

DE0202A
Public School Construction
Board of Public Works

Public School Construction Program (Statewide)

General Obligation Bonds	\$196,703,000	Recommendation:	Add general obligation bond funds to replace bond premiums
Special Funds	\$53,297,000		
Nonbudgeted	\$5,200,000		

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. IAC then transmits this information to the local jurisdictions and requests their annual and five-year *Capital Improvement Program* (CIP).

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 was 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 construction funding for fiscal 2011 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 (PAYGO) funding provided by local governments for school construction.

Exhibit 1
State Share of Eligible Costs for School Construction
Fiscal 2011

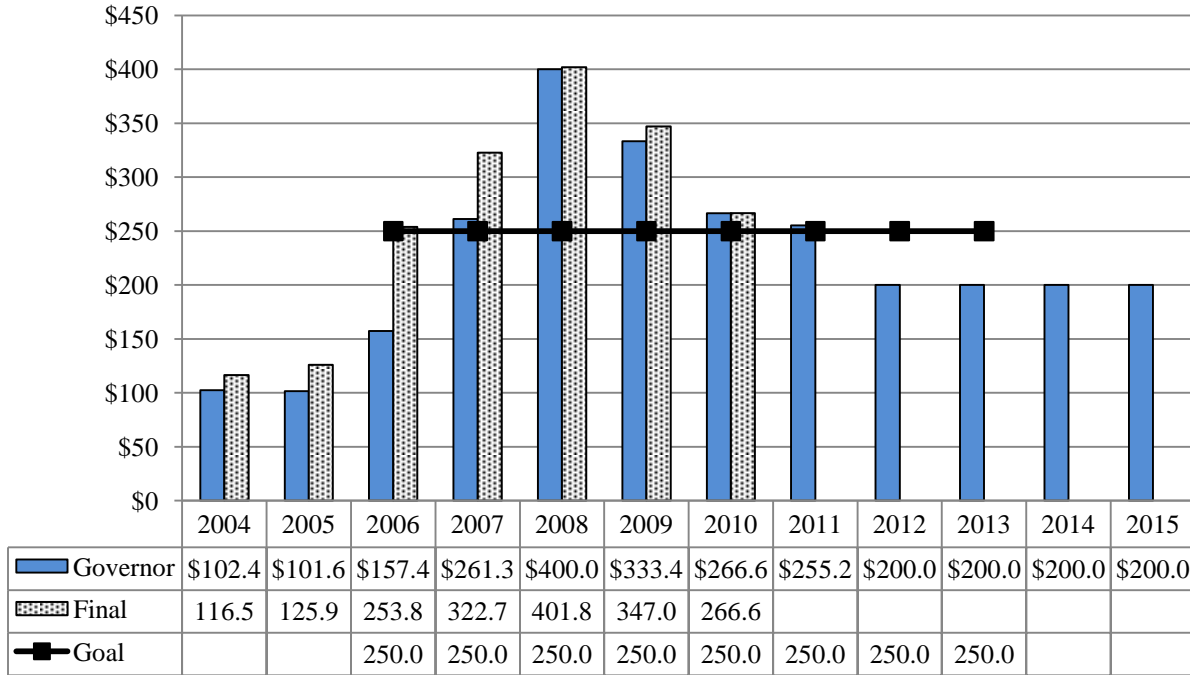
<u>50%</u>	<u>55-69%</u>	<u>70-74%</u>	<u>75-89%</u>	<u>90+%</u>
Anne Arundel	Howard (61)	Dorchester (71)	Cecil (75)	Allegany (91)
Baltimore	Carroll (61)	Frederick (72)	St. Mary’s (75)	Baltimore City (94)
Kent	Harford (59)	Washington (73)	Charles (77)	
Montgomery	Calvert (61)	Prince George’s (73)	Caroline (86)	
Talbot	Garrett (60)		Wicomico (87)	
Worcester	Queen Anne’s (60)		Somerset (88)	

Source: Public School Construction Program; Department of Legislative Services

The formula is updated every three years to reflect changes in the inputs on the local level. In October 2007, BPW approved updated State shares to be phased in beginning in fiscal 2010. **Appendix 1** shows the State’s share of school construction costs for each county from fiscal 2010 through 2012 and the change from fiscal 2009. Any jurisdiction in which the State share is reduced by more than 5% has a phased-in implementation of the new allocation over two or three years, beginning in fiscal 2010.

