

Capital Debt Affordability Committee

Treasurer Nancy K. Kopp, Chair
Louis L. Goldstein Treasury Building
80 Calvert Street, Assembly Room
Annapolis, MD 21401

Agenda

October 2, 2019

1:00 PM

- 1) Treasurer's Opening Comments**
- 2) Introduction and Status of Affordability Benchmarks**
State Treasurer's Office: Christian Lund, Director of Debt Management
- 3) 2019 Legislative Session General Assembly Actions**
Department of Legislative Services: Patrick Frank, Manager
- 4) General Fund Estimate**
Bureau of Revenue Estimates, Andrew Schaufele, Director
- 5) Assessable Base Estimate**
Department of Assessments & Taxation, Michael Higgs, Director
- 6) Review of Capital Programs:**
 - Capital Program**
Teresa Garraty, Executive Director, Office of Capital Budgeting, Department of Budget and Management
 - Public School Construction Program**
Robert Gorrell, Executive Director, MD Interagency Committee on School Construction

The next CDAC meeting will be Thursday, October 10, 2019 at 1pm. The presentations on the agenda are: Transportation Bonds, Garvee Bonds, MD Stadium Bonds, Bay Restoration Bonds, Capital Leases, and Debt of the Higher Education Institutions.

Introduction and Status of Affordability Benchmarks

Capital Debt Affordability Process and Status of Affordability Benchmarks

October 2, 2019

Topics of Discussion

1. CDAC Responsibilities
2. The Concept of Affordability
3. Components of Affordability Benchmarks
4. Status of Affordability Benchmarks

Capital Debt Affordability Committee (CDAC) Responsibilities

CDAC Responsibilities

- CDAC's primary charge is to submit to the Governor and the General Assembly its estimate of the total amount of new State debt that may be prudently authorized for the upcoming fiscal year (State Finance and Procurement Article, §8-112). For planning purposes only, it also provides estimates for the out years.
- CDAC also recommends an authorization for Academic Facilities Bonds for the University System of Maryland, Morgan State University, St. Mary's College, and Baltimore City Community College.

CDAC Responsibilities

CDAC must consider the following factors when making its recommendation:

- The amount of State tax-supported debt that will be outstanding in the next fiscal year as well as the amount authorized but unissued
- The Capital Improvement Program prepared by the Department of Budget and Management
- Projections for school construction and improvement needs prepared by the Interagency Committee on School Construction
- Projected debt service requirements for the next ten years
- Criteria that recognized bond rating agencies use to judge the quality of issues of State bonds
- Other factors relevant to the ability of the State to meet its projected debt service requirements for the next five years and the marketability of the State's general obligation bonds
- Aggregate impact of public-private partnership agreements
- The effect of new authorizations on each factor enumerated above
- Amounts and effects of other types of State debt

The Concept of Affordability

The Concept of Affordability

- To make its recommendation, CDAC uses the **concept of affordability**.
- The crux of affordability is not simply whether or not the State can pay its debt service; instead, affordability implies the ability to **manage debt over time to achieve the State's goals**.
- CDAC's challenge is to find a balance between providing sufficient funds for necessary investment in capital projects while remaining within the framework of the State's **debt capacity**.
- The two self-imposed **affordability benchmarks** used to determine debt capacity are:
 - Tax-supported debt outstanding should be no more than 4.0% of total personal income
 - Tax-supported debt service should be no more than 8.0% of total tax revenues

Components of Affordability Benchmarks

Debt Outstanding to Personal Income

Tax-supported debt outstanding is defined as the outstanding principal on State debt that is either repaid with State tax revenue or uses State tax revenue as a backstop.

Personal income encompasses all sources of individual income in Maryland.

- **Tax-Supported Debt Outstanding**
 - General Obligation Bonds (72%*)
 - Consolidated Transportation Bonds (24%)
 - Bay Bonds (2%)
 - Capital Leases (2%)
 - GARVEEs (<1%)
 - Stadium Authority Leases (<1%)
- **Personal Income**
 - Wages, salaries, and benefits
 - Dividends, interest, and rent
 - Government transfers to individuals
 - Business owner's income

*The percentage listed next to each type of tax-supported debt represents the outstanding principal of that type of debt as a percentage of total tax-supported debt outstanding during fiscal year 2019.

Debt Service to Revenues

Tax-supported debt service is defined as debt service on bonds that is either repaid with State tax revenue or uses State tax revenue as a backstop.

Revenues are defined as tax revenues and direct sources of repayment for State tax-supported debt.

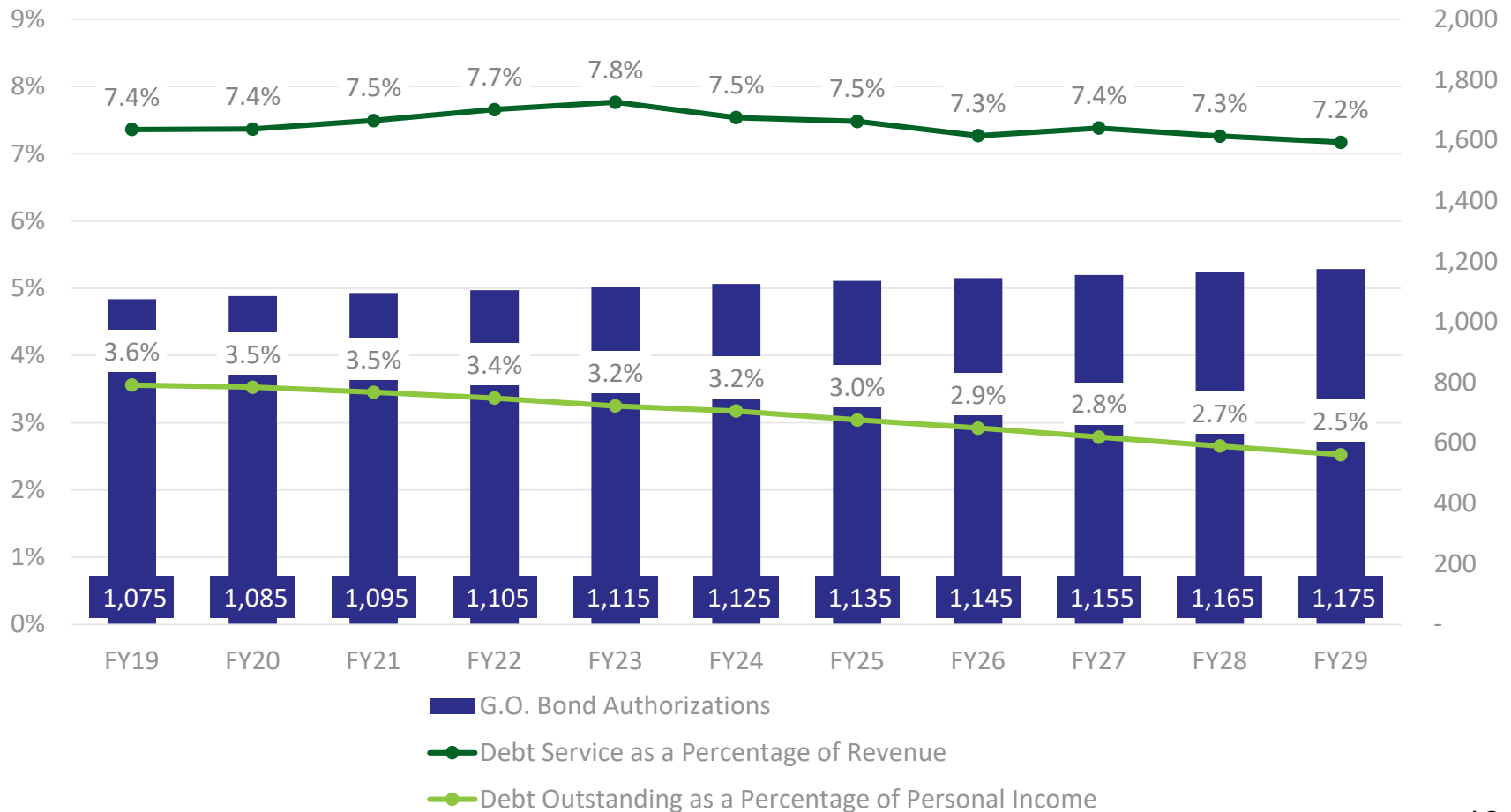
- **Tax-Supported Debt Service**
 - General Obligation Bonds (71%*)
 - Consolidated Transportation Bonds (19%)
 - GARVEEs (5%)
 - Bay Bonds (2%)
 - Capital Leases (1%)
 - Stadium Authority Leases (1%)
- **Revenues**
 - General Funds (76%**)
 - Transportation Taxes (14%)
 - State Property Taxes (3%)
 - Gaming Revenues (2%)
 - Federal Transportation Grants (2%)
 - Transfer Tax (1%)
 - Bond Premium (<1%)
 - Bay Restoration Fees (<1%)
 - Stadium Lease Revenue (<1%)
 - Federal Interest Subsidies (<1%)

*The percentage next to each type of tax-supported debt represents the debt service of that type of debt as a percentage of total tax-supported debt service during fiscal year 2019.

**The percentage next to each revenue source represents that revenue source as a percentage of total tax revenues during fiscal year 2019.

Status of Affordability Benchmarks

Affordability Benchmarks Under 2018 SAC Recommendation*



*Estimates as of 10/1/2019. Tentative and subject to change.

2019 Legislative Session General Assembly Actions

2019 Legislative Session General Assembly Highlights

- ***General Assembly Passes Capital Budget that Authorizes \$1,085 Million in Net General Obligation (GO) Bonds:*** House Bill 101 (Chapter 14) authorizes \$1,085 million in net debt, which includes \$1,092 million in new authorizations that are offset by reducing prior year authorizations by \$7 million. This authorization is within the affordability criteria set by CDAC and the authorization limits set by the Spending Affordability Committee (SAC).
- ***New Academic Revenue Debt Authorization Totals \$34 Million:*** CDAC recommended that academic revenue bond debt issued in fiscal 2020 be limited to \$34 million. House Bill 1352 (Chapter 148) authorized \$34 million in academic revenue bonds to support:
 - \$18.6 million for facilities renewal projects budgeted within the University System of Maryland System Office;
 - \$6 million for a new School of Pharmacy and Health Professions building and flood mitigation for the University of Maryland, Eastern Shore;
 - \$5 million for an academic building at the Southern Maryland Higher Education Center;
 - \$2 million for a science facility at Towson University; and
 - \$2.4 million for utility upgrades at the University of Maryland Baltimore County.
- ***Increase the Maryland Stadium Authority's (MSA) Debt Limit for Ocean City Convention Center (OCCC) Bonds to Fund a Renovation Project:*** House Bill 178 (Chapter 217) and Senate Bill 177 (Chapter 218) increase MSA debt capacity for OCCC from \$17.3 million to \$24.5 million and the Ocean City contribution is increased from \$14.7 million to \$15 million. The State anticipates issuing \$24.5 million, of which \$22.7 million will support the project, while the City will contribute \$15 million. The law stipulates that ownership of these improvements is 60% MSA and 40% Ocean City.
- ***Authorize MSA Bonds for the Planning and Design of a Baltimore City Convention Center (BCCC) renovation:*** House Bill 801 (Chapter 695) requires MSA and Baltimore City to enter into a written agreement to begin planning and design of an expansion or renovation of BCCC. The agreement must include a provision allocating two-thirds of the planning and design costs to MSA and one-third to the City, which is consistent with prior renovations and expansions.
- ***Alter the Date by which CDAC Must Annually Submit Its Report:*** Senate Bill 85 (Chapter 298) extends the date from October 1 to October 20.

