Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 860 (Baltimore City Delegation)

Appropriations Budget and Taxation

Baltimore City Public Schools Construction and Revitalization Act of 2013

This bill specifies $20.0 million in State funding and $40.0 million in local funding annually and related processes to support up to $1.1 billion for a public school construction and revitalization initiative in Baltimore City. It also raises the statutory debt limit for the Baltimore City Board of School Commissioners (BCBSC) from $100.0 million to $200.0 million.

The bill takes effect July 1, 2013, except that provisions related to maintenance of effort (MOE) take effect July 1, 2014.

Fiscal Summary

State Effect: General fund revenues decrease by $20.0 million annually beginning in FY 2015 due to the specified distribution of State lottery proceeds for public school construction in Baltimore City. General fund expenditures by the Public School Construction Program (PSCP), the Department of General Services (DGS), Maryland Department of Planning (MDP), and the Maryland State Department of Education (MSDE) increase by a combined total of $372,800 in FY 2014 to handle the review and oversight of a larger number of major school construction projects. Out-year costs reflect full salary for the MSDE position, inflation, turnover, and the termination of one-time costs. Any expenses incurred by the Maryland Stadium Authority (MSA) to carry out its responsibilities under the bill are paid from the nonbudgeted financing fund established by the bill and, therefore, are not reflected in the table below.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	$0	($20,000,000)	($20,000,000)	($20,000,000)	($20,000,000)
GF Expenditure	$372,800	$332,900	$341,400	$350,300	$359,700
Net Effect	($372,800)	($20,332,900)	($20,341,400)	($20,350,300)	($20,359,700)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Up to $20.0 million in Baltimore City revenues dedicated to public school construction are pledged to debt service and related expenses under the bill, subject to a three-year phase-in beginning in FY 2014. Revenues for BCBSC decrease by $10.0 million in FY 2016 and by $20.0 million each year thereafter due to the diversion of State education aid. A portion of the expenses incurred by BCBSC related to the public school facilities construction and revitalization program may be paid from the facilities fund established by the bill. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful for small construction-related businesses.

Analysis

Bill Summary:

Project Funding

Subject to the approval of the Board of Public Works (BPW) and agreement on a multi-party memorandum of understanding (MOU), MSA is authorized to issue up to $1.1 billion in debt for the purpose of constructing and improving public school facilities in Baltimore City.

The bill establishes two new nonbudgeted funds, administered by MSA, to finance improvements to Baltimore City public school facilities: the Baltimore City Public School Construction Facilities Fund and the Baltimore City Public School Construction Financing Fund. Both funds are continuing, nonlapsing funds. The Treasurer must invest the assets of both funds in the same manner as other State funds, and all investment earnings accrue to each respective fund. No part of either fund may revert or be credited to the State's general fund or any other special fund.

At MSA's discretion, the financing fund may be used to pay (1) debt service on bonds issued by MSA to construct and improve Baltimore City public school facilities; (2) debt service reserves under a trust agreement; (3) all reasonable charges and expenses related to the issuance of bonds for school construction in Baltimore City; and (4) all reasonable expenses related to MSA's management of the fund and its project oversight responsibilities. Sources of revenue for the financing fund are:

- all revenues generated by the Baltimore City beverage container tax, beginning July 1, 2013, subject to a minimum guarantee described below;

- all proceeds from table games at the video lottery facility located in Baltimore City and 10% of the participation rent paid by the video lottery facility operator to Baltimore City that are dedicated to school construction, beginning July 1, 2013, subject to a minimum guarantee described below;
- $10.0 million in State funds due to BCBSC from recurring retiree health care costs shifted from Baltimore City to BCBSC, beginning July 1, 2013;
- up to $20.0 million in annual proceeds from the State lottery, paid quarterly, beginning July 1, 2014;
- $10.0 million diverted from State education aid to BCBSC in fiscal 2016 and $20.0 million in each fiscal year thereafter;
- proceeds from the sale of bonds to finance improvements to Baltimore City public school facilities; and
- any other funds or revenues received from or dedicated by any public source to support the initiative.

