

D25E03
Interagency Committee on School Construction

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$1,560	\$1,793	\$1,808	\$15	0.8%
Contingent & Back of Bill Reductions	0	-39	-20	19	
Adjusted General Fund	\$1,560	\$1,755	\$1,788	\$33	1.9%
Special Fund	142	0	0	0	
Adjusted Special Fund	\$142	\$0	\$0	\$0	
Adjusted Grand Total	\$1,702	\$1,755	\$1,788	\$33	1.9%

- There is a proposed fiscal 2014 deficiency appropriation of \$10,246 to provide funds for a position reclassification.
- The fiscal 2015 allowance is \$33,115 more than the 2014 working appropriation, net of contingent and across-the-board reductions. Most of the growth is due to personnel-related expenses, including health insurance and employee retirement.

Note: Numbers may not sum to total due to rounding

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Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	17.00	18.00	18.00	0.00
Contractual FTEs	<u>1.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	18.00	18.00	18.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.31	1.70%
Positions and Percentage Vacant as of 12/31/13	0.00	0.00%

- The number of regular positions remains unchanged in the fiscal 2015 allowance. The number of contractual full-time equivalents also remains unchanged in the fiscal 2015 allowance.
- Turnover in the fiscal 2015 allowance is budgeted at 1.7%, which will require the Interagency Committee on School Construction (IAC) to maintain the equivalent of 0.31 positions vacant for the entire year. As of December 31, 2013, the agency had no vacant positions. No turnover was budgeted in fiscal 2014.

Analysis in Brief

Major Trends

Seven School Systems Below Statewide Average Facility Age in Fiscal 2013, Down from 11 in 2005: The improvement in statewide average facility age reflects the State's significant investment in school construction in recent years. The statewide average age of square footage has increased to 28 years in fiscal 2013, while the average age remained at 27 years from fiscal 2007 to 2012. Overall, Maryland has gained 4 years in the effort to reduce schools' age since the baseline of 2005. While 2013 data shows improvement over the baseline, with seven local education agencies below the State average, the number remains the same as last year.

Issues

Fiscal 2011, 2012, and 2013 Maintenance Survey Reports Not Available: IAC established an objective in fiscal 2007 to conduct maintenance surveys in at least 230 schools each year. Though 230 schools were surveyed in fiscal 2011, 2012, and 2013, annual maintenance reports have not been submitted for any of the three years. **IAC should comment on how maintenance surveys are progressing for fiscal 2013 and 2014, and how the maintenance program can be carried out in a reasonable and timely manner in the future.**

Baltimore City Public Schools Memorandum of Understanding Implementation: Chapter 647 of 2013 (HB 860 – Baltimore City Public Schools Construction and Revitalization Act) established a new partnership among the State, Baltimore City, and the Baltimore City Public Schools (BCPS) to fund up to \$1.1 billion in public school facility improvements through revenue bonds to be issued by the Maryland Stadium Authority (MSA). The law required the four parties – Baltimore City, BCPS, IAC, and MSA – to enter into a memorandum of understanding (MOU), which was approved by the Board of Public Works on October 16, 2013. **IAC should explain to the committees how it will ensure that BCPS will be held accountable for accomplishing all the goals set out in the MOU on a timely basis and explain in depth the steps it has taken to ensure the success of the program.**

Recommended Actions

1. Concur with Governor's allowance.

Interagency Committee on School Construction

Operating Budget Analysis

Program Description

School construction costs are shared by the State and local governments. The Interagency Committee on School Construction (IAC) administers the State Public School Construction Program (PSCP) under the authority of the Board of Public Works (BPW). The State funds its share of school construction primarily by issuing bonds and allocating the funds to local education agencies (LEA). IAC reviews requests for State funds for eligible projects such as renovations, additions, new schools, and systemic renovations. Local matching funds are required.

IAC also administers the Emergency Shelter Program, Non-Public Schools Program, the Aging Schools Program, and federally assisted programs such as Qualified Zone Academy Bonds (QZAB). More information about the PSCP, Aging Schools Program, and the use of QZABs can be found in the capital budget analysis for the program (DE0202).