General Fund Estimate

BRE SEPTEMBER ESTIMATES

LONG TERM GROWTH & RELATED INFORMATION FOR CDAC
10/02/2019

Office of the Comptroller
State of Maryland

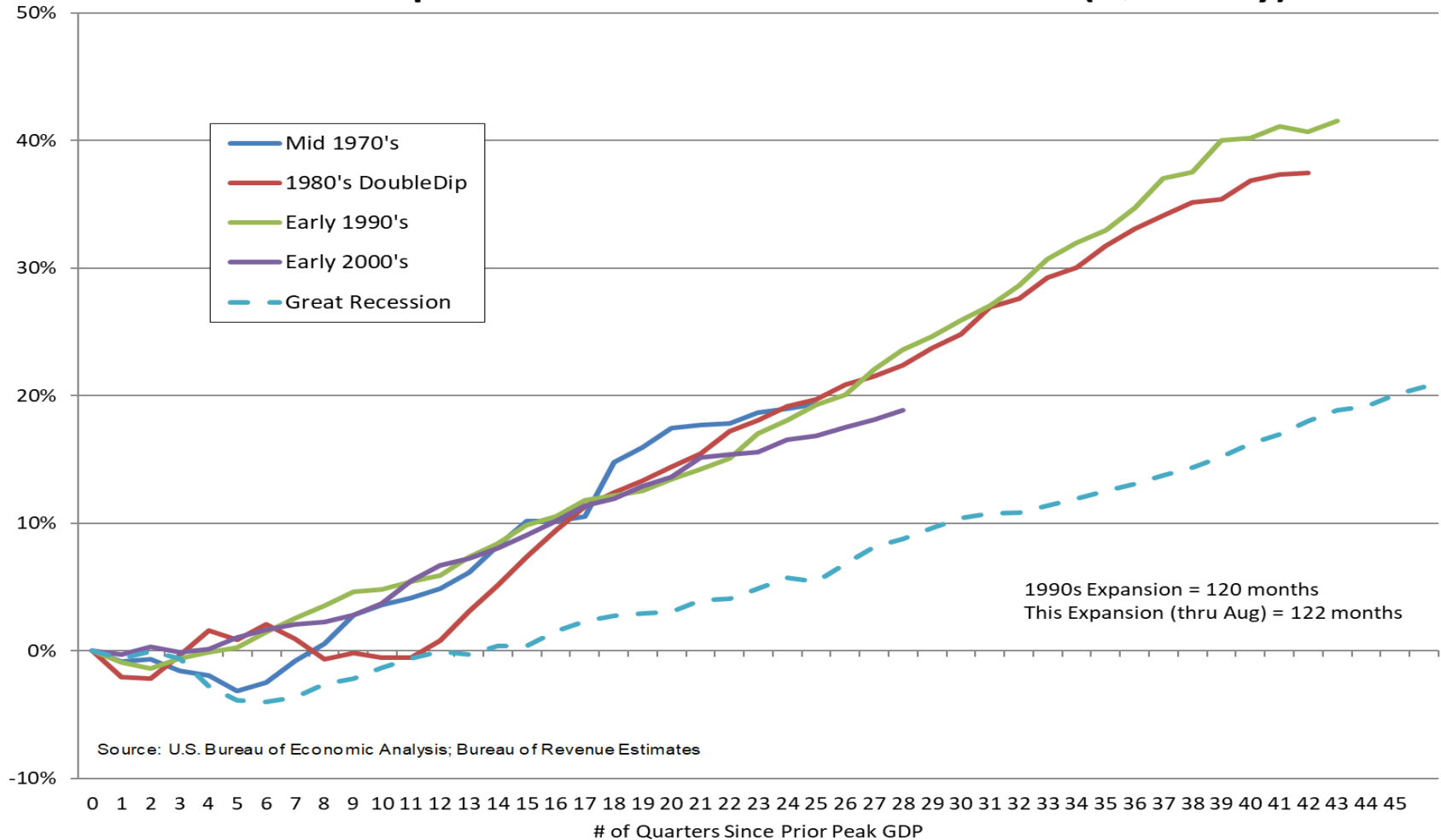
Andrew Schaufele: Director, Bureau of Revenue Estimates

Key Events

- Closeout for FY19 – finished \$217M better than estimate
- September BRE meeting (FY21 and beyond are relative to planning numbers):
 - FY 20: +\$130M
 - FY 21: +\$61M
 - FY 22: -\$83M
 - FY 23: -\$113M
 - FY 24: -\$129M
- The average expected growth rate for FY22 and beyond is ~ 3.2%
 - Was 3.6% after March estimate

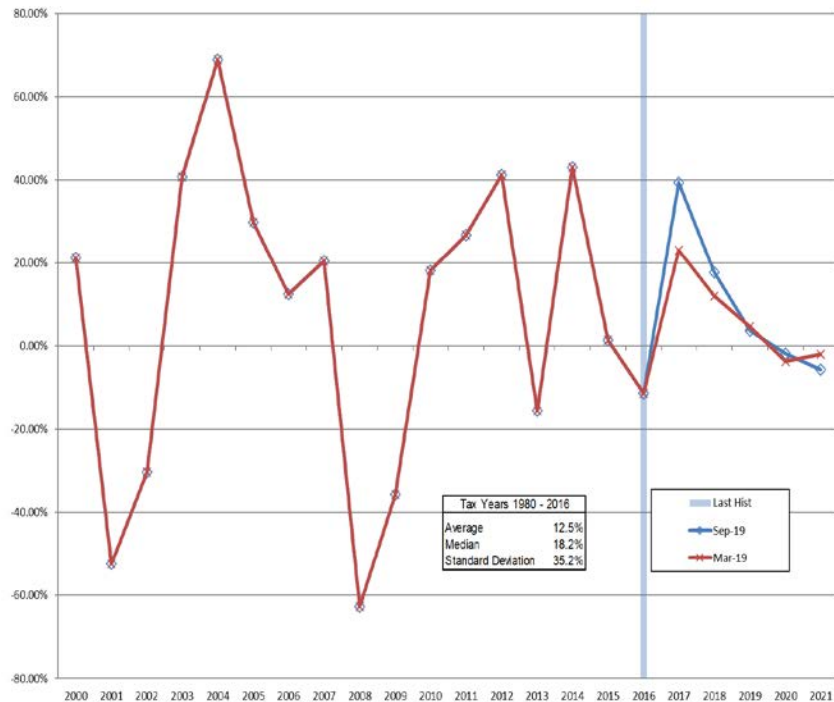
Entire Expansion Has Seen Frustratingly Slow Growth

Historical Expansions -- % of Previous Peak GDP (Quarterly)