At MSA’s discretion, the monies in the facilities fund are pledged to and used to pay (1) debt service on bonds; (2) design and construction costs relating to Baltimore City public school facilities; (3) to the extent authorized by federal law, any start-up costs, administration, overhead, and operations related to Baltimore City public school facilities; and (4) all reasonable charges and expenses related to MSA’s oversight and project management responsibilities. The facilities fund includes revenue transferred from the financing fund that (1) in the case of revenues deposited by Baltimore City, exceed the minimum level of funding required in any semi-annual period (see below) or (2) in the case of other revenue deposited in the financing fund (besides bond proceeds), is not needed for debt service or debt service reserves. Additional funding from public sources may be deposited into the facilities fund.

For fiscal 2015 and 2016, the total amount deposited in the financing fund by Baltimore City from the beverage container tax and gaming revenues must be at least $8.0 million each year, paid in two equal shares by December 1 and June 1. Beginning in fiscal 2017, the total amount deposited must be at least $10.0 million each year, paid in two equal shares by December 1 and June 1. If any semi-annual payment deposited by Baltimore City is less than the minimum required amount, any money from the facilities fund held in reserve for Baltimore City must be transferred to the financing fund to cover the difference. If the amount transferred from the facilities fund is not sufficient, the State Comptroller must withhold local income tax revenue from Baltimore City in the amount necessary to cover the difference.

Project Management

In accordance with the BCBSC 10-year Plan approved on January 8, 2013, MSA is responsible for managing all public school construction and improvement projects in Baltimore City that are financed under the bill. However, MSA may not use any of its own funds, whether appropriated or nonbudgeted, to pay for any costs or expenses related to its role as project manager. Rather, only monies from either the facilities fund or the financing fund, including bond proceeds, may be used to cover MSA expenses. All public school construction projects funded under the bill must comply with current law regarding oversight and approval of public school construction projects by the Interagency Committee on School Construction (IAC), except to the extent otherwise agreed to in the MOU.

Prior to the issuance of debt to finance public school construction and improvement projects, and no later than October 1, 2013, Baltimore City, MSA, IAC, and BCBSC must enter into a four-party MOU. The MOU is subject to approval by BPW, and resolution of any dispute among the parties to the MOU is facilitated by the State Superintendent of Schools. The bill specifies 15 required elements of the MOU, which generally relate to the delineation of responsibilities among the four parties, establishment of procedures to carry out the bill's requirements, project timing, and other related matters.

BCBSC must deliver to MSA buildable sites that are ready for improvement and free from any restrictions, easements, or other limitations that could affect the project schedule. BCBSC also assumes all responsibility for the operation, maintenance, and repairs of each completed facility, subject to the MOU.

MSA will be responsible for building new and replacement schools, and BCBSC will manage the renovation projects in Phase I of the 10-year Plan.

BCBSC must notify the Baltimore City Department of Planning of any buildings that it plans to close and request a written recommendation from the department on the relative merit of the planned closure. The department must issue a recommendation within 30 days of receiving a request, and the board must consider the recommendation before taking final action. These requirements may be waived by mutual agreement of BCBSC and the Baltimore City Department of Planning.

Other Provisions

Any debt issued by MSA to finance construction or improvement of Baltimore City public school facilities is not a debt, liability, or pledge of the faith and credit or taxing power of the State. At least 45 days before seeking BPW approval to issue bonds, MSA must report in writing to the fiscal committees of the General Assembly (1) the aggregate amount of funds needed, including a list of facilities to be improved and their cost; (2) the anticipated total debt service for the bond issue; and (3) the total outstanding debt service related to Baltimore City public school construction facilities. Total outstanding debt service may not exceed the funds provided for debt service payments in the bill.

Beginning October 1, 2013, and each year thereafter, the four parties to the MOU must report to the Governor, BPW, and the fiscal committees of the General Assembly on the progress of the initiative, including actions taken during the previous fiscal year and planned for the current fiscal year.

