344,000	Recommendation:	Add language on
Nonbudgeted	\$9,656,000		unexpended and
			unencumbered funds

Bill Text: Provide funds to construct public school buildings and public school capital improvements in accordance with §§ 5-301 through 5-303 of the Education Article.

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.

The Board of Public Works (BPW) created the Interagency Committee on School Construction (IAC) to oversee the PSCP. Members include the State Superintendent of Schools, who serves as the chairperson; the Secretary of the Department of General Services; the Secretary of the Maryland Department of Planning; a member appointed by the President of the Senate; and a member appointed by the Speaker of the House. Each October, the Governor announces the proposed amount of funding for public school construction for the upcoming fiscal year. Local jurisdictions submit their annual and five-year *Capital Improvement Program* (CIP) to IAC in October.

Annually, in October and November, PSCP staff reviews the CIP and recommends to IAC which projects should be funded based on certain criteria. Each December, IAC develops a list of eligible projects and decides which of those projects should be recommended to BPW for approval. IAC must recommend an initial allocation of 75% of the Governor's preliminary allocation for school construction before December 31 of each year. In January, BPW hears appeals from the local jurisdictions and votes on IAC recommendations. The list of projects approved by BPW becomes part of the State's proposed capital budget. The proposed budget is then submitted to the General Assembly for approval. Beginning in 2008, IAC is required to submit recommendations by March 1 equal to 90% of the school construction allocation submitted by the Governor in the capital budget. In May, BPW allocates any remaining school construction funds to school construction projects recommended by IAC.

State and local governments share in the cost of school construction projects. **Exhibit 1** shows the State's share of eligible project costs for fiscal 2012 by county. This share is based on a formula which includes components to recognize local wealth and the proportion of low-income students, enrollment growth, economically distressed counties, and the local funding effort by counties. The local effort component of the formula includes bond and pay-as-you-go funding provided by local governments for school construction.

Exhibit 1
State Share of Eligible Costs for School Construction
Fiscal 2012

<u>50%</u>	<u>55-69%</u>	<u>70-74%</u>	<u>75-89%</u>	<u>90+%</u>
Anne Arundel	Calvert (61)	Dorchester (71)	Caroline (86)	Allegany (91)
Baltimore	Carroll (61)	Frederick (72)	Cecil (75)	Baltimore City (94)
Kent	Garrett (59)	Prince George's (73)	Charles (77)	
Montgomery	Harford (59)	Washington (73)	Somerset (88)	
Talbot	Howard (61)		St. Mary's (75)	
Worcester	Queen Anne's (55)		Wicomico (87)	