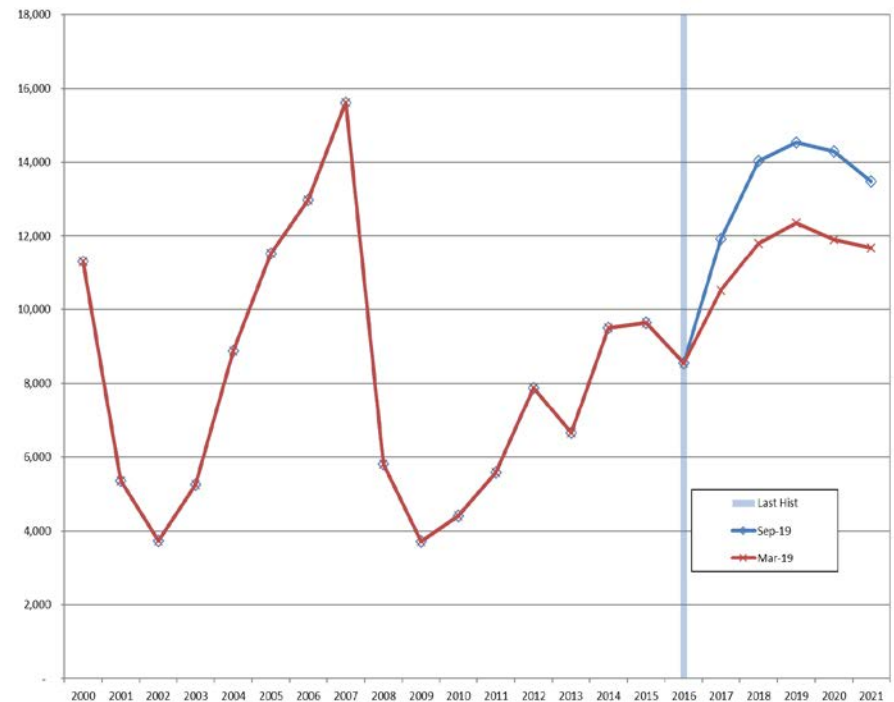


Maturing Expansion – Capital Gains

Taxable Capital Gains

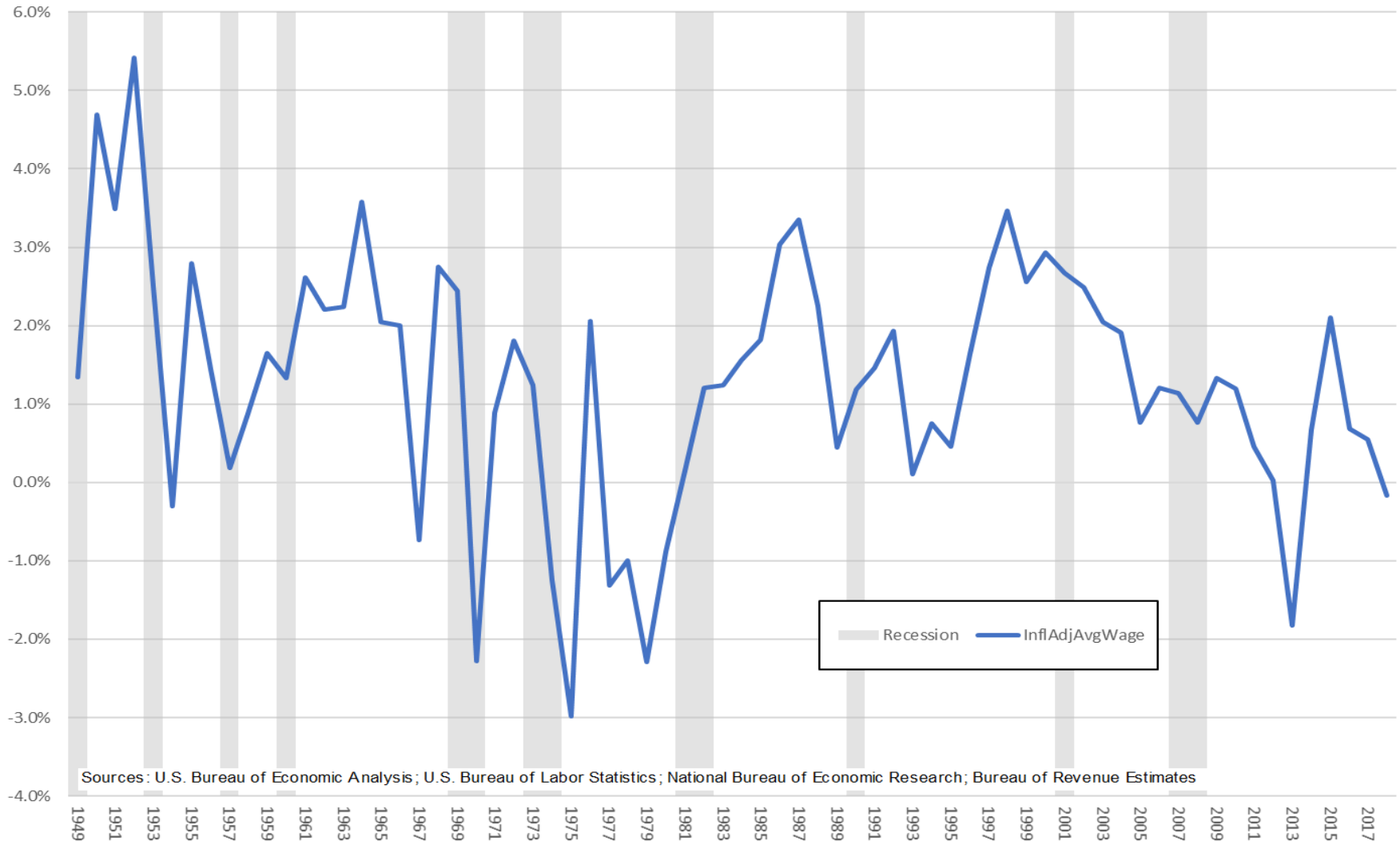


Taxable Capital Gains (\$\$\$ in Millions)