Any county that shifts recurring retiree health care costs from the county (including Baltimore City) to the school board may exclude any reduction in those retiree health care costs from its MOE calculation. For those same counties that shifted retiree health care costs and dedicated additional State funds received as a result of the cost shift to school construction, total retiree health care costs are excluded from the escalator provision in the MOE calculation that takes effect July 1, 2014.

The bill repeals an obsolete provision requiring the Maryland Lottery and Gaming Control Agency to conduct lotteries for the benefit of the Maryland Stadium Authority and specifies that up to $20.0 million of lottery proceeds is diverted annually to the Maryland Stadium Facilities Fund to support debt service on Oriole Park and M&T Bank (Ravens) Stadium.

It is the intent of the General Assembly that IAC consider the projects funded by the bill, along with ongoing capital needs, when making annual allocations to BCBSC under PSCP.

Current Law: For a description of State support for public school construction funding, please see the **Appendix – State Funding for Public School Construction Projects**.

BCBSC Debt

BCBSC may issue bonds to finance or refinance all or any part of the costs of school construction projects. The Mayor and City Council of Baltimore must approve the board's issuance of new debt, but debt issued by the board is solely the board's obligation and does not constitute any indebtedness or obligation of the State, the mayor, or the city council. The aggregate principal amount of bonds outstanding for BCBSC cannot exceed $100.0 million as of the date that bonds are issued; however, Chapter 243 of 2010 (SB 179) exempted the full value of Qualified School Construction Bonds (QSCBs) issued by the board from the $100.0 million cap. Chapter 583 of 2011 (HB 230) increased the maximum maturity of bonds issued by the board from 15 to 30 years.

Upon the issuance of bonds by BCBSC, the State Comptroller must withhold from State aid to BCBSC funds in the amount needed to pay the debt service on the bonds. The funds are withheld in installments and used to pay the debt service until the bonds are no longer outstanding.

Lottery Ticket Sales and the State Lottery Fund

Each month, after payments to lottery winners and agents and to the State Lottery for operating expenses, the Comptroller must make payments from the State Lottery Fund to:

- the Maryland Stadium Facilities Fund, from revenues generated by sports lotteries conducted on behalf of MSA; and
- the State's general fund.

In fiscal 2012, the State Lottery generated $1.8 billion in total from ticket sales. Payments to lottery winners were $1.1 billion, while operating costs and payments to agents totaled $172.2 million. Approximately $536.1 million was deposited in the general fund after payments were made to the Maryland Stadium Facilities Fund ($20.0 million).

Maintenance of Effort

Under the MOE requirement, each county government (including Baltimore City) must provide on a per-pupil basis at least as much funding for the local school board as was provided in the prior fiscal year. Statute exempts from the MOE calculation specified nonrecurring costs, the cost of any program that has been shifted from the local school board's operating budget to the county operating budget, and debt service payments for school construction.

Chapter 6 of 2012 (SB 848), among other things related to MOE, requires counties making below-average education effort to increase their per-pupil MOE funding by up to $2.5%, beginning in fiscal 2015.

Background:

Baltimore City Public Schools (BCPS)

BCPS enrollment peaked at about 193,000 in 1969 and, except recently, has declined virtually every year since then. As a result, it has a great deal of excess capacity in its schools, many of which are very old. According to PSCP, BCPS has the oldest average square footage of any local school system in the State: 39 years old compared to a statewide average of 27 years old in fiscal 2012.

BCPS currently enrolls 84,000 students in 194 school facilities, including 33 charter schools and 6 special education schools. It has a total operating budget of $1.31 billion and outstanding debt totaling approximately $184.0 million, including approximately $112.0 million in QSCBs and $44.0 million in capital leases, which are both exempted from the debt ceiling, leaving a total of approximately $28.0 million in outstanding debt that counts against the $100.0 million statutory cap. Debt service payments are $16.8 million in fiscal 2013, which includes $4.0 million in principal-only payments for QSCBs.