Source: Public School Construction Program

New Cost Share Formula Will Take Effect in Fiscal 2013

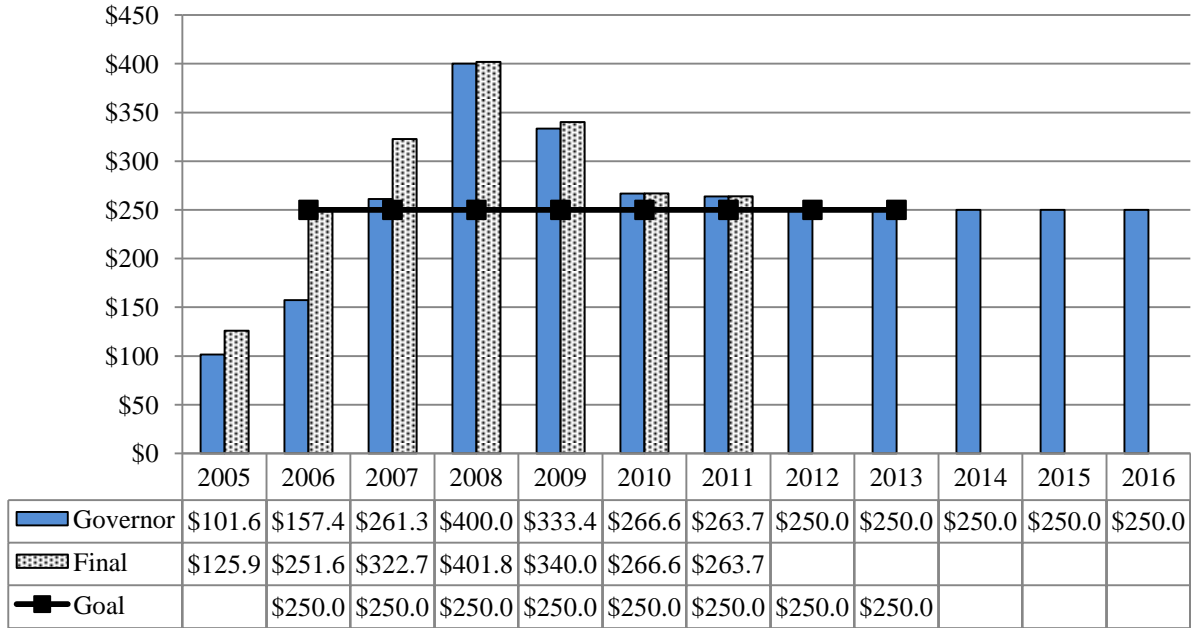
The cost share formula is updated every three years to reflect changes in the inputs on the local level. In January 2011, BPW approved updated State shares to be phased in beginning in fiscal 2013. **Appendix 1** shows the State's share of eligible project costs for each county in fiscal 2012 and the revised share based on the new cost share formula.

The revised share does not affect the fiscal 2012 allocations. Any jurisdiction in which the State share is reduced by more than 5% has a phased-in implementation of the new cost share percentage over two or three years. More than half (14) the local education agencies (LEAs) will experience a decrease in their State share, ranging from a 1% decrease in Baltimore City and Howard County to a 14% decrease in Charles County. In many cases, a combination of reduced enrollment growth and reduced local effort toward school construction led to the decreases. In several cases, particularly Garrett and Prince George's counties, increases in relative wealth are a factor.

Proposed Allocation and Distribution for Fiscal 2012

The Public School Facilities Act of 2004 established a State goal to provide \$2.0 billion in State funding over the following eight years to address deficiencies, or \$250 million per year through fiscal 2013. If proposed fiscal 2012 funds are approved, it will be the seventh consecutive year that the goal has been met or exceeded, as shown in **Exhibit 2**. If fiscal 2012 is included, the State's investment totals \$2.1 billion toward the \$2.0 billion goal. **Appendix 2** shows the total State allocation for public school construction between 1972 and the initial fiscal 2012 allocation.

**Exhibit 2
State Funding for School Construction
Fiscal 2005-2016
(\$ in Millions)**



Source: *Capital Improvement Programs, Fiscal 2005-2012*

The fiscal 2012 budget as introduced for public school construction contains \$250.0 million, as shown in **Exhibit 3**. The budget includes \$240.3 million in general obligation (GO) bonds and \$9.7 million from the PSCP’s Statewide Contingency Fund.

Exhibit 3
Public School Construction Funds
Fiscal 2012
(\$ in Thousands)

Sources of Funding	
General Obligation Bonds	\$240,344
Contingency Fund	9,656
Total	\$250,000
Allocations	
Approved by BPW/IAC	\$187,500
Additional Recommended by IAC	37,500
Total Allocated	\$225,000
Balance to Be Allocated	\$25,000

BPW: Board of Public Works

IAC: Interagency Committee on School Construction

Source: Public School Construction Program

Seventy-five percent of the preliminary \$250.0 million announced by the Governor in October, or \$187.5 million, was recommended for specific projects by IAC and approved by BPW in January 2011. Another \$37.5 million was recommended by IAC in March 2011. These actions satisfy the requirement that IAC submit recommendations by March 1 equal to 90% of the \$250.0 million total funding provided in the Governor’s proposed capital budget (the recommendations were submitted on March 7, a few days after the deadline, in order to resolve issues with several projects in Prince George’s County). The remaining balance of \$25.0 million is available for allocation to specific projects.