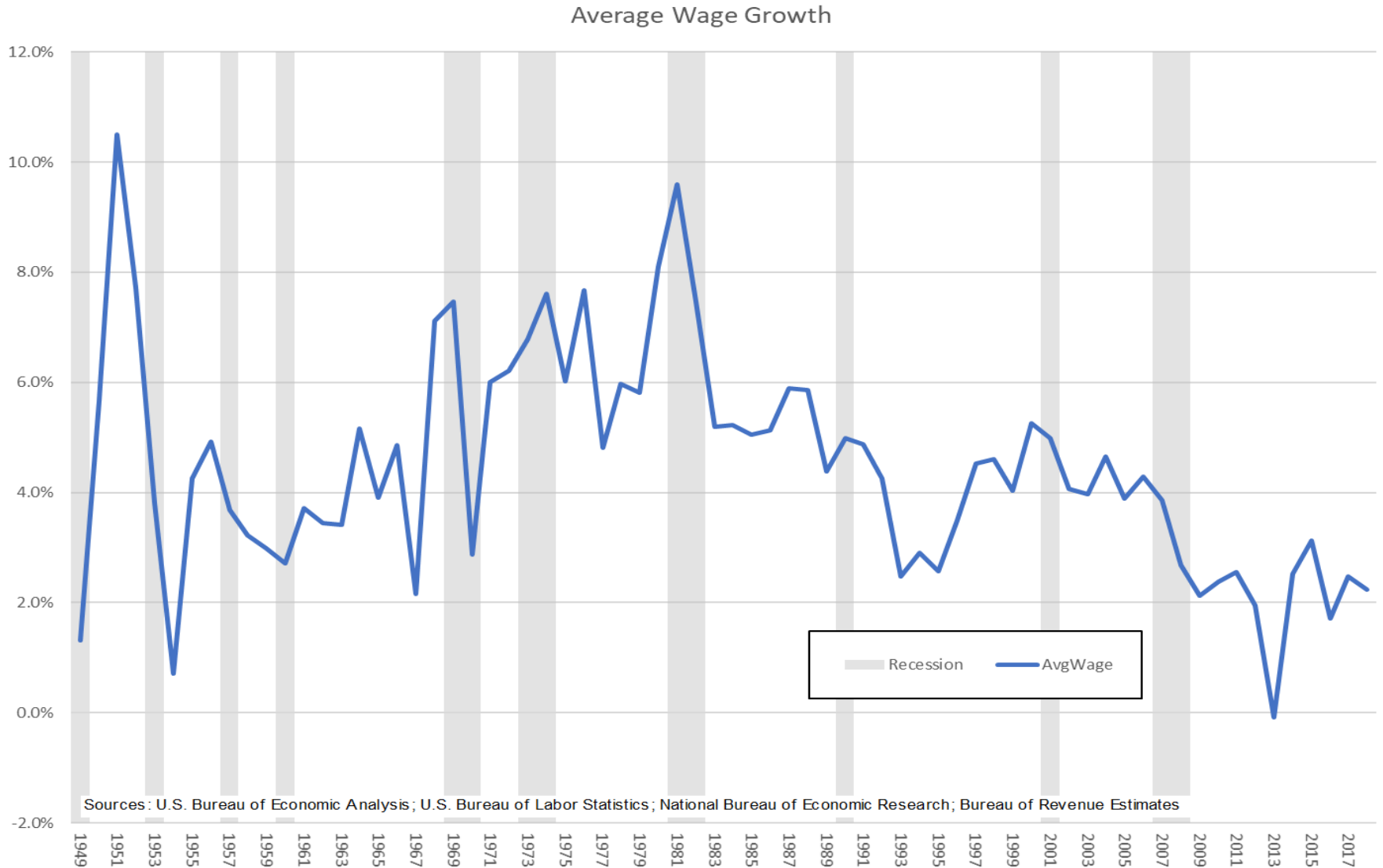


Structural Issues Impacting Key Categories

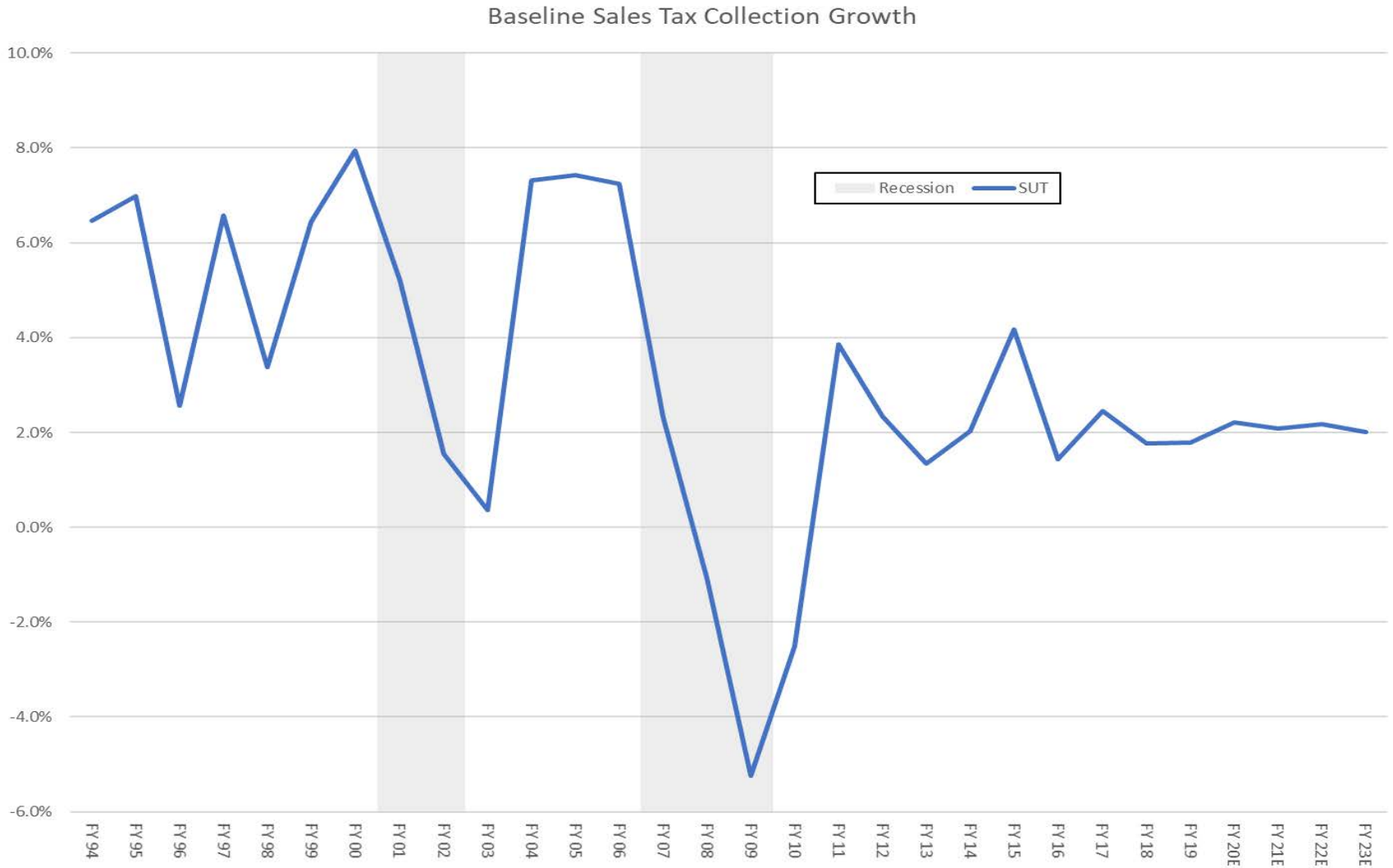
Inflation Adjusted Average Wage Growth



Structural Issues Impacting Key Categories

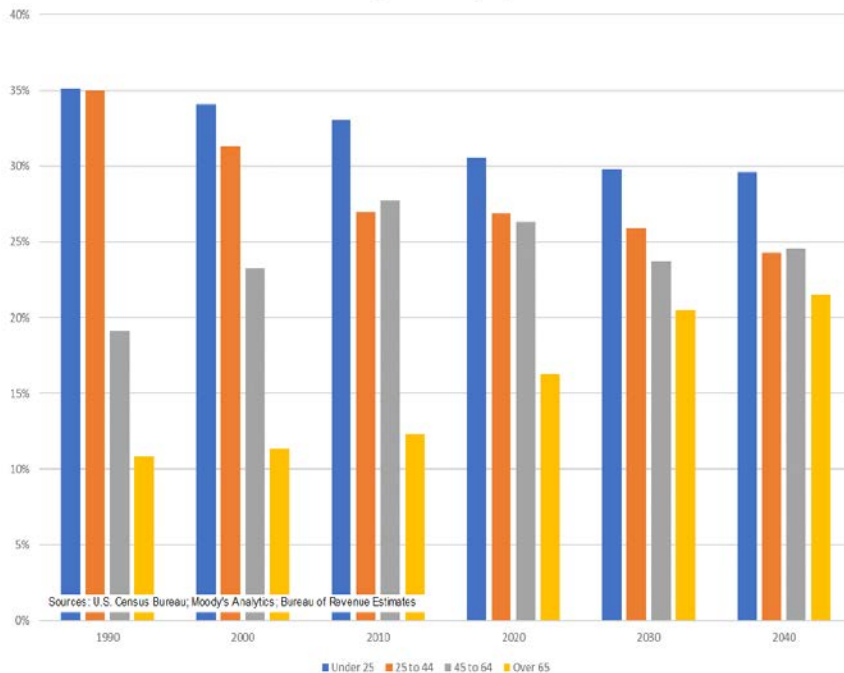


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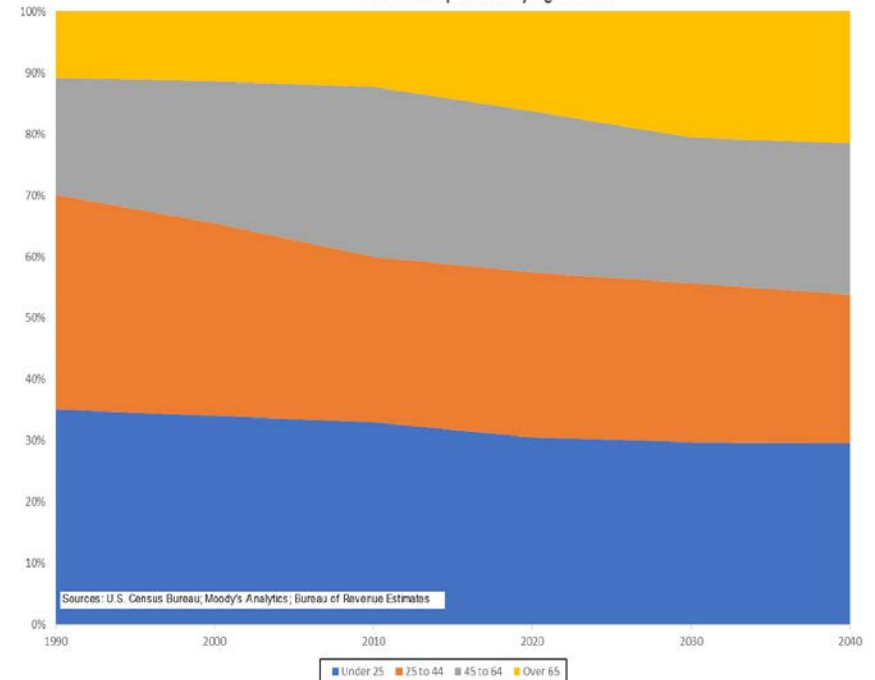


In Common – Aging Population

Share of Population By Age Cohort



Share of Population By Age Cohort



Causes

Withholding (90% of income tax and ~ 45% of GF)

- Lower productivity reducing wages (age related??)
- Job mix unfavorable to wages (top 3 industries contracted in 2018)
- Retirement churn reducing wages

Sales Tax (~25% of GF)

- Age Composition of Tax Base reducing collections
- Last major structural change to sales tax base was NEVER (enacted in 1947)
 - Lots of rate changes, lots of added exemptions, some services added
 - In 1947 “Goods” made up 61% of Consumer Expenditures
 - In 2018 “Goods” made up 31% of Consumer Expenditures
- Ameliorated by SCOTUS Wayfair decision, Comptroller response, and subsequent MGA Marketplace legislation
- Competing with Casinos

Thank You

Andrew Schaufele

Comptroller of Maryland

Director, Bureau of Revenue Estimates

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Assessable Base Estimate



Base Estimates

Capital Debt Affordability Committee – October 2, 2019

Overview

- ▶ The assessable base is provided by SDAT in November and March.
 - ▶ The November assessable base reflects the recently completed reassessment.
 - ▶ The March assessable base reflects new construction additions and appeal adjustments.
- ▶ Estimates represent the taxable assessable base.
- ▶ It is important to always remember that base estimates ARE A SNAPSHOT in time.

The Estimated Taxable Assessable Base at the State Level

For the tax year beginning July 1, 2018

Base Estimate Date: March 31, 2019

(figures expressed in thousands)

County	Real Property Full Year	Real Property Half-Year New Construction	Railroad Operating Real Property	Total Assessable Base Subject to the Real Property State Tax Rate	Loss Due to Homestead Tax Credit	State Homestead Tax Credit Percentage	Net Assessable Base Subject to the Real Property State Tax Rate	Utility Operating Real Property Subject to the Utility Property State Tax Rate
Allegany	3,587,748	3,304	15,359	3,606,411	1,011	10%	3,605,400	8,502
Anne Arundel	88,029,914	263,068	761	88,293,743	94,704	10%	88,199,039	55,292
Baltimore City	40,568,291	295,814	205,668	41,069,773	175,788	10%	40,893,985	162,620
Baltimore	83,954,951	214,381	17,667	84,186,999	60,023	10%	84,126,976	123,066
Calvert	11,923,919	26,477	0	11,950,396	1,203	10%	11,949,193	11,888
Caroline	2,526,511	9,366	0	2,535,877	972	10%	2,534,905	5,636
Carroll	19,441,203	28,693	6,687	19,476,583	2,253	10%	19,474,331	13,001
Cecil	9,835,508	25,045	6,828	9,867,381	1,458	10%	9,865,923	17,809
Charles	17,473,570	51,181	1,107	17,525,858	5,071	10%	17,520,787	35,925
Dorchester	2,746,559	3,946	0	2,750,504	968	10%	2,749,537	2,109
Frederick	30,421,016	172,306	11,023	30,604,344	9,047	10%	30,595,297	30,339
Garrett	4,342,668	8,402	925	4,351,994	1,358	10%	4,350,636	36,655
Harford	27,670,161	64,496	2,258	27,736,915	1,902	10%	27,735,012	52,419
Howard	51,362,160	195,160	18,208	51,575,528	10,792	10%	51,564,736	41,400
Kent	2,922,333	8,638	0	2,930,971	745	10%	2,930,226	2,072
Montgomery	190,572,236	230,626	10,419	190,813,281	78,195	10%	190,735,086	118,623
Prince George's	92,501,581	263,692	7,343	92,772,616	610,848	10%	92,161,768	68,118
Queen Anne's	8,162,415	21,647	0	8,184,062	3,221	10%	8,180,841	4,892
St. Mary's	12,329,803	27,965	0	12,357,768	1,319	10%	12,356,450	6,642
Somerset	1,344,908	771	4,241	1,349,919	222	10%	1,349,698	1,723
Talbot	8,360,120	11,924	0	8,372,045	1,106	10%	8,370,939	3,083
Washington	12,428,807	47,168	35,711	12,511,686	2,228	10%	12,509,458	13,522
Wicomico	6,074,629	7,685	5,372	6,087,685	4,324	10%	6,083,361	16,389
Worcester	15,483,079	35,031	448	15,518,558	6,130	10%	15,512,428	5,917
TOTAL	744,064,089	2,016,784	350,025	746,430,898	1,074,887		745,356,011	837,642

Full year column includes new construction added for the full year (July 1).

New construction is property added for partial year levy (January 1).

Utility operating real property is taxed at a different rate than other real property.

State Department of Assessments and Taxation

The Estimated Taxable Assessable Base at the State Level
For the tax year beginning July 1, 2019
Base Estimate Date: March 31, 2019
(figures expressed in thousands)

County	Real Property Full Year	Real Property Half-Year New Construction	Railroad Operating Real Property	Total Assessable Base Subject to the Real Property State Tax Rate	Loss Due to Homestead Tax Credit	State Homestead Tax Credit Percentage	Net Assessable Base Subject to the Real Property State Tax Rate	Utility Operating Real Property Subject to the Utility Property State Tax Rate
Allegany	3,617,309	750	15,420	3,633,479	1,113	10%	3,632,366	8,545
Anne Arundel	91,268,927	200,000	764	91,469,691	70,195	10%	91,399,496	55,568
Baltimore City	41,889,978	50,000	206,491	42,146,469	166,000	10%	41,980,469	163,433
Baltimore	86,741,767	115,000	17,738	86,874,505	61,271	10%	86,813,233	123,681
Calvert	12,187,708	23,900	0	12,211,608	1,507	10%	12,210,101	11,947
Caroline	2,602,796	2,250	0	2,605,046	2,177	10%	2,602,869	5,664
Carroll	20,022,901	35,000	6,714	20,064,615	3,658	10%	20,060,957	13,066
Cecil	10,142,713	50,000	6,855	10,199,568	2,446	10%	10,197,122	17,898
Charles	18,241,055	53,500	1,111	18,295,666	4,529	10%	18,291,137	36,105
Dorchester	2,794,992	1,250	0	2,796,242	1,213	10%	2,795,029	2,120
Frederick	31,868,079	87,500	11,067	31,966,646	11,404	10%	31,955,243	30,491
Garrett	4,388,719	3,400	929	4,393,048	1,103	10%	4,391,944	36,838
Harford	28,366,247	50,000	2,267	28,418,514	2,531	10%	28,415,983	52,681
Howard	53,067,616	160,000	18,281	53,245,897	13,048	10%	53,232,849	41,607
Kent	2,957,099	3,500	0	2,960,599	497	10%	2,960,102	2,082
Montgomery	194,846,643	250,000	10,461	195,107,104	68,245	10%	195,038,859	119,216
Prince George's	97,403,388	230,000	7,372	97,640,760	498,373	10%	97,142,387	68,459
Queen Anne's	8,358,313	12,500	0	8,370,813	2,684	10%	8,368,129	4,916
St. Mary's	12,575,975	28,000	0	12,603,975	1,253	10%	12,602,722	6,675
Somerset	1,352,480	1,500	4,258	1,358,238	218	10%	1,358,020	1,732
Talbot	8,469,281	8,500	0	8,477,781	2,136	10%	8,475,646	3,098
Washington	12,761,025	20,000	35,854	12,816,879	2,409	10%	12,814,470	13,590
Wicomico	6,280,835	8,500	5,393	6,304,728	3,542	10%	6,301,187	16,471
Worcester	15,893,624	10,000	450	15,904,074	4,467	10%	15,899,607	5,947
TOTAL	768,109,469	1,405,050	351,425	769,865,944	926,017		768,939,926	841,830

Full year column includes new construction added for the full year (July 1).

New construction is property added for partial year levy (January 1).