In June 2012, Jacobs Project Management released its comprehensive assessment of the condition of BCPS school facilities, concluding that district facilities overall were "in very poor condition." According to the Jacobs report, the total cost of building deficiencies was $2.4 billion over 10 years, of which $1.4 billion represented current facility deficiencies and $1.0 billion represented 10-year life cycle deficiencies. Among the report's key findings were:

- almost one-quarter (23%) of BCPS buildings were built before 1946;
- more than two-thirds (69%) of the buildings were rated in "very poor" condition; and
- the district uses just 65% of available classroom space, with middle and high schools being especially underutilized.

In response to the Jacobs report findings, BCPS developed a 10-year timeline for the closure, replacement, or renovation of every one of the buildings it owns that was approved by BCBSC in November 2012. The 10-year Plan includes vacating 26 buildings, substantially renovating or replacing 49 buildings, and renovating 87 buildings (including 22 with additions). Phase 1 of the plan, projected to cost about $1.1 billion and last about four years, addresses the bulk of the $1.4 billion of the most pressing deficiencies identified by the Jacobs report, including constructing 15 new or replacement buildings, renovating approximately 50 school buildings, and closing approximately 26 schools or buildings.

In response to legislation introduced during the 2012 session (SB 533 and HB 304, among others) that required the State to provide BCPS with a block grant for school construction that could be used to leverage capital through a nonprofit or other similar entity to meet the district's considerable school construction needs, the 2012 *Joint Chairmen's Report* asked IAC to study the feasibility and implications of such an approach. The IAC report, released in January 2013, concludes that "it is both legally possible and feasible for the State to provide funding in the form of a block grant." Regarding the use of the authority as a mechanism to issue debt, the report continues, "this structure would preserve the tax exempt status of bonds issued by the State and the City and will not impair either the bond rating or the debt affordability of either government." However, the report raises multiple concerns about this approach, including:

- the impact of the authority's bonds on debt affordability calculations for the State and Baltimore City can only be known fully when the financing arrangement is presented to bond rating agencies and the Internal Revenue Service;
- a long-term commitment to provide a guaranteed block grant to one jurisdiction limits the funding available for projects in other jurisdictions, especially if current funding levels for school construction are reduced; and
- a rapid infusion of construction funds into a single market may strain the capacity of construction companies to meet the demand for projects and negatively affect project quality.

State Funding

State school construction funding is almost exclusively financed by tax-exempt general obligation bonds. Federal tax regulations authorize the use of tax-exempt bonds for ongoing costs of capital projects or to reimburse the cost of completed projects, but only within 18 months of the final contractor payment for a project. After 18 months, the State can only reimburse counties for eligible project costs with pay-as-you-go (PAYGO) cash. PAYGO has been provided for PSCP in the past but is very limited in the State's five-year *Capital Improvement Program* (CIP). It has been the policy of the State to use State debt to pay for long-term capital improvements (with a life of at least 15 years), not for debt service or lease payments, installment purchases, or other forms of payment that retire other outstanding debt.

The 2004 Public School Facilities Act established the State's intent to provide $2.0 billion of funding for school construction by fiscal 2013, an average of $250.0 million each year for eight years. As a result, PSCP funding increased from $125.9 million in fiscal 2005 to $253.8 million in fiscal 2006, and it has remained above the $250.0 million target each year since, which resulted in significant increases in school construction assistance to the counties, including Baltimore City. As a result, the State achieved the $2.0 billion goal ahead of schedule. It is not clear whether that level of funding can or will be sustained in the future.

PSCP funding levels are established annually through the State's capital budget process. **Exhibit 1** shows the State funding levels for PSCP, and Baltimore City's share of those funds, for the past 21 years. It also shows the total amount proposed by the Governor for fiscal 2014 through 2018 in the five-year CIP.