A limited number of 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.

IAC has the following goals in administering the PSCP:

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

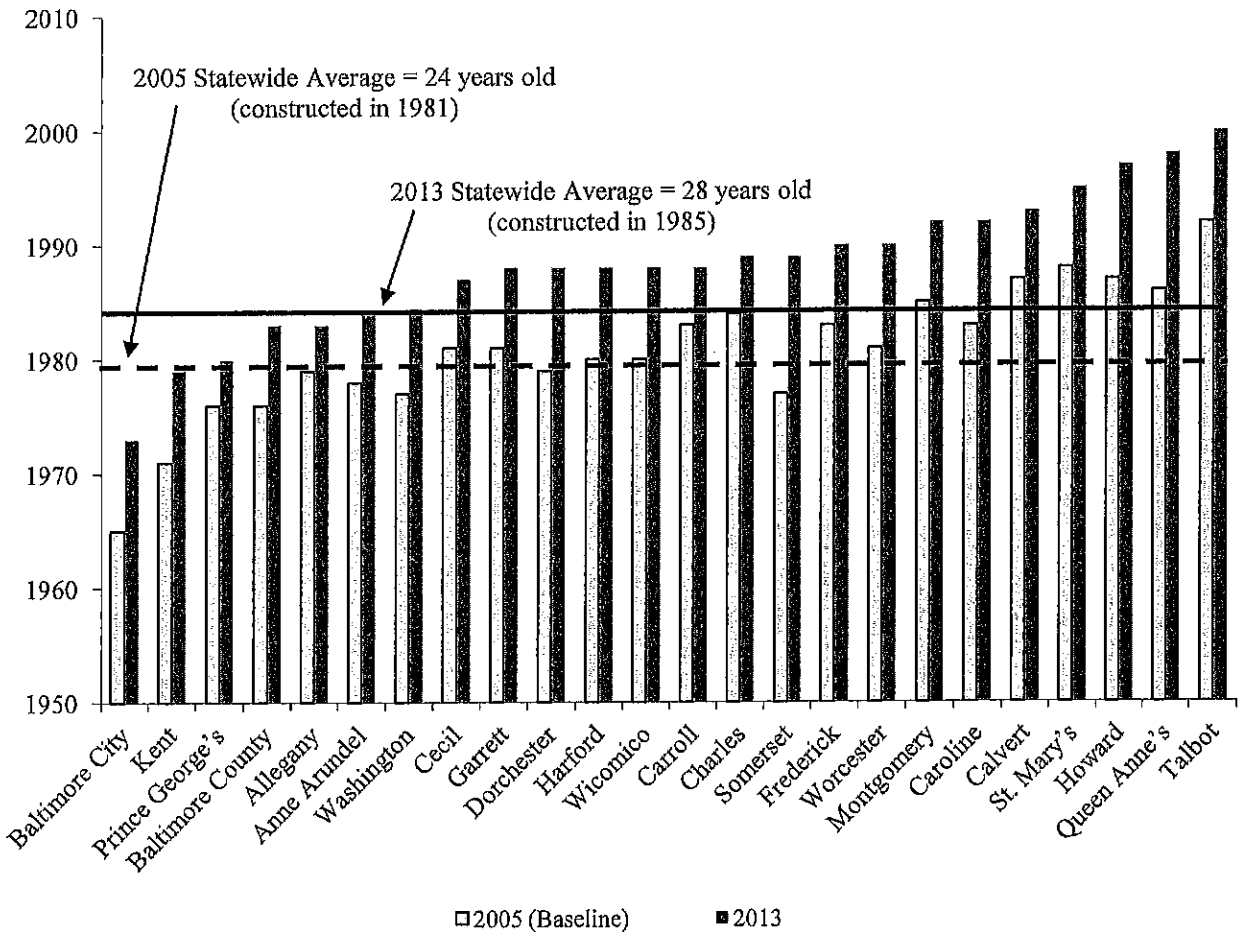
Performance Analysis: Managing for Results

1. Seven Schools Systems Below Statewide Average Facility Age in Fiscal 2013, Down from 11 in 2005

An IAC goal is that the PSCP 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 fiscal 2005, was 24 years old (constructed in 1981).

