

BALTIMORE CITY

PUBLIC SCHOOLS

The School Buildings
Our Kids Deserve—Now

OVERVIEW OF THE SCHOOL MODERNIZATION AND RENOVATION
TRANSFORMATION STRATEGY FOR BALTIMORE CITY PUBLIC SCHOOLS

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WHY BALTIMORE CITY'S KIDS DESERVE A DIFFERENT APPROACH TO SCHOOL CONSTRUCTION—NOW

Baltimore City Public Schools students have made dramatic progress in recent years. Achievement is up across the board since 2007, with 18.5 percent more students scoring proficient or advanced in reading and 25 percent more in math on the Maryland School Assessment (MSA) tests in 2011 compared with 2007. Graduation is at an all-time high, and dropouts are down by 56 percent over the same time period. Meanwhile, enrollment has increased each year for the past four years, reversing a four-decade pattern of decline. And as more and more students are engaged and succeeding in school, juvenile crime in Baltimore has plummeted by almost 70 percent.

But this progress has been achieved in spite of the poor quality of the facilities in which students learn and teachers teach every day. Rather than being a source of support to the learning environment, the physical condition of too many buildings is an obstacle in the way of students' achieving their full potential. Research—and common sense—make it clear that buildings matter for learning. City Schools' building inventory is the oldest in the state, with the average age of school buildings at almost 40 years. Heating systems in many buildings are unreliable, resulting in classrooms being too hot or too cold. Half of schools lack air conditioning, forcing closures and undermining productivity in the warm months of the school year and during summer learning. The windows in many schools have turned opaque with age; many don't shut properly, while others do not open. As STEM subjects (science, technology, engineering and mathematics) become ever more important, the vast majority of schools lack adequate science classrooms. Rising student interest in career and technical education outstrips current seats in those programs, and providing more of those hands-on learning opportunities will require a significant facilities investment. And after years of population shifts, many schools need to be expanded to accept higher enrollment, while others are seriously underutilized and may make sense to close.

The urgency of the current discussion around school construction in Baltimore City is based on the realization that under the current system of funding school construction, the vast majority of our students will *never* have the chance to learn in high-quality, state-of-the-art school buildings. City Schools' current backlog of capital investment has been estimated at \$2.8 billion, with a detailed assessment now underway to determine this figure with precision. Over the past five years, capital funding from the state has averaged \$36 million per year and from the city \$19 million, for a total of \$55 million per year. This means that the capital funds available under the current system are barely able to patch the deferred maintenance and constantly growing needs of aging buildings and equipment, let alone make the improvements our students deserve. Meanwhile, dilapidated systems cost more each year to patch or replace piecemeal in response to emergency breakdowns—such as a boiler failing in mid-winter. These systems also cost more to operate, pulling more and more operating funds away from direct classroom expenditures and toward facilities. The older the facilities get, the more significant this drain will become. In effect, the current approach provides money enough only for band-aids, but cannot ever provide enough to make our facilities healthy.

There is another reason for decisive action now. This is a time of historically low interest rates and construction costs, as well as historically high unemployment. The costs of a major investment in facilities will be significantly lower, and the benefits to the economy greater, now than they would be if we delay action.

This challenge calls for a new approach. Outlined below are the fundamental components of City Schools' School Modernization and Renovation Transformation (SMART) plan, a strategy to invest energetically now in providing all City Schools students with the buildings they deserve. This approach is practical, prudent and urgently needed for us to do justice to our students' futures—now.

A SMART APPROACH TO SCHOOL CONSTRUCTION

THE SMART BASICS

The fundamental components of the SMART plan to modernize every public school building in Baltimore City in about eight years are as follows:

- Leverage flexible and predictable streams of funding to make possible a major investment in facilities in a relatively short period of time.
- Begin with existing resources. Existing streams of revenue—if provided flexibly and predictably—could make possible immediately over \$1 billion of school construction investment.
- Look to additional revenue streams in the future to address the entire need. For example, the Mayor has proposed sources for additional revenues that would be dedicated to school construction.
- Adopt proven and effective financing structures that would be specifically chosen, based on expert advice, to maximize cost savings to City Schools.
- Utilize enhanced construction management expertise in a targeted way to maximize efficiency, best practices and economies of scale.
- Develop a detailed plan, based on extensive community engagement, for prioritizing and sequencing school investments to maximize the impact on student achievement.

1. PREDICTABLE AND FLEXIBLE SMART REVENUES

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. The chart below summarizes these current and potential revenue streams, with each item described in greater detail on the following page.

Revenue Source	Annual Funding	Leverages	Status
Current state capital funding stream	\$32m	\$480m	<i>Existing revenue.</i> Requires state agreement for flexibility to allow use across multiple capital projects.
Current city capital funding stream	\$16.5m	\$250m	<i>Existing revenue.</i> Requires flexibility to allow use across multiple capital projects.
City Schools' additional operating funding committed to school construction	\$14m	\$210m	<i>Existing revenue.</i>
Proposed additional city revenue dedicated to school construction	\$11m	\$165m	Pending city legislation.

The funding streams outlined in the preceding chart, leveraging approximately \$1.1 billion, will allow significant movement toward the renovation and modernization of schools that our students deserve. However, it is clear that additional funding sources will be required to address all the needs that may be identified in the comprehensive assessment of school facilities now underway. Additional funding could come from private sources, energy savings and other operational efficiencies, and from additional city, state and federal revenue sources.