Appendix 3 shows a summary of the proposed fiscal 2012 CIP by jurisdiction. This includes the amount of funding approved by BPW in January during the 75% round of allocation and the amount IAC is recommending for approval by BPW equal to 90% of the capital allocation for school construction. The 75% approved and the 90% recommendation include the following:

- 48 major construction projects at \$158.0 million, or 70.2% of the distribution;
- 87 systemic renovation projects at \$56.5 million, or 25.1% of the distribution;
- 6 kindergarten projects at \$5.4 million, or 2.4% of the distribution;

- 4 high school science projects at \$5.0 million, or 2.2% of the distribution; and
- 1 State owned relocatable project at \$100,000, or 0.4% of the distribution.

A total of 146 projects have been recommended by IAC to date, of which 132 have been approved. As shown in Appendix 3, LEAs requested a total of \$612.3 million for fiscal 2012, of which \$354.2 million is eligible for funding. The IAC 90.0% recommendation funds 63.5% of the eligible project requests. **Appendix 4** shows the amount of capital program funds that local school systems have requested and will request between fiscal 2012 and 2017.

The amount of funds requested by LEAs for fiscal 2012 (\$612.3 million) is lower than the 2011 amount (\$722.1 million). IAC reports that the economic downturn has restricted counties' ability to provide matching funds, and that construction costs have been lower than expected. IAC notes, however, that materials prices are expected to increase in the near future, which would cause costs to rise.

Contingency Fund

Exhibit 4 shows the components of the contingency fund that are available for projects in fiscal 2012. Section 5-301 of the Budget Reconciliation and Financing Act of 2005 requires IAC to report quarterly to the General Assembly and the Department of Legislative Services (DLS) on the contents of the contingency fund. The contingency balance reserved for LEAs was \$10.6 million as of December 31, 2010, and LEAs are planning to spend \$4.4 million of that amount during fiscal 2011, leaving \$6.2 million that the LEAs may allocate to projects in fiscal 2012. Combined with unreserved statewide contingency funds of \$10.3 million, contingency funding available for fiscal 2012 projects is \$16.5 million.

Exhibit 4
Statewide Contingency Fund Account Available for Fiscal 2012
As of December 31, 2010

Bond Funds	\$16,525,945	Funds reserved for Specific LEAs	\$6,180,585
PAYGO Funds	33	Unreserved Balance	10,345,393
		Funds Available for Allocation Fiscal 2011	\$16,525,978
Total Statewide Contingency	\$16,525,978	Total Available Contingency Fund Balance	\$16,525,978

LEA: local education agency
 PAYGO: pay-as-you-go

Source: Public School Construction Program

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The 2011 *Capital Improvement Program* already includes \$9,656,000 in funds from the \$10.3 million unreserved balance for fiscal 2012 funding. Therefore, \$689,393 remains in the unreserved balance, as of December 31, 2010, that is not included in the IAC 90% recommendation presented in March 2011 and eventually will be allocated by the IAC.

Issues

1. Statute Does Not Specify Details on Collecting State Proceeds from Sold or Leased Facilities

A December 2009 legislative audit report stated that in two preceding audits, at least \$3.2 million was identified that IAC should have collected from Montgomery County as a portion of proceeds from the lease or sale of 17 former school properties. The county and IAC negotiated a resolution to this issue, with the county agreeing to pay \$1.4 million to the State to account for funds received by the county through December 2009, followed by an annual payment of approximately \$60,000. The amount to be paid is lower than the amount identified by the auditors because it is based on what the county actually had collected in rental proceeds rather than full lease term projections.

DLS requests that IAC comment on whether Section 5-301 of the Education Article should be amended to specify that the State should be paid its share of the value of a facility to be leased based on the depreciated value, not negotiated lease revenues, with the proceeds being deposited into the Annuity Bond Fund to retire debt service.