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 2011 funds are approved, it will be the sixth consecutive year that the goal has been met or exceeded, as shown in **Exhibit 2**. If fiscal 2011 is included, the State’s investment totals \$1.847 billion toward the \$2.0 billion goal. The programmed funding of \$200 million in fiscal 2012 and 2013 is below the annual target of \$250 million, but these amounts still allow the State to exceed the eight-year, \$2.0 billion goal. **Appendix 2** lists the total State allocation for public school construction between 1972 and the initial fiscal 2011 allocation.

**Exhibit 2
State Funding for Public School Construction
(\$ in Millions)**



Source: *Capital Improvement Programs Fiscal 2004-2011*

Proposed Allocation and Distribution for Fiscal 2011

The fiscal 2011 budget as introduced for public school construction contains \$255.2 million, as shown in **Exhibit 3**. The budget includes \$196.7 million in general obligation (GO) bonds, and \$53.3 million of bond premiums available in the State and Local Facilities Loan Fund, which are in Section 14 of the 2010 Maryland Consolidated Capital Bond Loan as introduced. If authorized, the bond premiums would be budgeted as special funds through a budget amendment. Another \$5.2 million is available from the PSCP’s Statewide Contingency Fund.

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 2010. Another \$37.5 million was recommended by IAC in late February 2010. 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 remaining balance of \$30.2 million is available for allocation to specific projects.

Exhibit 3
Public School Construction Funds
Fiscal 2011
(\$ in Thousands)

Sources of Funding

General Obligation Bonds	\$196,703
Special Fund Bond Premiums	53,297
Contingency Fund	5,257
Total	\$255,257

Allocations

Approved by BPW/IAC	\$187,500
Additional Recommended by IAC	37,500
Total Allocated	\$225,000

Balance to Be Allocated **\$30,257**

BPW: Board of Public Works
IAC: Interagency Committee on School Construction

Source: Public School Construction Program

Appendix 3 shows a summary of the proposed fiscal 2011 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 90% recommendation that has been approved by BPW includes the following:

- 52 major construction projects at \$171.7 million, or 76.3% of the distribution;
- 53 systemic renovation projects at \$42.7 million, or 19.0% of the distribution;
- 9 kindergarten projects at \$8.3 million, or 3.7% of the distribution; and
- 2 science projects at \$1.9 million, or 0.8% of the distribution.

A total of 116 projects have been recommended by IAC to date, of which 85 have been approved. Local education agencies (LEAs) requested a total of \$722.1 million for fiscal 2011, of

which \$529.0 million, or 42.5%, is eligible for funding in fiscal 2011, as shown in Appendix 3. **Appendix 4** shows the amount of capital program funds that local school systems have requested and will request between fiscal 2011 and 2016.

Contingency Fund

Exhibit 4 shows the components of the contingency fund that are available for projects in fiscal 2011. Section 5-301 of the Budget Reconciliation and Financing Act (BRFA) 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 for LEAs was \$4.6 million as of December 31, 2009, and LEAs are planning to spend \$4.1 million during fiscal 2010, leaving \$510,000 that the LEAs may allocate to projects in fiscal 2011. Combined with unreserved statewide contingency funds of \$5.3 million, contingency funding available for fiscal 2011 projects is \$5.8 million.

Exhibit 4
Statewide Contingency Fund Account Available for Fiscal 2011
As of December 31, 2009

Bond Funds	\$5,547,947	Funds reserved for Specific LEAs	\$509,681
PAYGO Funds	219,196	Unreserved Statewide Balance	5,257,462
		Funds Available for Allocation Fiscal 2011	\$5,767,143
Total Statewide Contingency	\$5,767,143	Total Available Contingency Fund Balance	\$5,767,143

LEA: local education agency

PAYGO: pay-as-you-go

Source: Public School Construction Program

The IAC 90% recommendation presented in February 2010 does not include allocations for funds available in the statewide contingency account. The total balance, unreserved by the LEAs, is \$5.2 million and eventually will be allocated by the IAC.