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 these funding streams are as follows:

CURRENT STATE CAPITAL FUNDING STREAM

City Schools receives funding each year as part of the Maryland State school construction program (the Capital Improvement 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 FY2008 and a low of \$27.7 million in FY2010.

FY08	FY09	FY10	FY11	FY12
\$52,665,000	\$41,000,000	\$27,732,759	\$28,599,000	\$32,000,000

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 capital funding across a wide portfolio of projects. The projected annual revenue stream for state capital funding in the SMART plan is \$32 million, a conservative estimate that is below the average amount that City Schools has received over the past five years. 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.

CURRENT CITY CAPITAL FUNDING STREAM

City Schools receives funding each year as part of the Baltimore City Capital Improvement Program, supported by bonds issued by the city after approval by the Mayor and City Council and the voters. This has averaged \$19 million each year over the past five years, with a low of \$17 million in FY2007 and a high of \$23 million in FY2010. While this has been a steady revenue stream, it has been allocated to specific projects, thereby restricting City Schools' ability to use it to support capital funding across a wide portfolio of projects. As described above in reference to state capital funding, 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. The projected annual revenue stream in the SMART plan is \$16.5 million, a conservative estimate that is below the average amount that the Baltimore City CIP has included for City Schools in the past five years.

CITY SCHOOLS ADDITIONAL OPERATING FUNDING COMMITTED TO SCHOOL CONSTRUCTION

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.

PROPOSED ADDITIONAL BALTIMORE CITY REVENUE DEDICATED TO SCHOOL CONSTRUCTION

On November 15, 2011, Mayor Stephanie Rawlings-Blake announced her support for additional dedicated school construction revenues raised through a 5¢ increase in the bottle tax and her intention to allocate 10 percent of VLT (slots) revenues to school construction. Together, these two sources would add a predictable, flexible revenue stream estimated at over \$11 million (\$10 million from the bottle tax and \$1 million from VLT). The SMART plan includes a conservative estimate of \$11 million for the annual revenue from this source.

2. SMART TAX-EXEMPT FINANCING

The revenues dedicated to school construction just discussed would support “subject to appropriations”-based obligations. This means that, each year, funding would be committed during the annual budget process for each stream for the length of the financing period. While this financing approach does not guarantee funding, bond holders will be relying on historic funding levels from Baltimore City and the State of Maryland and on the essential nature of school facilities to the decision-makers who make annual appropriations. Since there is somewhat more risk to bond holders, the interest rates paid on this type of financing structure will be higher than those for a financing structure with a general obligation funding pledge. The legislative approval of a consistent stream of revenues from the state would enhance the rating on the obligations and thereby lower the total financing cost.

There is a range of potential issuers for these obligations. City Schools will decide upon the appropriate issuer to finance the SMART project based upon recommendations from financial experts. City Schools is evaluating several potential issuers, including the city’s Industrial Development Authority and a specially created educational nonprofit corporation similar to that created to finance school facilities in Greenville, South Carolina, and a number of other jurisdictions, as well as the use of its own certificates of participation for the issuance of these “subject to appropriation” obligations. City Schools has already begun to develop its capacity to execute this financing by issuing a Request for Proposals for a financial adviser and bond counsel. The expertise of these professionals will help to develop the specifics of the timing and terms for SMART bonds.

3. SMART BUILDING NEEDS ASSESSMENT

The SMART program will rely on a thorough and accurate assessment of the need for improvements in City Schools’ facilities. While studies have estimated the cost for improvements at approximately \$2.8 billion, there is a need for a detailed, current assessment of the state of facilities and what would be needed to provide all students with modern facilities. In May 2011, City Schools engaged Jacobs

Project Management to conduct an independent assessment of school buildings. A final report will be completed in February–March 2012. The study will assess each building in terms of

- Capacity
- Support for programs
- Technology
- Security and supervision
- Instructional aids
- Physical characteristics
- Learning environment
- Relationship of spaces

4. SMART CONSTRUCTION MANAGEMENT

The SMART program envisions a very large amount of construction over a relatively short period of time, relative to the constrained facilities improvement program that City Schools has operated over recent decades. However, the scale of this project is similar to the scale of school construction programs undertaken in recent years in both Montgomery and Baltimore counties. City Schools is aware that the SMART program will require an expanded and more sophisticated capacity to supervise construction. This will be accomplished by increasing City Schools' internal staff capacity and contracting with external entities to expand that capacity. The SMART plan would also leverage expertise and advice on an ongoing basis from business leaders and government.

Regardless of how the SMART construction management capacity is expanded, the Baltimore City Board of School Commissioners will remain responsible for the overall execution of the SMART plan and will authorize all dimensions of the plan.

5. DEVELOPING THE DETAILED SMART PLAN

The SMART plan is far reaching and will benefit communities across the city. Based on the assessment in the Jacobs report, the plan will detail which schools would receive investments first, how students would move during construction and how investments would align with projected enrollment trends. The plan will also describe which facilities may be appropriate to close, given the population of the school and the amount of investment required.

The development of this detailed plan will begin with the facts to be outlined in the Jacobs report, but those facts form the background for an extensive conversation with school communities across the city about how best to provide all our students with first-rate facilities. This community engagement process will include reviewing information about each school building with the school community, reviewing a range of potential options for investing in or closing facilities and obtaining public feedback on recommendations.

6. LEGISLATIVE ACTION REQUESTED

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 million to \$250 million.