Prior Authorization and Capital Improvement Program

**Authorization Request
(\$ in Millions)**

<i>Fund Source</i>	<i>2010 Approp.</i>	<i>2011 Approp.</i>	<i>2012 Request</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>
PAYGO GF	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
PAYGO SF	50.352	0.000	0.000	0.000	0.000	0.000	0.000
Nonbudgeted	0.000	0.000	9.656	0.000	0.000	0.000	0.000
GO Bonds	209.648	250.000	240.344	250.000	250.000	250.000	250.000
Total	\$260.000	\$250.000	\$250.000	\$250.000	\$250.000	\$250.000	\$250.000

Authorization Encumbrance and Expenditure Data

**Authorization Summary
(\$ in Millions)**

<i>Fiscal Year</i>	<i>Authorization</i>	<i>Funds</i>		<i>Balances</i>	
		<i>Encumbered</i>	<i>Expended</i>	<i>To Be Encumbered</i>	<i>To Be Expended</i>
Prior Years	\$4,092.133	\$4,088.679	\$4,088.402	3.454	3.731
2007	303.069	299.582	297.460	3.487	5.609
2008	388.450	374.475	372.597	13.975	15.853
2009	327.400	308.232	292.387	19.168	35.013
2010	260.250	194.802	164.242	65.448	96.008
2011	250.000	137.192	57.648	112.808	192.352
Total	\$5,621.302	\$5,402.963	\$5,272.737	\$218.339	\$348.565

GO Bond Recommended Actions

1. DE0202A Public School Construction Program \$ 240,344,000

Add the following language:

(A) Public School Construction Program. Provide funds to construct public school buildings and public school capital improvements in accordance with §§ 5-301 through 5-303 of the Education Article. Provided that any school construction funds allocated to an eligible project in a county that are not spent for the project may, within two years, at the county’s option be:

(1) applied to another eligible project in the current fiscal year; or

(2) reverted to the contingency fund and reserved for eligible projects in the county in the next fiscal year, which shall be in addition to new funds allocated for eligible projects in the county in the next fiscal year.

Further provided that any school construction funds reserved for a county in the contingency fund that are not encumbered within two years shall become available to be allocated to an eligible project in any county.....

240,344,000

Explanation: This language allows funds allocated to an eligible project in a county that are not spent for the project to be reserved in the contingency fund for two years for use by the county for another eligible project. It also specifies that funds not encumbered within two years shall be reverted and made available to any county. This language was added to the 2009 capital budget bill for fiscal 2010, and it needs to be added to the 2011 capital budget bill in a different placement to make the language permanent.

2. Add the following language:

DE02.02

PUBLIC SCHOOL CONSTRUCTION

(Statewide)

(A) Public School Construction Program. Provide funds to construct public school buildings and public school capital improvements in accordance with §§ 5-301 through 5-303 of the Education Article. **PROVIDED THAT ANY SCHOOL CONSTRUCTION FUNDS ALLOCATED TO AN ELIGIBLE PROJECT IN A COUNTY THAT ARE NOT SPENT FOR THE PROJECT MAY, WITHIN TWO YEARS, AT THE COUNTY’S OPTION BE:**

(1) **APPLIED TO ANOTHER ELIGIBLE PROJECT IN THE CURRENT FISCAL YEAR; OR**

(2) **REVERTED TO THE CONTINGENCY FUND AND RESERVED FOR ELIGIBLE PROJECTS IN THE COUNTY IN THE NEXT FISCAL YEAR, WHICH SHALL BE IN ADDITION TO NEW FUNDS ALLOCATED FOR ELIGIBLE PROJECTS IN THE COUNTY IN THE NEXT FISCAL YEAR.**

FURTHER PROVIDED THAT ANY SCHOOL CONSTRUCTION FUNDS RESERVED FOR A COUNTY IN THE CONTINGENCY FUND THAT ARE NOT ENCUMBERED WITHIN TWO YEARS SHALL BECOME AVAILABLE TO BE ALLOCATED TO AN ELIGIBLE PROJECT IN ANY COUNTY