Exhibit 1
Public School Construction Program Funding
Fiscal 1993-2018
($ in Millions)

Year	Total State	BCPS	BCPS % of Total
1993	$79.0	$4.8	6.1%
1994	87.0	7.4	8.5%
1995	108.0	7.5	6.9%
1996	118.0	7.3	6.2%
1997	140.2	8.7	6.2%
1998	150.0	10.0	6.7%
1999	225.0	12.5	5.6%
2000	258.0	25.1	9.7%
2001	291.0	44.1	15.2%
2002	286.6	44.1	15.4%
2003	156.5	13.8	8.8%
2004	116.5	11.2	9.6%
2005	125.9	11.5	9.1%
2006	253.8	21.5	8.5%
2007	322.7	39.4	12.2%
2008	401.8	52.7	13.1%
2009	347.0	41.0	11.8%
2010	266.7	27.7	10.4%
2011	263.7	28.6	10.8%
2012	311.6	32.0	10.3%
2013	349.2	42.6	12.2%
2014	325.0		
2015	250.0		
2016	250.0		
2017	250.0		
2018	250.0		

Source: Department of Legislative Services

Alternative School Financing in Other Places

Examples of approaches similar to that put forth in the bill are not common, but several state and local jurisdictions have used alternative financing arrangements to rebuild large numbers of schools, with mixed results. In one example, Greenville, South Carolina formed a nonprofit corporation to issue $1.0 billion in debt to rebuild 69 schools in 6.5 years. The debt was backed by a commitment of $60.0 million in annual bond revenue from the school system under an installment purchase agreement. The corporation assumed an undivided interest in the new buildings, which the school system is repurchasing with the installment payments. This arrangement allowed Greenville to exceed a constitutional debt limit of 8% of taxable property in the county without a public referendum. However, in 2006, following the completion of Greenville's program, South Carolina amended existing law to make installment purchase agreements with nonprofit entities subject to the 8% debt limit, thereby requiring counties to subject such arrangements to public referenda in the future. State funds were not used in Greenville.

Conversely, the New Jersey Schools Construction Corporation (SCC), established in 2002 to help the state implement a court-mandated $8.6 billion school building program in low-income communities, was found by New Jersey's Inspector General to have weak financial controls and lax or nonexistent oversight and accountability. In 2007, after spending about half of its allocation, SCC was dissolved and replaced by a new Schools Development Authority, which has also been plagued by delays and accusations of political favoritism.

BCPS Retiree Health Care Costs

Prior to fiscal 1998, BCPS employees were employees of Baltimore City, and the city paid the health care costs of BCPS retirees. Chapter 105 of 1997 (SB 795) established the Baltimore City-State Partnership. The law separated BCPS from Baltimore City government, in line with every other school system in the State. Under the terms of the partnership agreement between BCBSC and Baltimore City, school employees were transferred to BCBSC, but the city continued to pay the health care costs of BCPS retirees. Those costs – roughly $29.0 million in fiscal 2013 – were never factored into MOE calculations. Under the terms of a 2011 MOU between BCBSC and Baltimore City, however, those funds were shifted to BCBSC in order to increase the school system's school funding effort and leverage additional State aid under the State's Guaranteed Tax Base (GTB) funding formula. The GTB formula provides additional State aid to counties with average wealth per pupil below 80% of the statewide average *and* local education funding above the required minimum local share of the foundation program. The program, capped at 20% of the per-pupil foundation amount, encourages low wealth counties to make additional education effort. Total State GTB aid leveraged by the shift was $15.8 million in fiscal 2012, decreasing to approximately $10.3 million in fiscal 2013 since the actual costs were reduced; it is expected to stabilize at roughly $10.0 million to $11.0 million going forward. Under the terms of the MOU, the additional State aid leveraged by the transfer in retiree health care costs is pledged to capital expenses for BCPS. The bill directs that aid to the financing fund.

The Budget Reconciliation and Financing Acts of 2011 and 2012 (Chapter 397 of 2011 and Chapter 1 of the 2012 first special session) provided one-year exemptions from MOE for a county (including Baltimore City) that shifted recurring health care costs for current retirees to the county board if those costs were reduced the following year. This bill makes that exemption permanent.