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State Department of Assessments and Taxation

The Estimated Taxable Assessable Base at the State Level
For the tax year beginning July 1, 2018
Base Estimate Date: November 30, 2018
(figures expressed in thousands)

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Allegany	3,585,248	750	15,359	3,601,357	1,003	10%	3,600,354	7,898
Anne Arundel	87,566,818	200,000	761	87,767,579	90,319	10%	87,677,261	54,764
Baltimore City	40,468,291	120,733	205,592	40,794,616	172,806	10%	40,621,810	161,823
Baltimore	83,914,951	204,235	17,234	84,136,420	58,650	10%	84,077,770	123,008
Calvert	11,922,919	23,900		11,946,819	888	10%	11,945,931	11,773
Caroline	2,526,111	2,250		2,528,361	939	10%	2,527,422	5,636
Carroll	19,411,203	35,000	6,767	19,452,970	2,140	10%	19,450,830	12,831
Cecil	9,834,508	16,000	6,828	9,857,336	1,457	10%	9,855,879	17,789
Charles	17,459,570	46,715	1,107	17,507,392	4,932	10%	17,502,460	33,894
Dorchester	2,744,809	1,750		2,746,559	1,002	10%	2,745,556	2,109
Frederick	30,401,016	87,500	11,061	30,499,577	8,611	10%	30,490,966	29,849
Garrett	4,342,568	3,900	925	4,347,393	1,298	10%	4,346,094	36,654
Harford	27,665,161	50,000	2,258	27,717,419	2,210	10%	27,715,210	52,339
Howard	51,347,160	192,864	18,208	51,558,232	10,547	10%	51,547,685	40,766
Kent	2,920,333	3,050		2,923,383	676	10%	2,922,707	2,072
Montgomery	190,272,236	290,264	10,419	190,572,919	76,397	10%	190,496,523	118,530
Prince George's	92,226,581	229,779	7,343	92,463,703	601,016	10%	91,862,687	67,561
Queen Anne's	8,160,738	12,500		8,173,238	2,932	10%	8,170,306	4,892
St. Mary's	12,329,103	26,000		12,355,103	1,294	10%	12,353,809	6,642
Somerset	1,344,708	1,250	3,686	1,349,644	222	10%	1,349,422	1,700
Talbot	8,359,370	8,500		8,367,870	1,135	10%	8,366,735	3,087
Washington	12,406,807	22,500	35,686	12,464,993	2,205	10%	12,462,788	12,940
Wicomico	6,070,829	7,500	5,631	6,083,960	4,220	10%	6,079,740	16,306
Worcester	15,479,079	22,500	411	15,501,990	5,846	10%	15,496,144	5,917
TOTAL	742,760,116	1,609,441	349,276	744,718,833	1,052,743		743,666,090	830,780

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Allegany	3,623,600	750	15,436	3,639,786	694	10%	3,639,092	7,977
Anne Arundel	90,400,000	200,000	765	90,600,765	39,440	10%	90,561,325	55,312
Baltimore City	41,595,215	50,000	206,620	41,851,835	127,926	10%	41,723,909	163,441
Baltimore	86,609,930	115,000	17,320	86,742,250	35,367	10%	86,706,883	124,238
Calvert	12,162,397	23,900		12,186,297	666	10%	12,185,632	11,891
Caroline	2,588,306	2,250		2,590,556	1,138	10%	2,589,417	5,692
Carroll	19,888,653	35,000	6,801	19,930,454	1,902	10%	19,928,552	12,959
Cecil	10,088,835	50,000	6,862	10,145,697	1,592	10%	10,144,105	17,967
Charles	18,262,000	53,500	1,113	18,316,613	1,741	10%	18,314,872	34,233
Dorchester	2,768,000	1,250		2,769,250	780	10%	2,768,470	2,130
Frederick	31,343,767	87,500	11,116	31,442,383	6,519	10%	31,435,864	30,147
Garrett	4,381,704	3,400	930	4,386,034	694	10%	4,385,340	37,021
Harford	28,000,000	50,000	2,269	28,052,269	1,784	10%	28,050,485	52,862
Howard	52,632,669	160,000	18,299	52,810,968	6,931	10%	52,804,037	41,174
Kent	2,943,259	3,500		2,946,759	266	10%	2,946,493	2,093
Montgomery	196,699,236	250,000	10,471	196,959,707	47,253	10%	196,912,454	119,715
Prince George's	96,962,810	230,000	7,380	97,200,190	379,921	10%	96,820,269	68,237
Queen Anne's	8,255,535	12,500		8,268,035	1,222	10%	8,266,812	4,941
St. Mary's	12,381,103	28,000		12,409,103	897	10%	12,408,206	6,708
Somerset	1,349,855	1,500	3,704	1,355,059	145	10%	1,354,914	1,717
Talbot	8,439,346	8,500		8,447,846	1,150	10%	8,446,696	3,118
Washington	12,634,224	20,000	35,864	12,690,088	1,598	10%	12,688,490	13,069
Wicomico	6,286,000	8,500	5,659	6,300,159	2,063	10%	6,298,096	16,469
Worcester	15,929,572	10,000	413	15,939,985	3,000	10%	15,936,984	5,976
TOTAL	766,226,014	1,405,050	351,022	767,982,086	664,690		767,317,396	839,087

Full year column includes new construction added for the full year (July 1).

New construction is property added for partial year levy (January 1).

Utility operating real property is taxed at a different rate than other real property.

State Department of Assessments and Taxation

**Taxable Assessable Base Projections
at the State Level**

	FY2019	FY2020	FY2021	FY2022
	7/1/2018	7/1/2019	7/1/2020	7/1/2021
Real Property Base	746,080,873	769,514,519	787,861,053	800,000,000
Operating Real Property Railroads	350,025	351,425	351,000	351,000
Less: Homestead Credit	1,074,887	926,017	1,038,914	1,038,914
Base Subject to Real Property Rate	745,356,011	768,939,927	787,173,139	799,312,086
Operating Real Property Public Utilities (Subject to Separate Tax Rate)	837,642	841,830	844,000	846,000

All figures expressed in thousands

Estimate date: March 31, 2019



Questions

Capital Program



Review of the Capital Improvement Program

*Presentation to
Capital Debt Affordability Committee*

by

*Teresa Garraty
Maryland Department of Budget & Management
October 2, 2019*

Presentation Summary

- Expanded debt capacity – increasing debt authorization level to the Spending Affordability Committee (SAC) Levels
 - The Governor's CIP aligns with SAC's higher level of bond authorizations
- Summary of FY 2021 – FY 2025 Capital Budget Requests

FY 2020 – FY 2024 CIP Based on Spending Affordability Committee (SAC) Limits

- The Governor's FY 2020 CIP and out-year planning levels are based on the SAC 2018 Recommendation
 - FY 2021- \$1.095 billion
 - FY 2022 - \$1.105 billion
 - FY 2023 - \$1.115 billion
 - FY2024 - \$1.125 billion
 - FY 2025 - \$1.135 billion

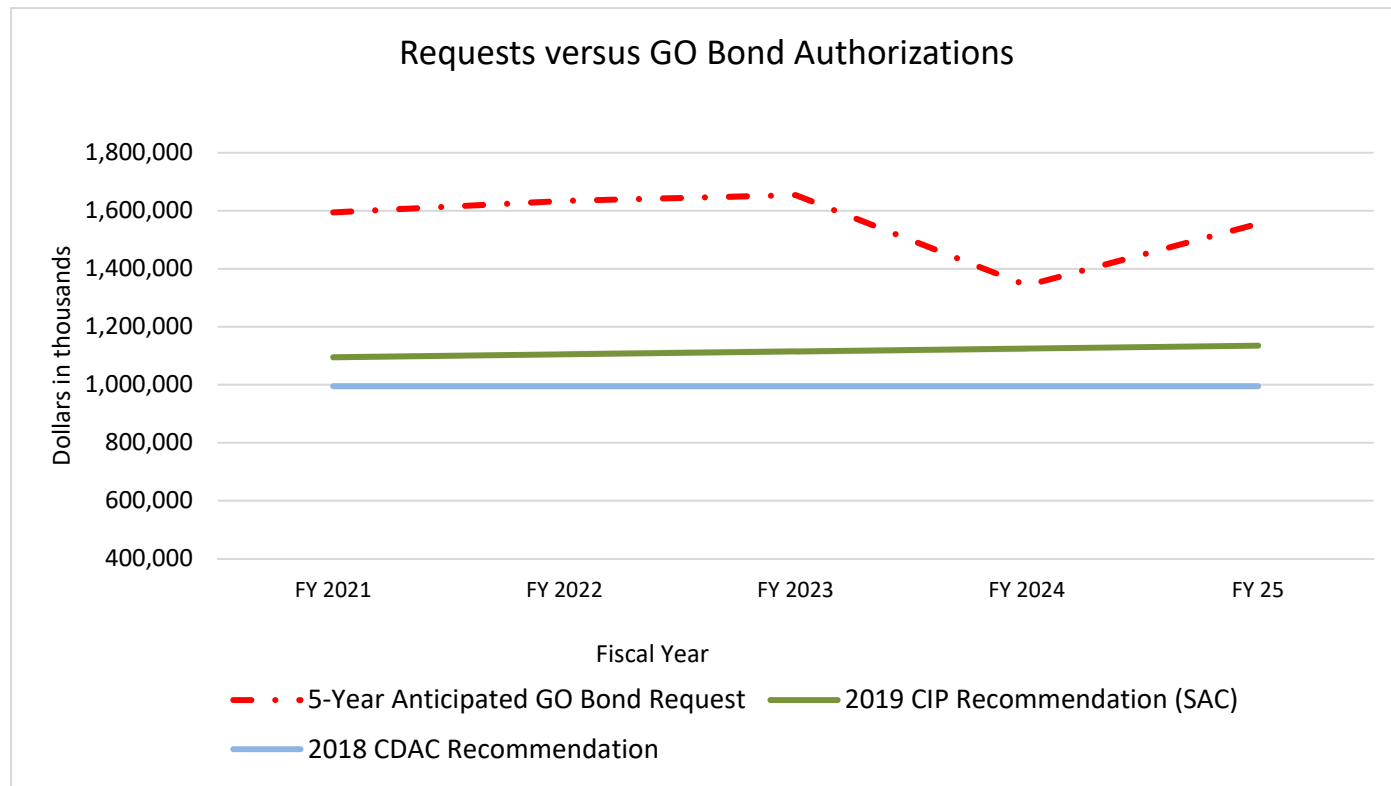


Governor's CIP added \$550 million in necessary projects from FY 2020 -2024

The higher level of funding was used to:

- Focus on State Facilities Renewal
 - Increased the DGS Statewide Facilities Renewal Program to an all time record high of \$34.4 m, with a total of \$135 m in the CIP
 - Added \$104 m in the CIP for Facilities Renewal Programs for multiple Higher Education Institutions
 - An additional \$260 m provided to renovate or replace State facilities
- Provide Funding for Rural Broadband Infrastructure
- Increase Funding for Community Colleges
- Add funding for DHCD Programs such as Strategic Demolition (\$41.35 m), and Rental Housing Programs (\$113 m)
- Add funding for MDE Flood Management Program

Requested Versus Planned GO Bond Levels





DEPARTMENT OF
BUDGET & MANAGEMENT

Summary of Capital Budget Requests by Fiscal Year
FY 2021 – FY 2025
(\$ in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Totals
State-Owned Facilities	508	655	712	628	819	3,322
Capital Grant Programs	1,043	938	901	674	696	4,252
Legislative Initiatives	43	41	41	41	41	207
Estimated Request Total	1,594	1,634	1,654	1,343	1,556	7,781
CIP Debt Limit	1,095	1,105	1,115	1,125	1,135	5,575
CIP Oversubscription	499	529	539	218	421	2,206
Oversubscribed by	145.57%	147.87%	148.34%	119.38%	137.09%	139.57%

Request Costs Could Increase

- The cost of all of the requests reported could increase due to two factors:
 - The State is experiencing higher construction costs due to a tight bid climate in the construction industry.
 - Construction cost escalation is especially acute in the outlying areas of the State.