Prior Authorization and Capital Improvement Program

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

<i>Fund Source</i>	<i>2009 Approp.</i>	<i>2010 Approp.</i>	<i>2011 Allowance</i>	<i>2012 Estimate</i>	<i>2013 Estimate</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>
GO Bonds	\$327.400	\$260.000	\$196.703	\$200.000	\$200.000	\$200.000	\$200.000
PAYGO SF	0.000	0.000	53.297	0.000	0.000	0.000	0.000
Total	\$327.400	\$260.000	\$250.000	\$200.000	\$200.000	\$200.000	\$200.000

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	\$385.738	\$385.450	\$385.574	0.288	0.164
2006	235.000	232.293	230.667	2.707	4.333
2007	303.069	296.487	285.709	6.582	17.360
2008	388.200	371.135	352.851	17.065	35.349
2009	327.400	286.630	232.166	40.770	95.234
2010	260.000	142.341	71.707	117.659	188.293
Total	\$1,899.407	\$1,714.337	\$1,558.673	\$185.071	\$340.734

As of January 13, 2010.

Issues

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

The American Recovery and Reinvestment Act of 2009 included \$22 billion nationwide for a new bond program called Qualified School Construction Bonds (QSCBs). QSCBs operate the same as Qualified Zone Academy Bonds (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.

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 may 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.**

Recommended Actions

1. DE0202A Public School Construction Program \$ 250,000,000

Allowance
196,703,000

Change
53,297,000

Authorization
250,000,000

Explanation: Bond premiums are one source of funds in the Annuity Bond Fund that the State uses to pay debt service. Bond premiums should remain available for debt service payments and not be used to support capital projects. Based on current forecasts, this would lower the amount of funds that would need to be appropriated from either an increase in the State property tax or from general funds.

**State Share of Eligible School Construction Costs
Fiscal 2009-2012**

<u>County</u>	<u>Implementation</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
Allegany	90%	91%	91%	91%	
Anne Arundel	50%	50%	50%	50%	
Baltimore City	97%	94%	94%	94%	
Baltimore	50%	50%	50%	50%	
Calvert	69%	64%	61%	61%	(1)
Caroline	89%	86%	86%	86%	
Carroll	65%	61%	61%	61%	
Cecil	70%	75%	75%	75%	
Charles	70%	77%	77%	77%	
Dorchester	77%	72%	71%	71%	(1)
Frederick	72%	72%	72%	72%	
Garrett	70%	65%	60%	59%	(2)
Harford	65%	60%	59%	59%	(1)
Howard	58%	61%	61%	61%	
Kent	50%	50%	50%	50%	
Montgomery	50%	50%	50%	50%	
Prince George's	69%	73%	73%	73%	(2)
Queen Anne's	70%	65%	60%	55%	(2)
St. Mary's	72%	75%	75%	75%	
Somerset	97%	92%	88%	88%	(1)
Talbot	50%	50%	50%	50%	
Washington	65%	73%	73%	73%	
Wicomico	81%	87%	87%	87%	
Worcester	50%	50%	50%	50%	

(1) Percentage change is phased in over two fiscal years.

(2) Percentage change is phased in over three fiscal years.

Note: The Board of Public Works approved a three-year implementation of the new State shares beginning in fiscal 2010 on October 17, 2007.

Source: Public School Construction Program

Total State Allocation for Public School Construction
Fiscal 1972 through Initial 2011 Allocation

<u>LEA</u>	<u>Allocation</u>	<u>% of Total</u>
Allegany	\$93,904,871	1.72%
Anne Arundel	439,184,745	8.07%
Baltimore City	629,551,894	11.56%
Baltimore County	499,554,586	9.18%
Calvert	140,235,296	2.58%
Caroline	68,814,939	1.26%
Carroll	201,118,119	3.69%
Cecil	124,545,472	2.29%
Charles	199,544,987	3.67%
Dorchester	78,952,756	1.45%
Frederick	300,832,464	5.53%
Garrett	50,609,276	0.93%
Harford	263,545,974	4.84%
Howard	339,856,331	6.24%
Kent	23,109,861	0.42%
Montgomery	758,923,265	13.94%
Prince George's	588,411,833	10.81%
Queen Anne's	68,329,300	1.26%
St. Mary's	152,644,316	2.80%
Somerset	70,546,159	1.30%
Talbot	31,788,268	0.58%
Washington	129,913,989	2.39%
Wicomico	126,065,069	2.32%
Worcester	63,931,406	1.17%
Statewide	375,000	0.01%
Total	\$5,444,290,176	100.00%

