

Today, January 24, 2012 the Baltimore City School System provided an overview of the school modernization and renovation transformation strategy for its schools. Dr. Alonso introduced “The School Buildings Our Kids Deserve—Now” proposal to the Senate Budget and Taxation Committee. The School Modernization and Renovation Transformation (SMART) plan is a strategy to invest energetically now in providing all City Schools students with the buildings they deserve. The SMART financial plan makes use of a variety of predictable and flexible streams of revenue to support issuing bonds based on that revenue. Based on a 30-year bond term at prevailing borrowing rates, each \$1 million of predictable, flexible funding can leverage approximately \$15 million of bond funding. In addition, City Schools will utilize its own bonding authority to provide additional facility investments. City Schools is seeking to increase its bond limit from \$100 million to \$250 million during the 2012 session. This increased capacity will allow City Schools to achieve the goals of the SMART plan and address needs that may arise outside the SMART program.

The details of the funding streams entail City Schools to receive funding each year as part of the Maryland State School Construction program (or CIP), supported by bonds issued by the state. This has averaged \$36 million each year over the past five years, with a high of \$52.7 million in FY 2008 and a low of \$27.7 million in FY 2010. While this has been a steady revenue stream, state procedures and regulations have established a process that allocates these funds to specific projects, thereby restricting City Schools’ ability to use the revenue stream easily to support funding across a wide portfolio of projects. Therefore, City Schools and Baltimore City are supporting state legislation that would provide at least \$32 million in state capital funding as a flexible block grant.

There are a variety of ways that this capital funding can be used to support the SMART financing plan in a manner that is consistent with tax laws and regulations. These include: (1) using General Obligation (GO) bond proceeds to pay for only the principal portion of the capital lease, installment sale or purchase agreement obligations; (2) using taxable GO bond proceeds to fund their portion of capital funding; (3) using available cash provided as a block grant; (4) using GO bond proceeds as part of an agreement in which the funds pay for the purchase of discrete interests in projects that have a value equal to the amount of the GO bond funds; and (5) timing payments so they are considered pass-through payments to refund a portion of previously issued obligations.

In 2011, City Schools and Baltimore City reached an agreement that the city would contribute the cost of teacher retiree health benefits through the City Schools system, consistent with the practice in other jurisdictions. This resulted in an increase in state formula aid of \$11 million. As part of the agreement, Baltimore City and City Schools agreed that additional City Schools revenues generated as a result would be dedicated to school construction. This is a predictable, long-term, flexible source of funding to support financing.

Therefore, to support the SMART strategy, during the 2012 General Assembly, Baltimore City and City Schools will be seeking the passage of legislation to (1) establish a flexible and

predictable block grant revenue stream, and (2) increase City Schools' bond limit from \$100 to \$250 million.

Also today before the Senate Budget and Taxation Committee, Dr. David Lever presented "Measuring the Funding Need Alternative Financing and Funding the FY 2012 Supplementary Appropriation." Dr. Lever explained that the local education agency (LEA) backlog of deferred capital and maintenance items is more than \$15 billion. The Public Schools Facilities Act of 2004 enabled alternative financing for school construction, as well as alternative procurement and project delivery and provided the types of alternative financing enabled such as: lease leaseback; sale leaseback; Public Private Partnership; and Performance based contracting. To date, one true alternative financing project has been executed (Barbara Ingram School for the Arts, Hagerstown).

Dr. Lever explained the DBFMO Model or Design-Build-Finance-Maintain-Operate which is a private consortium responsible for the design, construction and finance of an infrastructure project, as well as a contractual set of maintenance and operational services over an extended term. A DBFMO project is financed through contracts which generally involve 10% equity and 90% private debt, repaid through long term contracts for services and increase of financing above public borrowing is compensated through efficiencies in service deliver, avoidance of risks. The public interest is protected as penalties are levied for poor performance and a contract is terminated if performance does not improve.

Dr. Lever gave examples of the experience abroad to include: Nova Scotia, United Kingdom and Alberta for their schools and provided a list of pros were provided such as effectiveness in that projects are carried out when needed, not when public funds are available. However, he also provided a list of cons such as reduced flexibility to respond to future capital needs and increased total project costs. Next steps include establishing a consortium of LEAs interested in investigating alternative financing possibilities and establish a scope of work as well as a funding source for private sector services.

Dr. Lever provided a summary of the distribution of alcohol tax revenues established by HB 1213 of 2011) and the ensuing Board of Public Works policies and procedures. A wide variety of projects were funded through the program, from a major high school addition to small repair-type projects and a feasibility study.