Major Sources of Funding Demand (\$ in Millions)

State-owned Facilities

➤ University System of Maryland	\$1,067
➤ Correctional Facilities	\$ 670
➤ Morgan State University	\$ 467
➤ Judiciary	\$ 140

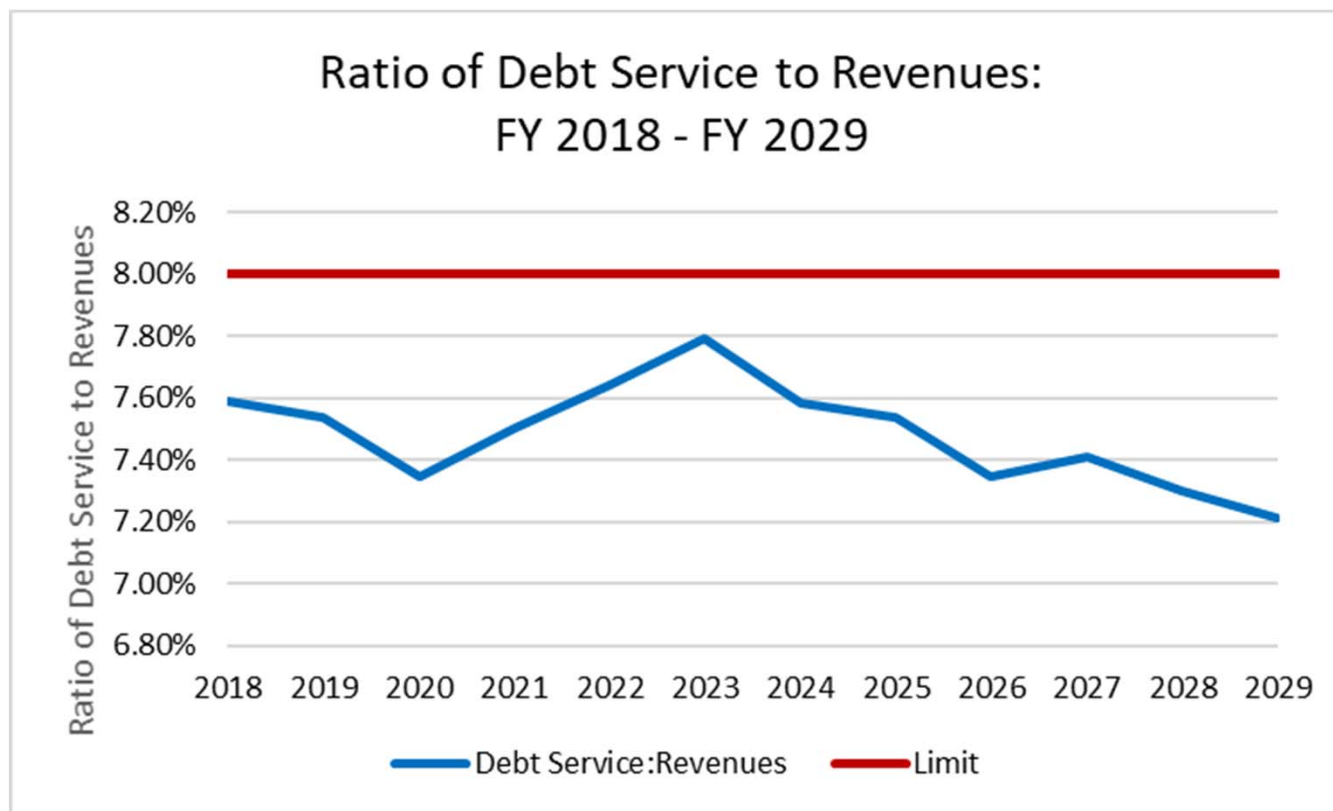
Capital Grant Programs

➤ Public School Construction	\$2,359
➤ Housing	\$ 680
➤ Community Colleges	\$ 517
➤ Environmental Programs	\$ 249
➤ UMMS	\$ 143

Summary of Governor Hogan's Planned Capital Improvement Program
FY 2021 – FY 2025
(\$ in Millions)

	Total Current and Anticipated Requests	Governor Hogan's Planned Bond Funded Capital Program	Difference between Anticipated Requests and Gov's Planned Funding Level
State-Owned Facilities	3,322	2,515	807
Capital Grant Programs	4,252	3,060	1,192
Legislative Initiatives	207	0	207
Totals	7,781	5,575	2,206

The Planned CIP Debt Levels Remain Under CDAC Debt Limits



Public School Construction Program

INTERAGENCY COMMISSION ON SCHOOL CONSTRUCTION REPORT TO THE CAPITAL DEBT AFFORDABILITY COMMITTEE



**Honeygo Elementary School, Baltimore County
Completed for School Year 2018-2019**

Robert Gorrell, Executive Director
Kim Spivey, Director of Fiscal Services

Capital Grant Programs as administered by the Interagency Commission on School Construction

Presentation Overview

- Public School Facilities Quick Facts
- Affordable and Educationally Sufficient Schools
- Capital Funding and the Capital Need
- Construction Cost Escalation Factors
- IAC Construction Cost
- 21st Century School Facilities Act (HB 1783)
- FY 2021 Capital Improvement Program Request

Public School Facilities Quick Facts

- Number of students – 863,071
- Number of schools – 1,383
- Square feet (SF) within schools – 140,056,687
- Average gross square feet (GSF) per student – 162 (157 FY 19)
- **Replacement Value – \$54.9 B (@ \$391 GSF with Site Cost)**
- Annualized Replacement Value (ARV or \$54.8B/50 years) – \$1.095 billion
- Average age of GSF 30 years (down 6 years since 2005)