Exhibit 1 shows the average year of construction by LEA for fiscal 2005 (the baseline year) and 2013. In fiscal 2005, 11 LEAs were below the State average age, and 3 LEAs were at the State average. The fiscal 2013 data shows an improvement over the baseline, with 7 LEAs below the average age, the same as in fiscal 2012. The statewide average age of square footage has increased to 28 years in fiscal 2013, while the average age remained at 27 years from fiscal 2007 to 2012. Overall, Maryland has gained 4 years in the effort to reduce schools’ age. Eight years have elapsed between fiscal 2005 and 2013, but on average the schools aged only 4 years, from 24 years in fiscal 2005, to 28 years in 2013.

Exhibit 1
Average Construction Year
Fiscal 2005 and 2013



Source: Interagency Committee on School Construction for Fiscal 2005; Governor’s Budget Books, Fiscal 2013

Several legislative and Administration initiatives (*e.g.*, air conditioning) of the last two years have resulted in State and local funding of hundreds of smaller projects that, while extremely beneficial, do not alter the age of school facilities. The net result is that the statewide average square footage has aged by one year, as it would if there were no capital work accomplished that affects the overall age of the facilities. The rank of several smaller jurisdictions has declined, pending completion of large projects that are now in construction.

The oldest schools are in Baltimore City, with an average construction date of 1973, or 40 years old. Schools in Allegany, Anne Arundel, Baltimore, Kent, Prince George's, and Washington counties are older than the 2013 statewide average. Talbot County has the newest schools, with an average construction date of 2000, or 13 years old.

Fiscal 2014 Actions

Proposed Deficiency

There is a fiscal 2014 deficiency appropriation of \$10,246 to provide funds for a position reclassification which was implemented in fiscal 2013 for the Executive Director's administrative assistant.

Cost Containment

There are three across-the-board withdrawn appropriations that offset the increase in deficiency appropriations in fiscal 2014. These include reductions to employee/retiree health insurance, funding for a new Statewide Personnel Information Technology system, and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel, the Department of Information Technology, and the State Retirement Agency, respectively.

Proposed Budget

As shown in **Exhibit 2**, the fiscal 2015 allowance is \$33,000 more than the fiscal 2014 working appropriation. The most significant elements of this increase are the annualized fiscal 2014 cost-of-living adjustment (COLA), salary increments, and increases in retirement and health insurance.

Exhibit 2
Proposed Budget
Interagency Committee on School Construction
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
2014 Working Appropriation	\$1,755	\$0	\$1,755
2015 Allowance	<u>1,788</u>	<u>\$0</u>	<u>1,788</u>
Amount Change	\$33	\$0	\$33
Percent Change	1.9%	\$0	1.9%

Where It Goes:

Personnel Expenses

Annualized fiscal 2014 cost-of-living adjustment and increments	\$47
Increments and other compensation.....	34
Employee and retiree health insurance	8
State contribution to employee retirement.....	16
Other fringe benefit adjustments.....	-9

Other Changes

Garage rent	-2
Office supplies.....	-7
In-state travel and conferences	-8
Capital leases – payments to Treasurer	-45
Other changes	-1

Total **\$33**

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Cost Containment

There is one across-the-board reduction and one contingent reduction reflected in the Governor’s spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of DBM – Personnel and the State Retirement Agency.

Personnel Changes

Fiscal 2015 personnel costs increase \$96,075, due largely to increases to employee retirement and health insurance costs, and the annualized cost of the fiscal 2014 COLA and increments. Regular earnings increased by \$33,655, due mostly to salary increments.