State Fiscal Effect: The influx of capital for school construction projects in Baltimore City that results from the bill is expected to increase the number of large funded projects from about 2 to between 4 and 10 each year. The bill retains IAC oversight and monitoring of project procurement and quality, so the increase in project oversight responsibilities for IAC begins in fiscal 2014 when counties, including the city, begin work on fiscal 2015 school construction improvement programs. However, the anticipated closure, substantial renovation, or replacement of a significant number of BCPS facilities means there will eventually also be a commensurate decrease in funding requests for systemic renovations from BCPS. For fiscal 2014, BCPS submitted 63 requests for PSCP funding, the second highest total in the State. All but a handful of those represent systemic renovations to replace obsolete systems (boilers, windows, roofs, etc.) in aging schools. BCPS advises that it would anticipate requesting funding for between 8 and 12 systemic renovation projects each year, if the bill is enacted.

Although the bill results in a significant increase in large projects requiring review and analysis by IAC, it likely results eventually in a commensurate (or even greater) decrease in the number of systemic renovation funding requests requiring IAC review. Nevertheless, given the scope and size of the project requests that are expected to be submitted to IAC for review under the bill, additional resources are necessary to maintain effective oversight. Also, the details of the MOU required by the bill must be developed and approved by October 2013. In addition to PSCP, DGS, MSDE, and MDP, which are constituent members of IAC, require additional resources.

Therefore, general fund expenditures by PSCP, MDP, DGS, and MSDE increase by a total of $372,751 in fiscal 2014, which accounts for a 90-day start-up delay from the bill's July 1, 2013 effective date for the MSDE architect. This estimate reflects the cost of PSCP adding a full-time equivalent (FTE) position, MSDE hiring 1.0 FTE position, DGS increasing the number of external reviews conducted by a consultant, and MDP contracting with an information technology (IT) consultant to upgrade the Capital Improvement Database for PSCP. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below.

- PSCP requires a full-time project manager to coordinate the preparation of the MOU and manage IAC's oversight role with respect to implementation of

BCBSC's 10-year Plan. It is assumed that this position is filled on or immediately after the bill's July 1, 2013 effective date.

- MSDE requires one additional full-time architect to review the educational adequacy of the increased number of major project designs submitted by BCPS. It is assumed that MSDE is allowed to fill a vacant 0.6 FTE administrative support position to provide needed support.

- DGS continues to outsource the design development and contract document reviews for major school construction projects to external consultants. Therefore, it requires additional resources for contracted services but no additional staff.

- MDP hires an IT consultant to upgrade the Capital Improvement Database used by PSCP to track project completion.

Positions	2
Salaries and Fringe Benefits	$152,815
One-time IT Contractual Support for MDP	60,000
External Consultants for DGS	147,300
Operating Expenses	12,636
Total FY 2014 State Expenditures	**$372,751**

Future year expenditures reflect a full salary for the architect with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

MSA anticipates adding approximately 15 new positions to manage its responsibilities under the bill, at a total cost of about $2.5 million annually. Those costs will be paid from either the financing fund or the facilities fund.

Due to the new distribution of State lottery proceeds, general fund revenues decrease by $20.0 million annually beginning in fiscal 2015.

Local Fiscal Effect: BCPS advises that it requires as many as 18 new positions to manage and oversee the expanded construction program. Some or all costs related to expanded staffing requirements are to be paid from the facilities fund, to the extent authorized by federal tax law.

In accordance with State law, for any school building closed by BCPS, it will have to repay the State for any portion of outstanding debt used to build or renovate the building. As State debt for school construction typically has a 15-year maturity, partial repayment will have to be made for any building that has received State school construction funding in the last 15 years and is being closed. The State has invested $28.3 million over the past 15 years in schools proposed to close, and the State Treasurer's Office advises that there is still $12.2 million in outstanding debt on those facilities that Baltimore City must repay.

PSCP advises that a rapid infusion of school construction funding into the Baltimore City region could increase construction costs in the region and possibly the entire State. Any such increase has not been factored into this estimate.

Small Business Effect: MSA and BCBSC launching an ambitious capital improvement campaign for Baltimore City Public School facilities likely benefits small businesses in the commercial construction industry from increased contracting opportunities.

Additional Information

Prior Introductions: None.

Cross File: SB 743 (Senators Jones-Rodwell and Ferguson) - Budget and Taxation.