**A Portfolio-Management
Approach**



Measuring the Needs



**Engaging the Support of the
Public**

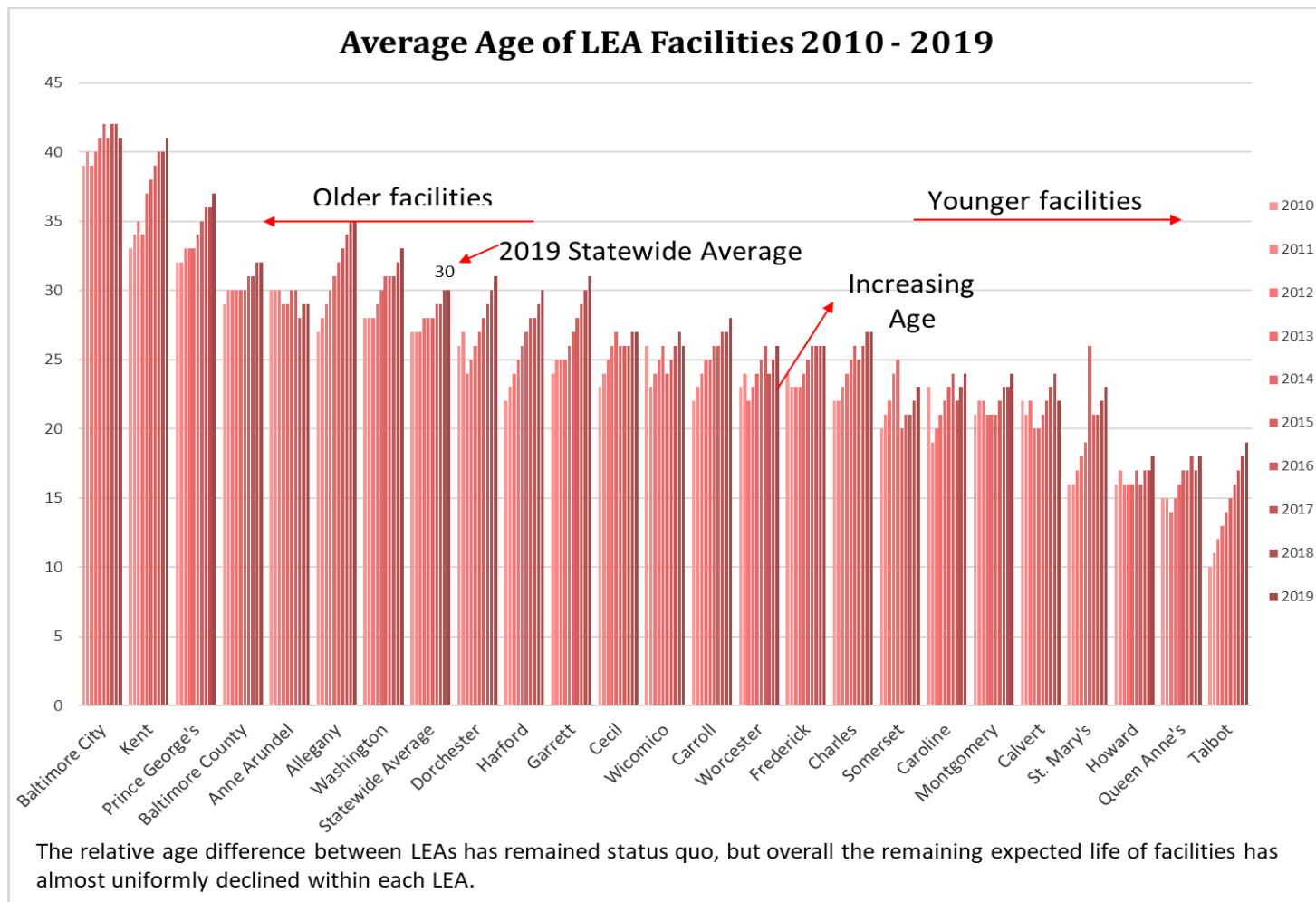


**Maximizing the Return on All
Investments**



**Affordable
and
Educationally
Sufficient
Schools**

Current Condition of Maryland's Portfolio



Capital Funding and the Capital Need

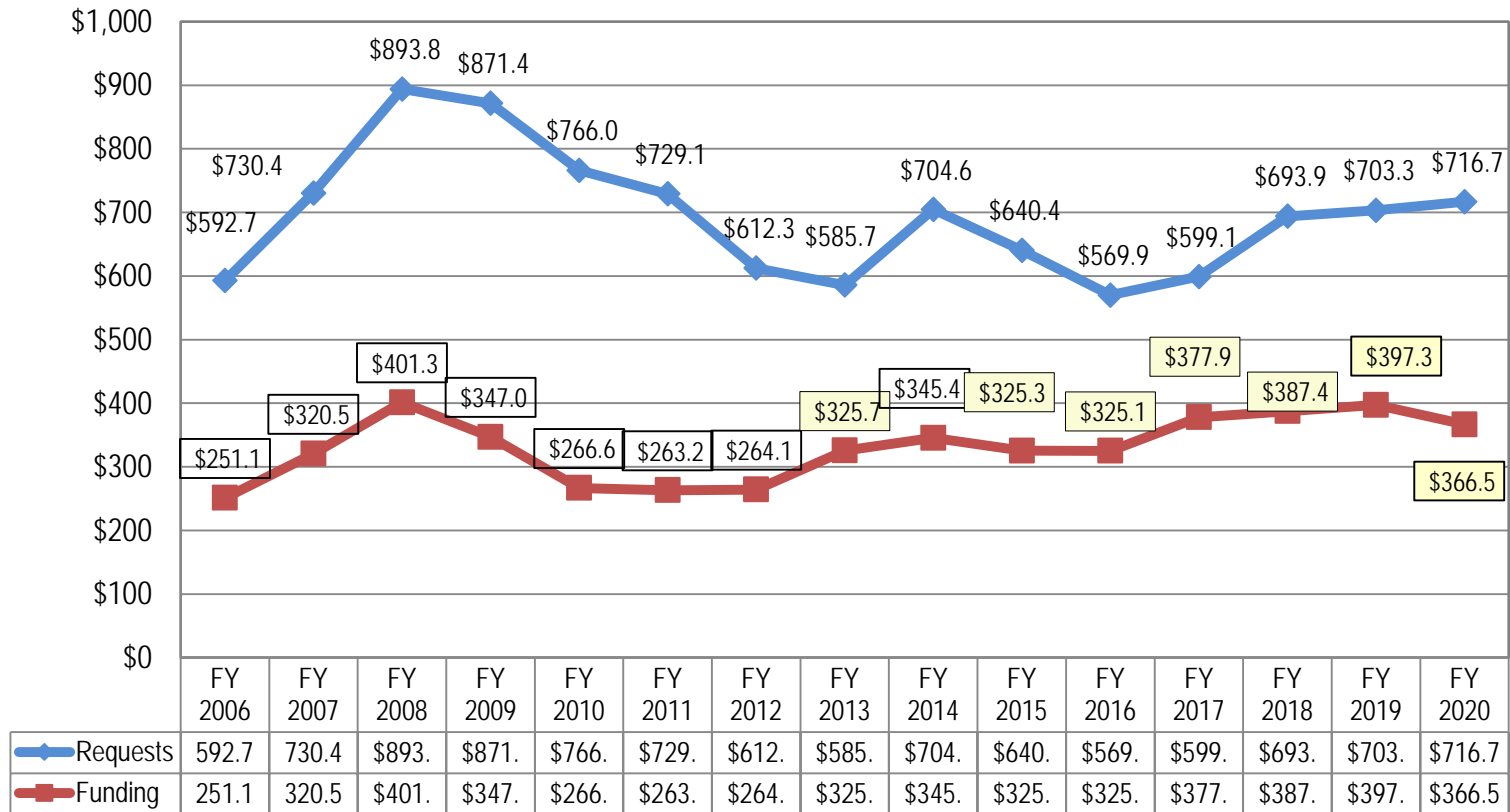
- Since FY 2006, the State of Maryland has allocated an average of \$304 million of new funding each fiscal year to public school construction through the capital improvement program.
- The Kopp Commission recommended an annual State funding goal of \$250 million. If this goal were adjusted at 3% inflation, the amount today would be \$389 million.
- The goal of \$345 million included in the 21st Century School Facilities Act has been met for FY 2019 & FY 2020.
- The available funds by source are shown in the chart below.

FY	Bond	EGRC	HSFF	Paygo	Contingency Reserves	Total CIP Allocations	% CIP Allocation from Bonds	% CIP Allocation from Paygo	% CIP Allocation from Contingency Reserves
FY 2006	234,400			2,400	15,000	251,800	93.09%	0.95%	5.96%
FY 2007	300,669			2,400	19,603	322,672	93.18%	0.74%	6.08%
FY 2008	385,800			2,400	13,628	401,828	96.01%	0.60%	3.39%
FY 2009	327,400				19,582	346,982	94.36%	0.00%	5.64%
FY 2010	260,000				6,653	266,653	97.50%	0.00%	2.50%
FY 2011	250,000				13,724	263,724	94.80%	0.00%	5.20%
FY 2012	240,344				23,739	264,083	91.01%	0.00%	8.99%
FY 2013	326,393				22,775	349,168	93.48%	0.00%	6.52%
FY 2014	300,000				21,876	321,876	93.20%	0.00%	6.80%
FY 2015	275,000				50,255	325,255	84.55%	0.00%	15.45%
FY 2016	280,000	20,000			38,189	338,189	88.71%	0.00%	11.29%
FY 2017	280,000	40,000			44,993	364,993	87.67%	0.00%	12.33%
FY 2018	280,000	62,500			44,900	387,400	88.41%	0.00%	11.59%
FY 2019	313,900	68,200			18,322	400,422	95.42%	0.00%	4.58%
FY 2020	251,800	68,200	30,000		50,133	400,133	79.97%	7.50%	12.53%
Totals	4,305,706	258,900	30,000	7,200	403,372	5,005,178	91.20%	0.74%	8.06%

EGRC – Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms. Six LEAs were eligible for these funds in FY 16 and FY 17. Five LEAs were eligible in FY 18, FY 19 and FY 20.

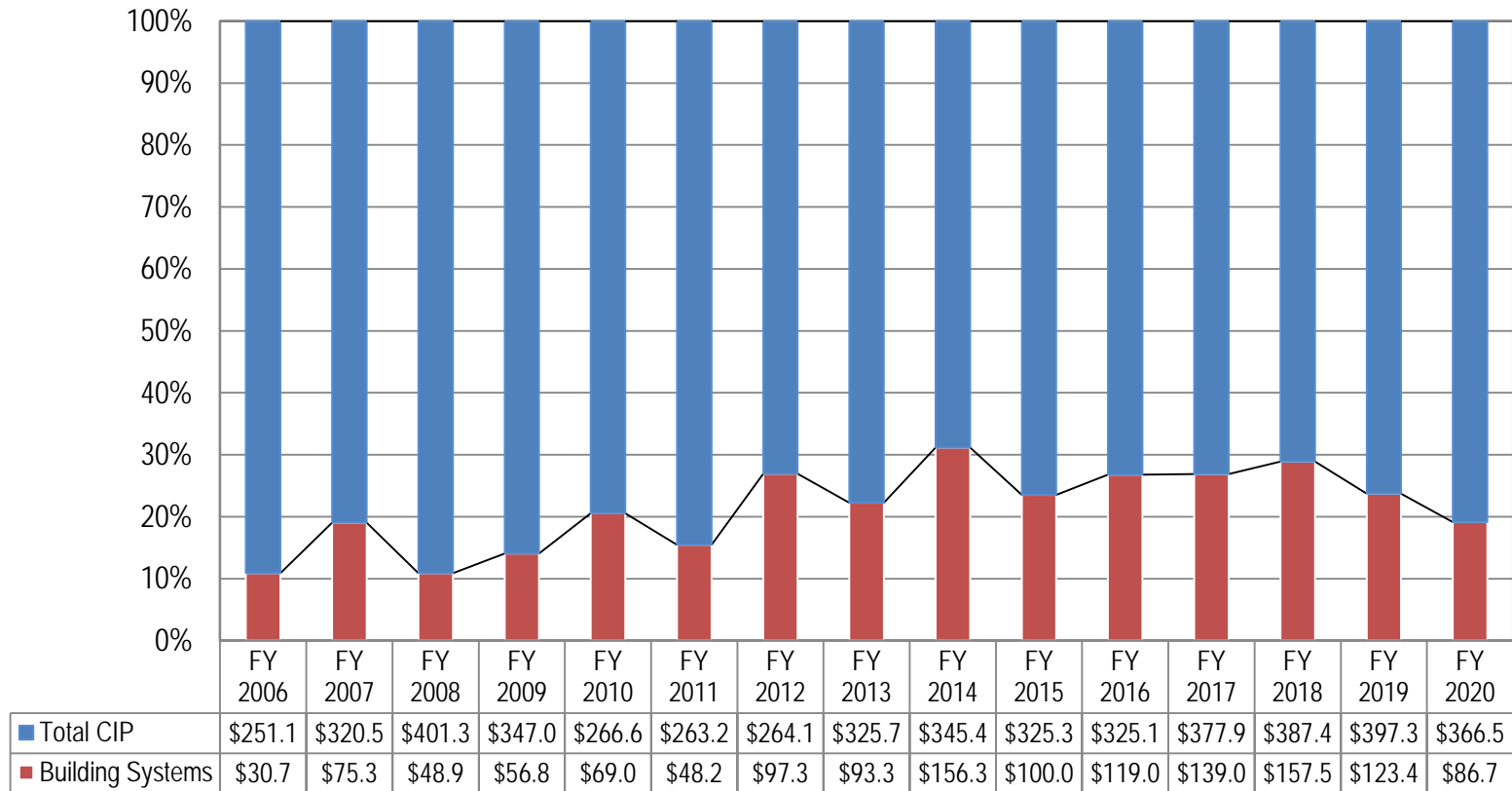
HSFF – Healthy Schools Facility Fund

Summary of Annual Capital Improvement Program LEA Funding Requests and State Funding by Fiscal Year FY 2006 – FY 2020 (\$ in Millions)



- CIP requests represent only a partial picture of the capital needs of the local school systems. The 21st Century School Facilities Act has established a goal of \$400 million, as soon as practicable or to be phased in over several years if fiscal constraints prevent the State from fully funding this goal.
- Shown in the chart above are the annual funding requests from the LEAs and the amount of State funding allocated in the last 13 years. State funding allocations have exceeded 50% of the local requests in only seven of the last 15 years (FY 2013, 2015, 2016, 2017, 2018, 2019 and 2020).

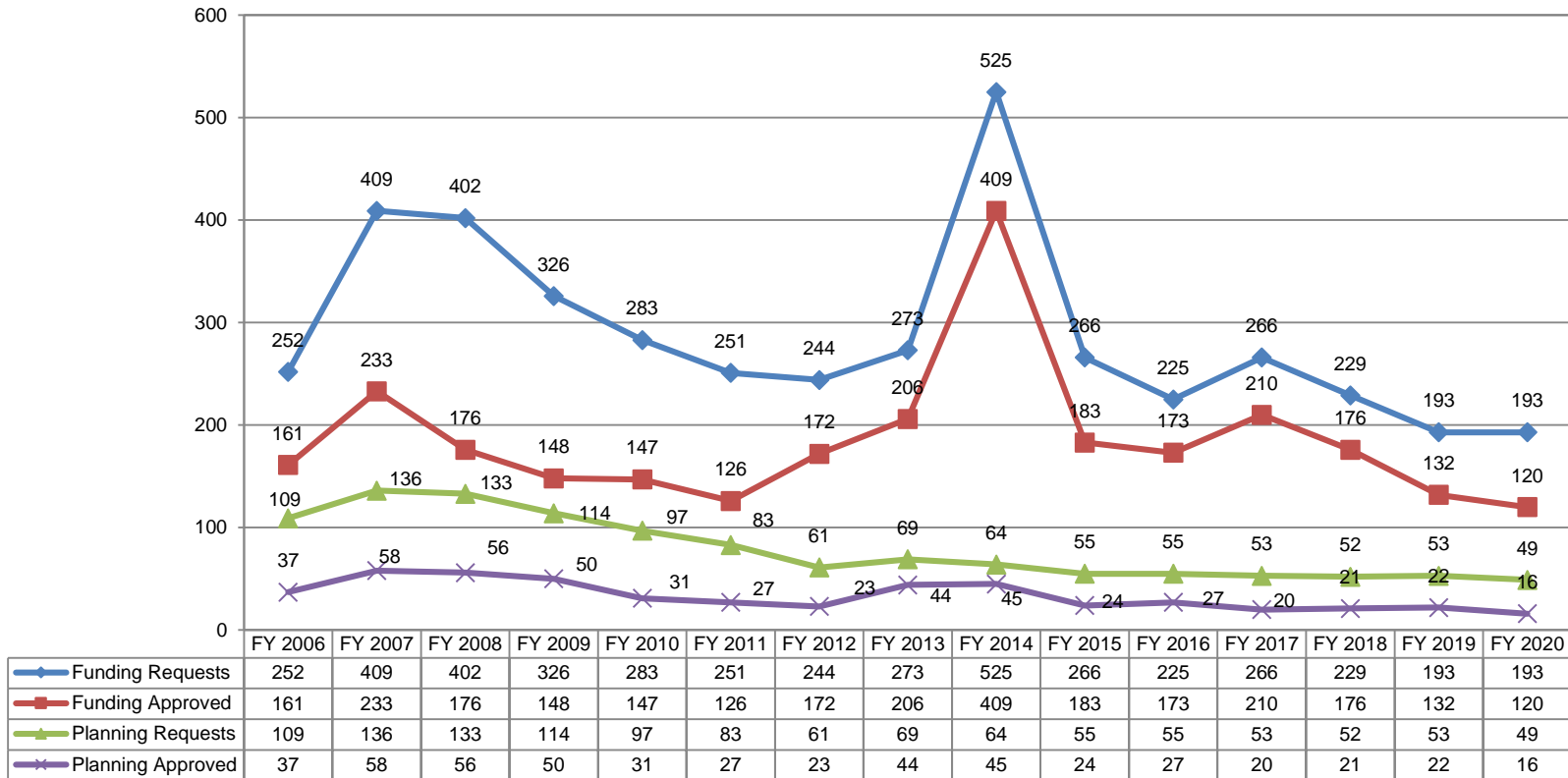
**Percentage of Building Systems Funding by Fiscal Year
FY 2006 – FY 2020
(\$ in Millions)**