Other Changes

Fiscal 2015 changes include a \$42,171 decrease in the Aging Schools Program. This represents the last payment for the financing of a Master Lease/Purchase Financing Arrangement for the Technology in Maryland Schools program. State travel is also decreasing by \$5,729. **IAC should comment on the impact, if any, travel budget reductions will have on the timely completion of maintenance surveys and reports.**

Issues

1. **Fiscal 2011, 2012, and 2013 Maintenance Survey Reports Not Available**

One of IAC's major goals is to promote well-maintained, safe physical environments in schools. To work toward this goal, the PSCP hired 2 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 1,400 public schools can be inspected once every six years. Prior to fiscal 2007, school inspections were conducted by DGS, which completed about 100 maintenance surveys each year. Neither Maryland statute nor the *Code of Maryland Regulations* specify a minimum number of schools to be surveyed annually. However, statute does require IAC to report the results of the annual maintenance surveys for the prior fiscal year to the Governor and the General Assembly on or before October 1 of each year.

IAC reported that survey activity dropped in fiscal 2009 and 2010 because of budget constraints. The General Assembly was concerned about the agency's reduction of maintenance surveys and added language to the fiscal 2014 budget bill restricting funds until the reports for fiscal 2011 and 2012 are submitted certifying the completion of 230 maintenance surveys. IAC has twice asked for extensions for the report that was to be submitted in September 2013, although some preliminary data is reported with MFR.

IAC will need to request another extension for submission of the maintenance reports for fiscal 2011 and 2012. IAC is currently finishing the fiscal 2012 Baltimore County reports, a total of 27 reports out of 467 for the two years. Concurrently, IAC has been working on the fiscal 2013 reports, in order to send many of them to the LEAs prior to IAC inspectors physically conducting fiscal 2014 surveys.

Delays have occurred due to staff shortages to carry out the in-house tasks associated with report analysis, collation, correspondence with LEAs, and development of the annual report. Funds are continuing to be restricted until the maintenance reports are submitted. It is anticipated that the fiscal 2011 and 2012 reports will be submitted in January 2014. In fiscal 2013 and 2014, at the direction of the State legislature, 230 schools were again scheduled to be surveyed. IAC scheduled and is conducting 220 inspection surveys in fiscal 2014. **IAC should comment on how maintenance surveys are progressing for fiscal 2013 and 2014, and how the maintenance program can be carried out in a reasonable and timely manner in the future.**

Although final review of all fiscal 2013 surveys has not yet been completed, it is expected that one school will receive an overall rating of not adequate. In fiscal 2014, four schools are expected to be resurveyed: the two schools identified in fiscal 2011 as either not adequate or poor; the one school identified in fiscal 2012 as not adequate and needing re-inspection; and the one school surveyed in fiscal 2013 that is expected to receive a not adequate rating.

2. Baltimore City Public Schools Memorandum of Understanding Implementation

Chapter 647 of 2013 (HB 860 – Baltimore City Public Schools Construction and Revitalization Act) established a new partnership among the State, Baltimore City, and the Baltimore City Public Schools (BCPS) to fund up to \$1.1 billion in public school facility improvements through revenue bonds to be issued by the Maryland Stadium Authority (MSA). The law required the four parties – MSA, IAC, Baltimore City, and BCPS – to enter into a memorandum of understanding (MOU) by October 1, 2013; BPW must approve the MOU before it may take effect and before MSA can issue any bonds for the program. The MOU has been approved by the governing bodies of the four parties and was approved by BPW on October 16, 2013.

BCPS has the oldest school buildings in the State, with an average age of 40 years old. A 2012 assessment of the condition of BCPS school facilities by a consultant hired by the Baltimore City Board of School Commissioners (board) estimated a cost of \$2.4 billion to address the educational adequacy, condition, and lifecycle needs of the facilities. In response to this critical need for public school facility improvements in Baltimore City, HB 860 created a unique financing mechanism for public school improvements. Relying on annual revenue contributions of \$20 million each from the State, Baltimore City, and BCPS, MSA will issue revenue bonds to support the public school improvement projects. Based on market projections, \$60 million can support debt service on up to \$977 million in bonds.