Information Source(s): Public School Construction Program; Department of General Services; Maryland Department of Planning; Maryland State Department of Education; Baltimore City; Department of Budget and Management; Board of Public Works; Yahoo!Finance.com; Nj.com; New Jersey Office of the Inspector General; Greenville County, South Carolina; *Baltimore Sun*; Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2013
ncs/rhh Revised - House Third Reader - March 25, 2013

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – State Funding for Public School Construction Projects

Subject to the final approval of the Board of Public Works (BPW), the Interagency Committee on School Construction (IAC) manages State review and approval of local school construction projects. Each year, local systems develop and submit to IAC a facilities master plan that includes an analysis of future school facility needs based on the current condition of school buildings and projected enrollment. The master plan must be approved by the local school board. Subsequently, each local school system submits a capital improvement plan to IAC that includes projects for which it seeks planning and/or funding approval for the upcoming fiscal year, which may include projects that the local system has forward funded. In addition to approval from the local school board, the request for the upcoming fiscal year must be approved by the county's governing body. Typically, the submission letter to IAC contains signatures of both the school board president and either the county executive and county council president or chair of the board of county commissioners.

Based on its assessment of the relative merit of all the project proposals it receives, and subject to the projected level of school construction funds available, IAC makes recommendations for which projects to fund to BPW. By December 31 of each year, IAC must recommend to BPW projects comprising 75% of the preliminary school construction allocation projected to be available by the Governor for the upcoming fiscal year. Local school boards may then appeal the IAC recommendations directly to BPW. By March 1 of each year, IAC must recommend to BPW and the General Assembly projects comprising 90% of the allocation for school construction submitted in the Governor's capital budget. Following the legislative session, IAC recommends projects comprising the remaining school construction funds included in the enacted capital budget for BPW approval, no earlier than May 1.

The State pays at least 50% of eligible costs of school construction and renovation projects, based on a funding formula that takes into account numerous factors including each local school system's wealth and ability to pay. The Public School Facilities Act (Chapters 306 and 307 of 2004, SB 787/HB 1230) requires that the cost-share formula be recalculated every three years. The first recalculation occurred in 2007, and the second recalculation occurred in 2010. **Exhibit 1** shows the State share of eligible school construction costs for all Maryland jurisdictions for fiscal 2012, which was determined by the 2007 recalculation, and for fiscal 2013 through 2015, as determined by the 2010 recalculation. The 2013 recalculation will be conducted prior to fall 2013 for implementation beginning in fiscal 2016.

Chapters 306 and 307 also established the State's intent to provide $2.0 billion of funding for school construction by fiscal 2013, an average of $250.0 million each year for eight years. As a result, the Public School Construction Program funding increased from $125.9 million in fiscal 2005 to $253.8 million in fiscal 2006, and it has remained above the $250.0 million target each year since, which resulted in significant increases in school construction assistance to local school boards. As a result, the State achieved the $2.0 billion goal ahead of schedule.

Exhibit 1
State Share of Eligible School Construction Costs
Fiscal 2012-2015

County	FY 2012	FY 2013	FY 2014	FY 2015
Allegany	91%	93%	93%	93%
Anne Arundel	50%	50%	50%	50%
Baltimore City	94%	93%	93%	93%
Baltimore	50%	50%	50%	50%
Calvert	61%	56%	56%	56%
Caroline	86%	81%	78%	78%
Carroll	61%	58%	58%	58%
Cecil	75%	70%	69%	69%
Charles	77%	72%	67%	63%
Dorchester	71%	69%	69%	69%
Frederick	72%	67%	62%	60%
Garrett	59%	54%	50%	50%
Harford	59%	63%	63%	63%
Howard	61%	60%	60%	60%
Kent	50%	50%	50%	50%
Montgomery	50%	50%	50%	50%
Prince George’s	73%	68%	63%	62%
Queen Anne’s	55%	50%	50%	50%
St. Mary’s	75%	70%	65%	64%
Somerset	88%	83%	82%	82%
Talbot	50%	50%	50%	50%
Washington	73%	71%	71%	71%
Wicomico	87%	96%	96%	96%
Worcester	50%	50%	50%	50%

Source: Public School Construction Program