LEA: local education agency

Source: Public School Construction Program; Department of Legislative Services

Fiscal 2011 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	\$586	\$125	\$711	\$842	\$842	84%
Anne Arundel	17,700	4,307	22,007	61,121	56,872	39%
Baltimore City	19,152	4,356	23,508	87,532	64,141	37%
Baltimore County	19,730	5,270	25,000	144,203	89,092	28%
Calvert	5,450	1,800	7,250	14,492	14,492	50%
Caroline	3,767	0	3,767	3,767	3,767	100%
Carroll	5,950	886	6,836	12,157	12,157	56%
Cecil	1,331	200	1,531	1,744	1,744	88%
Charles	4,892	1,850	6,742	15,835	15,369	44%
Dorchester	5,000	275	5,275	8,938	8,938	59%
Frederick	10,952	1,655	12,607	68,060	55,854	23%
Garrett	0	0	0	0	0	0%
Harford	10,950	1,650	12,600	28,612	23,786	53%
Howard	12,346	2,402	14,748	30,475	22,260	66%
Kent	0	0	0	0	0	0%
Montgomery	20,060	5,825	25,885	139,127	73,975	35%
Prince George's	19,215	3,324	22,539	55,416	35,977	63%
Queen Anne's	5,150	600	5,750	7,024	7,024	82%
St. Mary's	5,550	500	6,050	6,673	6,673	91%
Somerset	6,000	0	6,000	6,000	6,000	100%
Talbot	344	0	344	344	344	100%
Washington	6,000	900	6,900	15,124	15,124	46%
Wicomico	7,000	1,500	8,500	14,609	14,609	58%
Worcester	0	0	0	0	0	0%
Statewide	375	75	450	0	0	0%
Total	\$187,500	\$37,500	\$225,000	\$722,095	\$529,040	43%

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 2011-2016
(\$ in Thousands)**

<u>Local Education Agency</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Allegany	\$842	\$938	\$0	\$10,000	\$4,610	\$12,000	\$28,390
Anne Arundel	61,121	61,938	68,671	66,649	66,998	73,766	399,143
Baltimore County	144,203	60,727	82,500	98,000	75,500	76,000	536,930
Calvert	14,492	10,734	7,309	1,480	10,247	13,496	57,758
Caroline	3,767	0	5,936	14,598	8,662	7,020	39,983
Carroll	12,157	24,941	14,029	17,822	13,818	3,370	86,137
Cecil	1,744	17,551	20,738	17,923	4,493	16,922	79,370
Charles	15,835	17,631	18,344	15,726	34,395	4,568	106,499
Dorchester	8,938	0	5,000	3,134	6,201	15,154	38,427
Frederick	68,060	19,589	11,260	17,842	41,077	41,706	199,534
Garrett	0	148	0	8,087	5,392	1,020	14,647
Harford	28,612	17,459	13,283	17,010	16,353	17,861	110,579
Howard	30,475	68,678	32,867	22,230	32,652	33,907	220,809
Kent	0	0	1,486	1,486	1,756	1,755	6,483
Montgomery	139,127	69,314	104,129	107,439	89,342	70,639	579,990
Prince George's	55,416	151,839	142,682	66,191	58,467	48,475	523,070
Queen Anne's	7,024	11,049	4,387	7,335	6,000	6,141	41,936
St. Mary's	6,673	2,424	7,104	7,738	1,317	2,355	27,611
Somerset	6,000	4,290	2,374	1,980	737	1,237	16,617
Talbot	344	0	0	0	0	0	344
Washington	15,124	15,765	9,828	11,049	25,761	22,295	99,822
Wicomico	14,609	18,078	17,315	24,951	17,421	21,071	113,445
Worcester	0	0	2,361	2,361	0	0	4,722
Baltimore City	87,532	108,808	137,284	104,955	74,500	60,000	573,079
Total State	\$722,095	\$681,899	\$708,886	\$645,987	\$595,699	\$550,758	\$3,905,324
Total Adjusted State	\$722,095	\$709,175	\$766,731	\$726,647	\$696,883	\$670,082	\$4,291,614

Total State: Estimated based on July 2010 requests with no adjustment for inflation.

Total Adjusted State: Adjusted for inflation based on July 2010 requests at 4% per year (compounded).

Source: Public School Construction Program