250,000,000

**State Share of Eligible School Construction Costs
Fiscal 2012-2015**

<u>County</u>	<u>2012</u>	<u>Revised Share</u>	<u>Change</u>	<u>Implementation</u>		
				<u>2013</u>	<u>2014</u>	<u>2015</u>
Allegany	91%	93%	2%	93%	93%	93%
Anne Arundel	50%	50%	0%	50%	50%	50%
Baltimore City	94%	93%	-1%	93%	93%	93%
Baltimore	50%	50%	0%	50%	50%	50%
Calvert	61%	56%	-5%	56%	56%	56%
Caroline	86%	78%	-8%	81%	78%	78% ¹
Carroll	61%	58%	-3%	58%	58%	58%
Cecil	75%	69%	-6%	70%	69%	69% ¹
Charles	77%	63%	-14%	72%	67%	63%
Dorchester	71%	69%	-2%	69%	69%	69%
Frederick	72%	60%	-12%	67%	62%	60%
Garrett	59%	50%	-9%	54%	50%	50%
Harford	59%	63%	4%	63%	63%	63%
Howard	61%	60%	-1%	60%	60%	60% ²
Kent	50%	50%	0%	50%	50%	50% ¹
Montgomery	50%	50%	0%	50%	50%	50%
Prince George's	73%	62%	-11%	68%	63%	62% ²
Queen Anne's	55%	50%	-5%	50%	50%	50%
St. Mary's	75%	64%	-11%	70%	65%	64% ²
Somerset	88%	82%	-6%	83%	82%	82% ¹
Talbot	50%	50%	0%	50%	50%	50%
Washington	73%	71%	-2%	71%	71%	71%
Wicomico	87%	96%	9%	96%	96%	96%
Worcester	50%	50%	0%	50%	50%	50%

¹Percentage change is phased in over two fiscal years.

²Percentage change is phased in over three fiscal years.

Source: Public School Construction Program

**Total State Allocation for Public School Construction
Fiscal 1972 through Initial 2012 Allocation**

<u>LEA</u>	<u>Allocation</u>	<u>Percent of Total</u>
Allegany	\$94,360,871	1.60%
Anne Arundel	478,184,745	8.10%
Baltimore City	689,900,653	11.68%
Baltimore County	556,951,586	9.43%
Calvert	156,767,150	2.65%
Caroline	69,552,939	1.18%
Carroll	212,284,595	3.59%
Cecil	131,329,734	2.22%
Charles	215,191,998	3.64%
Dorchester	86,638,756	1.47%
Frederick	324,064,422	5.49%
Garrett	52,385,703	0.89%
Harford	284,924,730	4.82%
Howard	372,562,602	6.31%
Kent	23,357,861	0.40%
Montgomery	822,873,711	13.93%
Prince George's	645,200,996	10.92%
Queen Anne's	76,471,300	1.29%
St. Mary's	160,070,130	2.71%
Somerset	74,827,159	1.27%
Talbot	31,788,268	0.54%
Washington	141,068,349	2.39%
Wicomico	139,772,919	2.37%
Worcester	66,018,406	1.12%
Statewide	500,000	0.01%
Total	\$5,907,049,583	100.00%

LEA: local education agency

Source: Public School Construction Program; Department of Legislative Services

Fiscal 2012 Public School Construction Funding
(\$ in Thousands)