Of the \$4.96 billion allocated in FY 2006-FY 2020:

- \$3.5 billion or 71% for major construction projects
- \$1.4 billion or 28% has been allocated to building system projects
- Less than 1 % was allocated to other purposes.

Number of Capital Improvement Program Planning and Funding Requests and Approvals by Fiscal Year FY 2006 – FY 2020



- Figures for FY 2014 include: 259 requests and 227 approved projects for the FY 2013 Energy Efficiency Initiative (EEI), and 20 requests and 19 approved projects for the FY 2014 Air Conditioning Initiative (ACI).

Capital Grant Program for Local School Systems with Significant Enrollment Growth or Relocatable Classrooms (EGRC)

- The eligible LEAs are determined based on one or both of the following factors:
 1. Significant Enrollment Growth: Full-Time Equivalent (FTE) enrollment growth has exceeded 150% of the Statewide Average over the past five years; or,
 2. Significant Number of Relocatable Classrooms: An average of more than 300 Relocatable classrooms in a local school system over the past 5 years.
- The FY 2021 CIP EGRC Funding Allocations distributions are in proportion to the system's share of the total Full-Time Equivalent (FTE) enrollment for the eligible LEAs as of September 30, 2018.

LEA	5-Year Change	9/30/2017 Total Enrollment	% Total Enrollment	Allocation (Rounded)
Statewide 2.5% 5-Year Change @ 150%	3.7%			
Anne Arundel	4.6%	80,860	17.22%	\$6,890,000
Caroline	4.2%	5,515	1.17%	\$470,000
Frederick	4.2%	41,329	8.80%	\$3,522,000
Howard	7.5%	56,405	12.02%	\$4,806,000
Montgomery	5.2%	157,949	33.65%	\$13,459,000
Prince George's	4.7%	127,376	27.13%	\$10,853,000
Total		469,434	100%	\$40,000,000

The Full-Time Equivalent enrollment is determined by the Maryland State Department of Education (MSDE) Office of Finance and Administration and published annually within the Foundation Program for the Major State Aid Programs.

Construction Cost Escalation

➤ **Construction Cost FY 2014 to FY 2021**

- For FY14 through FY16 the IAC used the DBM construction escalation factor of **4% each** per year. To this calculation, for new construction, **12%** was added for site development.
- A **17%** adjustment was added for FY17 that brought site development to 19% and total project cost in line with 2016 bid results.
- The FY20 CIP was adjusted by 5% over FY19 or **\$378**. A 4% escalation was utilized plus 1% to compensate for the elimination of the 2.5% State contingency for change orders. Site development at 19% is included.
- Studying historic trends over the last 20 years, construction has increased 1-1.5% over the US Cost and Pricing Index (CPI).
- The IAC will continue to study market trends. If the trends indicate a need for a change in the cost/square foot number used for FY 2021, then a revised number will be issued.

Bid Date	Building only	Construction with Site	% of change from Prior Year
2013 (FY 2014)	\$215.00	\$240.80	4%
2014 (FY 2015)	\$224.00	\$250.88	4%
2015 (FY 2016)	\$233.00	\$260.96	4%
2016 (FY 2017)	\$282.00	\$335.58	21%
2017 (FY 2018)	\$293.00	\$348.67	4%
2018 (FY 2019)	\$302.00	\$359.38	3%
2019 (FY 2020)	\$318.00	\$378.42	5%
2020 (FY 2021)	\$329.00	\$391.51	3%

IAC Construction Cost Figure

- The IAC construction cost figure per square foot is a factor used in the calculation to determine state participation in an eligible project and is uniformly applied to all LEAs regardless of actual construction cost.
- Costs not included in the figure and not eligible for state share funding are early planning, design, and the furniture, fixtures, and equipment (FF&E) required in all schools. The actual gross square foot cost that the State participates can be lower than the calculated figure.
- This figure is of particular importance to less-wealthy jurisdictions that depend heavily on State funding. If the State allocation is short a project or projects may not proceed.
- Bidders do not set their costs artificially based on the State's number, but rather on a complex set of factors that include competitively bid materials, profits, and sometimes components of labor. Bidders also assess risks such as the quality of bid documents and prompt payment.
- If a project bids below budget, excess State funds will be returned to that LEA's account to be used within two years. Projects may use available appropriation funds for other eligible projects in the CIP that were partially funded, deferred due to fiscal constraints, or these funds may be held in reserve for the next fiscal year's CIP requests.

21st Century School Facilities Act

(HB1783, 2018 Md. Laws, Chap. 14)

- Requires the adoption of sufficiency standards to establish the minimum acceptable condition of school facilities;
- Requires the IAC to conduct an initial and then ongoing statewide facilities assessments, measuring all school facilities against the adopted sufficiency standards;
- Requires the IAC to house and distribute technical expertise and best practices on school construction;
- Requires that the IAC streamline processes by utilizing technology, which will be accomplished through the development of a business process management system;
- Creates workgroups to study existing IAC processes and policies and to consider whether and how information provided by the statewide assessment should be used to determine future school construction funding allocations. For more information and to follow the activities of the Workgroups refer to:

Educational Development Specification Workgroup

<http://iac.maryland.gov/Workgroups/EDSW/EDSWindex.cfm>

Assessment and Funding Workgroup

<http://iac.maryland.gov/Workgroups/FundingWG/FundWGindex.cfm>

LEA CIP Projections, FY 2020 – 2025: \$4 Billion

The estimated **FY 2020 – FY 2025 CIP** projected State funding requests based upon LEA estimates is \$2.6 billion, or an average of \$436 million per year. This would equate to a total construction value of about \$4 billion.

LEA	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	TOTAL
Allegany	3,034	-	-	-	-	-	3,034
Anne Arundel	54,031	46,764	59,680	45,881	34,543	59,862	300,761
Baltimore County	165,515	94,897	17,250	128,850	27,416	-	433,928
Calvert	2,367	3,372	13,873	5,384	14,104	7,073	46,173
Caroline	13,845	13,845	7,867	6,210	13,452	11,371	66,590
Carroll	8,849	-	-	-	-	-	8,849
Cecil	4,000	-	-	-	-	-	4,000
Charles	38,815	33,914	28,841	31,165	19,395	3,165	155,295
Dorchester	4,403	2,720	6,434	10,309	5,788	-	29,654
Frederick	22,643	19,500	19,927	17,246	4,283	-	83,599
Garrett	1,965	-	-	-	-	-	1,965
Harford	13,546	20,162	15,102	15,066	44,143	52,553	160,572
Howard	16,116	49,051	73,255	43,743	30,362	41,314	253,841
Kent	1,541	2,371	1,947	-	-	-	5,859
Montgomery	115,421	32,252	40,905	4,222	-	-	192,800
Prince George's	79,721	67,943	76,371	60,666	21,673	-	306,374
Queen Anne's	673	2,056	11,479	9,970	575	344	25,097
St. Mary's	8,613	2,296	5,099	2,516	2,248	3,307	24,079
Somerset	3,161	-	8,226	9,462	6,837	-	27,686
Talbot	12,707	-	1,936	400	477	-	15,520
Washington	13,678	7,867	13,211	12,722	21,624	18,550	87,652
Wicomico	14,167	9,000	8,316	-	-	-	31,483
Worcester	4,336	1,232	2,418	1,631	831	6,728	17,176
Baltimore City	97,239	62,769	56,404	48,092	14,140	39,487	318,131
Maryland School for the Blind	16,339	-	-	-	-	-	16,339
TOTAL STATE	716,725	472,011	468,541	453,535	261,891	243,754	2,616,457
TOTAL ADJUSTED STATE	716,725	490,891	506,774	510,165	306,375	296,564	2,827,495

TOTAL STATE: Estimated based on FY 2020 requests with no adjustment for inflation.

TOTAL ADJUSTED STATE: Adjusted for inflation based on FY 2020 requests compounded at 4 percent per year.

FY 2021 Capital Improvement Program Request

The enacted capital budget for FY 2020 consisted of a school construction budget of \$320 million in GO Bonds for the FY 2020 Capital Improvement Program and \$43.5 million from General Funds. The IAC FY 2021 capital request is consistent with the Governor's proposed budget and includes funding for the CIP, ASP, EGRC, NPASP, HSFF, SSGP, the Revolving Loan Fund and Building Opportunity Fund.

FY 2021 Capital Requests

The IAC requests the following allocations in the **FY 2021 Capital Budget**:

<i>Target FY 2021 CIP Allocation:</i>	<i>\$340,000,000</i>
<i>Target FY 2021 Building Opportunity Fund*:</i>	<i>\$280,000,000</i>
<i>Target FY 2021 CIP EGRC Allocation:</i>	<i>\$40,000,000</i>
<i>Target FY 2021 ASP Allocation:</i>	<i>\$6,109,000</i>
<i>Target FY 2021 Non-Public ASP Allocation:</i>	<i>\$3,500,000</i>
<i>Target FY 2021 Revolving Loan Fund:</i>	<i>\$20,000,000</i>
<i>Target FY 2021 Healthy School Facility Fund:</i>	<i>\$30,000,000</i>
<i>Target FY 2021 Safety School Grant Program:</i>	<i>\$10,000,000</i>
<i>Total Target FY 2021 Capital Allocation:</i>	<i>\$729,609,000</i>

*2019 Legislation introduced for the *Building Opportunity Act (SB159/HB153)* was not enacted.