The projects to be undertaken are contained in the board's 10-year plan. Phase I of the plan prioritizes 63 schools that should be replaced or renovated; the board has also identified 26 schools that will be closed due to their condition and/or under-enrollment. Based on MSA projections of the estimated cost of the construction and renovations and the proceeds from bond sales, a total of 30 to 35 new and renovated schools will be constructed under Chapter 647. The current schedule assumes the first bonds will be sold in fall 2015, with all of the projects to be completed by summer 2019.

Memorandum of Understanding

The MOU sets out the roles and responsibilities of the four parties to implement the facility improvement program. An executive committee consisting of a member from each party will oversee implementation of the MOU and will meet at least quarterly. MSA will be responsible for managing the new construction/replacement schools, and BCPS will manage renovations of existing schools. MSA is responsible for the financing of all of the projects and, therefore, plays a role in overseeing project management at existing schools, as well as new schools. All of the projects are subject to IAC approval and will follow regular State procurement rules, including competitive bidding, minority business participation, and prevailing wage requirements.

Among other things, HB 860 required the MOU to address 16 specific items; those of particular interest to the General Assembly included school utilization, school maintenance, and school closures.

Overall, the MOU meets the law's requirements. It contains provisions that hold the parties accountable for achieving the goals set out in HB 860. The key to a successful program will be the parties, particularly MSA and IAC, utilizing the accountability tools they have in the MOU to ensure that the commitments made in the MOU are kept.

School Utilization

Increasing the utilization rate of BCPS' schools is one of the key goals of Chapter 647. IAC may withhold future project approvals if projected utilization rates do not meet the targets. Baltimore City's current utilization rate is 77% based on State Rated Capacity. The target for the 2019-2020 school year, when the projects funded by HB 860 are scheduled to be completed, is 86%. BCPS committed to an intermediate utilization rate target of 80% by school year 2015-2016. Those targets are currently under review by IAC. Although there is no industry standard for school utilization, IAC advises that a reasonable rate for urban school districts with mobile populations is 90%.

School Maintenance

BCPS submitted a Comprehensive Maintenance Plan (CMP) on December 17, 2013, to IAC for approval that includes adequate maintenance for all new and existing schools, as well as sufficient resources to implement the plan. The CMP is currently under review by IAC. The CMP must be updated annually. MSA may withhold construction funds if the annual CMP does not demonstrate progress in achieving performance metrics acceptable to IAC. IAC has indicated that the \$16 million BCPS currently budgets systemwide for school maintenance is not sufficient. IAC also notified BCPS in September that maintenance inspections in 2011 and 2012 revealed several concerns relevant to additional State investments in BCPS school facilities and that school maintenance will be a major consideration when IAC is making its 100% recommendations for capital school construction allocations.

BCPS hired Jacobs Project Management Company to assess the condition of its buildings portfolio for its CMP. As part of this work, Jacobs conducted analyses to help the district determine what it would cost to renovate and replace its school buildings—and to maintain them over time. In order for BCPS to be successful with its maintenance efforts in the future, Jacobs recommended the following:

- incrementally increase the number of full-time equivalent positions (FTE) dedicated to preventative maintenance from the current 74 to 127 by fiscal 2023;
- reduce, over time, the amount of square footage managed by each FTE, from more than 250,000 square feet currently, to less than 150,000 square feet; and
- increase the maintenance budget from \$14.3 million in fiscal 2014 to \$39.8 million in fiscal 2023. This would require an increase of a minimum of \$3.0 million a year for 9 years (fiscal 2015-2023).

School Closures

The MOU includes a list of the 26 school buildings identified to be closed in BCPS' 10-year plan and the anticipated date of closure. Release of construction funds for projects not already under construction will be contingent on BCPS closing each school on schedule or substituting another school acceptable to MSA. The MOU also includes a process for BCPS to amend the 10-year plan, including the schools to be closed, provided that at least 26 buildings of similar size are closed. On November 12, 2013, BCPS announced several proposed changes to the 10-year plan as part of its annual review of education programs and facilities. The board held several public hearings in December and voted on the changes on December 17, 2013. Excel Academy at Francis M. Wood High school was amended to be kept open and renovated in year 10. Three programs were approved to be closed in June 2017 (one is delayed from 2016), one new program was approved to be closed in June 2014, and two schools were approved to be renovated in year 2 of the 10-year plan. In winter 2014, the board will vote to close three buildings, including one building that was not originally in the 10-year plan (the Corps Building). **IAC should explain to the committees how it will ensure BCPS will be held accountable for accomplishing all the goals set out in the MOU on a timely basis and explain in depth the steps it has taken to ensure the success of the program. IAC should comment on the additions and deletions to the 10-year plan and whether BCPS is still on track to close at least 26 buildings under the plan.**