<u>LEA</u>	<u>IAC/BPW Approved 75%</u>	<u>90% Additional IAC Recommendation</u>	<u>90% Total Recommendation</u>	<u>Total Request</u>	<u>A/B Request</u>	<u>% A/B Request Funded*</u>
Allegany	\$200	\$200	\$400	\$603	\$603	66%
Anne Arundel	18,674	4,254	22,928	42,884	42,884	53%
Baltimore City	21,238	4,026	25,264	62,854	56,810	44%
Baltimore County	21,258	4,000	25,258	78,874	52,044	49%
Calvert	5,135	1,000	6,135	6,907	6,907	89%
Caroline	86	0	86	86	86	100%
Carroll	6,532	1,950	8,482	20,323	18,264	46%
Cecil	1,584	200	1,784	2,414	2,414	74%
Charles	6,009	2,040	8,049	17,597	17,597	46%
Dorchester	2,900	602	3,502	3,502	3,502	100%
Frederick	12,865	1,965	14,830	53,010	53,010	28%
Garrett	333	51	384	384	384	100%
Harford	12,869	1,948	14,817	25,015	20,188	73%
Howard	16,577	3,464	20,041	43,438	26,497	76%
Kent	0	0	0	0	0	0%
Montgomery	21,523	4,480	26,003	163,477	113,056	23%
Prince George's	21,241	4,012	25,253	55,697	50,696	50%
Queen Anne's	3,074	800	3,874	5,195	5,195	75%
St. Mary's	2,031	500	2,531	3,064	3,064	83%
Somerset	1,600	500	2,100	3,257	3,257	64%
Talbot	0	0	0	0	0	0%
Washington	5,992	1,108	7,100	9,119	9,119	78%
Wicomico	5,779	400	6,179	14,597	14,597	42%
Worcester	0	0	0	0	0	0%
Total	\$187,500	\$37,500	\$225,000	\$612,297	\$500,174	45%

A/B: Eligible projects

BPW: Board of Public Works

IAC: Interagency Committee on School Construction

LEA: local education agency

* Percent of A or B projects funded as of the 90% total recommendation.

Source: Public School Construction Program

Summary of Capital Program Requests
Public School Construction Program
Fiscal 2012-2017
(\$ In Thousands)

<u>LEA</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Allegany	\$603	\$622	\$1,012	\$13,067	\$20,000	\$6,819	\$42,123
Anne Arundel	42,884	42,408	54,333	55,321	43,701	71,283	09,930
Baltimore County	78,874	80,518	85,000	88,500	76,000	76,000	484,892
Calvert	6,907	7,200	4,618	6,278	12,031	10,882	47,916
Caroline	86	0	14,598	14,598	7,020	9,772	46,074
Carroll	20,323	5,040	30,690	11,696	14,281	24,925	106,955
Cecil	2,414	6,390	14,601	17,996	17,924	12,270	71,595
Charles	17,597	19,710	10,336	21,423	21,192	7,789	98,047
Dorchester	3,502	0	1,149	5,546	2,589	8,433	21,218
Frederick	53,010	15,112	2,198	56,216	10,048	38,518	175,102
Garrett	384	0	0	13,479	0	1,020	14,883
Harford	25,015	10,092	870	15,146	22,223	17,798	91,144
Howard	43,438	50,073	32,095	50,453	42,516	50,162	268,737
Kent	0	400	1,486	1,486	1,756	1,755	6,883
Montgomery	163,477	96,074	83,269	96,573	72,152	40,009	551,554
Prince George's	49,747	25,144	62,186	52,443	42,369	18,588	250,477
Queen Anne's	5,195	7,414	6,894	9,021	11,922	0	40,446
St. Mary's	3,064	464	8,252	6,256	2,649	11,170	31,855
Somerset	3,257	0	2,761	0	2,156	2,640	10,814
Talbot	0	0	0	0	0	0	0
Washington	9,119	10,850	13,229	10,533	20,713	15,703	80,147
Wicomico	14,597	14,123	9,104	13,716	16,119	31,027	98,686
Worcester	0	0	2,241	2,241	0	3,446	7,928
Baltimore City	62,854	85,758	103,708	98,000	22,564	60	372,944
Total State	\$606,347	\$477,392	\$544,630	\$659,988	\$481,925	\$460,069	\$3,230,351
Total Adjusted State	\$606,347	\$496,487	\$589,072	\$742,397	\$563,784	\$559,745	\$3,557,831

Total State: Estimated based on fiscal 2012 requests with no adjustment for inflation.

Total Adjusted State: Adjusted for inflation based on fiscal 2012 requests compounded at 4% per year construction cost escalation.

Source: Public School Construction Program