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2013					
Legislative Appropriation	\$1,576	\$131	\$0	\$0	\$1,707
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	12	0	0	12
Reversions and Cancellations	-16	0	0	0	-16
Actual Expenditures	\$1,560	\$143	\$0	\$0	\$1,702
Fiscal 2014					
Legislative Appropriation	\$1,767	\$0	\$0	\$0	\$1,767
Budget Amendments	26	0	0	0	26
Working Appropriation	\$1,793	\$0	\$0	\$0	\$1,793

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The fiscal 2013 budget closed at \$1.7 million, which was \$4,000 less than the legislative appropriation. Special funds increased \$12,019 due to the fiscal 2013 COLA. This increase was offset by the general fund reversion totaling \$16,138, including \$5,295 in excess funding for the statewide personnel management system.

Fiscal 2014

The fiscal 2014 appropriation is \$26,000 more than the legislative appropriation totaling \$1.79 million. General funds increased by \$25,986 due to the fiscal 2014 COLA and the statewide salary increment.

Object/Fund Difference Report
Interagency Committee on School Construction

Object/Fund	FY 14		FY 15 Allowance	FY 14 - FY 15 Amount Change	Percent Change
	FY 13 Actual	Working Appropriation			
Positions					
01 Regular	17.00	18.00	18.00	0.00	0.0%
02 Contractual	1.00	0.00	0.00	0.00	0.0%
Total Positions	18.00	18.00	18.00	0.00	0.0%
Objects					
01 Salaries and Wages	\$ 1,476,003	\$ 1,605,892	\$ 1,687,733	\$ 81,841	5.1%
02 Technical and Spec. Fees	30,531	450	0	-450	-100.0%
03 Communication	4,852	7,184	5,456	-1,728	-24.1%
04 Travel	15,145	20,729	13,000	-7,729	-37.3%
07 Motor Vehicles	9,870	11,760	10,000	-1,760	-15.0%
08 Contractual Services	17,254	24,488	21,317	-3,171	-12.9%
09 Supplies and Materials	17,997	21,375	14,200	-7,175	-33.6%
10 Equipment – Replacement	20,114	8,000	8,000	0	0.0%
11 Equipment – Additional	106,985	90,673	45,602	-45,071	-49.7%
13 Fixed Charges	3,655	2,805	2,614	-191	-6.8%
Total Objects	\$ 1,702,406	\$ 1,793,356	\$ 1,807,922	\$ 14,566	0.8%
Funds					
01 General Fund	\$ 1,560,217	\$ 1,793,356	\$ 1,807,922	\$ 14,566	0.8%
03 Special Fund	142,189	0	0	0	0.0%
Total Funds	\$ 1,702,406	\$ 1,793,356	\$ 1,807,922	\$ 14,566	0.8%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Fiscal Summary
Interagency Committee on School Construction

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 General Administration	\$ 1,618,043	\$ 1,709,083	\$ 1,765,820	\$ 56,737	3.3%
02 Aging Schools Program	84,363	84,273	42,102	-42,171	-50.0%
Total Expenditures	\$ 1,702,406	\$ 1,793,356	\$ 1,807,922	\$ 14,566	0.8%
General Fund	\$ 1,560,217	\$ 1,793,356	\$ 1,807,922	\$ 14,566	0.8%
Special Fund	142,189	0	0	0	0.0%
Total Appropriations	\$ 1,702,406	\$ 1,793,356	\$ 1,807,922	\$ 14,566	0.8%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.