



STATE OF MARYLAND
PUBLIC SCHOOL CONSTRUCTION PROGRAM
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DAVID G. LEVER
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LARRY HOGAN
GOVERNOR

INTERAGENCY COMMITTEE ON SCHOOL CONSTRUCTION

LILLIAN M. LOWERY, Ed.D
CHAIRPERSON

August 25, 2015

The Honorable Larry Hogan
Governor
State House
Annapolis, MD

Re: Executive Order 01.01.2014.06: Request for Extension

Dear Governor Hogan:

First, let me wish you the speediest of recoveries in your treatment. The news reports are consistently encouraging, and our staff and I wish you all the best for a completely successful outcome.

Secondly, I would like to report to you on the status of the Funding-Financing Study that has been led by the Interagency Committee on School Construction (IAC) under Executive Order 01.01.2014.06 (copy enclosed), and to request an extension for the submission of recommendations. The study that has resulted from the Executive Order is well in process, as this outline of past and current activities will show, but the timeline for completion of two concurrent investigations extends into calendar 2016.

When Executive Order 01.01.2014.06 was issued in May 2014, IAC staff met throughout the summer with staff members from the Department of Budget and Management, the State Treasurer's Office, the Department of Legislative Services, the Governor's Office, and the Maryland Energy Administration. This initial exploratory stage involved:

- A listening session on June 25, 2014 with representatives of local boards of education and local governments to hear their concerns and preliminary feedback on broad funding concepts.
- Research into the funding and financing practices of other states.
- Discussion with officers from the Maryland Energy Administration (MEA) on a variety of financing options.

Through this research, the study team determined that a value-capture approach oriented around energy savings offers the most productive line of research. If the energy performance contract (EPC) model that is already practiced in about one-third of Maryland LEAs were expanded to a regional or statewide scale, we speculated that it could lead to substantial savings in project development, design, procurement, and construction costs. These savings would permit a larger number of energy projects to be carried out at lower cost, expanding the benefits of energy conservation: reduction of the energy budgets of the school systems to free up operating resources for other purposes, providing a better learning environment, assisting the achievement of the State's energy and greenhouse gas goals, and expanding the market for renewable energy sources, including wind and solar.

Our ambition extends beyond energy savings: we have speculated whether the savings from an expanded conservation program could establish the revenue stream for a long-term capital program that would be self-funded through instruments like the revolving loan fund or capital leases. Examples from around the United States illustrate how such programs provide funds at costs affordable to local jurisdictions while allowing the programs to grow in size and scope over time. This effort aligns with the exploration of a Green Bank by the Maryland Clean Energy Center (MCEC), one of our partners in the research. Such a funding program would be parallel to and in addition to the State's Capital Improvement Program and other capital funding programs, which would continue to provide funds for traditional school construction projects.

A small working group of LEA and local government officers met on December 11, 2014 to review possible financing models and discuss local concerns. IAC staff then met several times with staff of MEA and the MCEC to develop the concept. The combined expertise of these three bodies is appropriate to the task: The IAC's knowledge of the capital funding needs of the school systems, MEA's expertise in energy conservation and financing tools, and MCEC's experience establishing realistic, workable funding/financing deals in energy conservation and renewables. The team met on June 25, 2015 with Mr. Michael Richard, Mr. Roy McGrath, and Mr. Shawn Eum of your office to discuss the proposal and the next steps in the process. On July 7, 2015 we met with four energy service companies (ESCOs) for preliminary discussions on issues ranging from project types to potential savings, and on July 16 with five LEA representatives to learn more about the local perspective on procurement, standardization of specifications, control over project execution, and willingness to participate in further research.

Two concurrent investigations have resulted from these discussions:

1. Modeling of Energy Savings and Costs. MEA has applied to the U. S. Department of Energy (DOE) for a grant to assess the energy characteristics of a sample of approximately 140 Maryland public schools, as well as the cost of energy-related improvements for a subset of this sample. Extrapolating from this study, MEA will estimate the overall potential energy savings in all Maryland public school buildings as well as the cost of the improvements needed to capture these savings.

MEA anticipates hearing shortly from DOE. If the grant is approved, we will assist MEA to identify the sample schools, conduct the assessments, and analyze the results. This phase will continue into the spring or summer of 2016.

2. Real-Project Test of Financing and Implementation. We will request that LEAs provide comprehensive lists of the energy-related projects identified in their Capital Improvement Programs and other funding programs, as well as in their Comprehensive Maintenance Plans. These projects will likely range from replacement of single pieces of mechanical equipment to the full upgrade and replacement of an entire HVAC system. Building systems such as lighting, electrical, and building envelope will also be included in the list. With this schedule of future projects, MCEC will discuss with members of the financial community their level of interest in investing into a broad energy-savings program. We will continue discussion with the ESCOs on their capacities, the financial benefits of expanding to a regional or statewide program, and how the individual requirements of the jurisdictions can be honored while still achieving the benefits of scale and standardization.

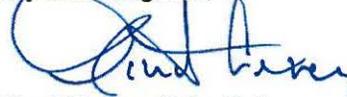
These parallel studies are mutually reinforcing: If the statewide savings from the first study are large, and there is also a realistic interest on the part of the financial community and the ESCOs, we would then conceptualize the financing instruments and the organizational structure that can leverage the savings into a larger number of energy projects or other types of school construction projects. Questions regarding organizational structure, procurement, program and project management, measurement and verification, and financing instruments will be addressed.

The Honorable Larry Hogan
August 25, 2015
Page 3

The two studies will converge in the spring of 2016. In the summer of 2016 a determination will be made as to the viability of the concept we are pursuing. If the concept appears to have validity, we will then develop recommendations for the Administration and the General Assembly. Our partners in this effort, in addition to MEA and MCEC, include the State Treasurer's Office, the Department of Budget and Management, the Department of Legislative Services, and the Department of General Services Energy Division. I anticipate that recommendations will be ready in preliminary form by September 1 of 2016.

I hope that this description of the current status of the funding-financing study that emerged from Executive Order 01.01.2014.06 is helpful. We are excited by the possibility of finding an alternative financing path to achieve a substantial level of energy improvements in Maryland schools. Because of the timeline I have outlined, which depends on the outcome of the two parallel studies, I request an extension to the September 1, 2015 deadline for submission of recommendations related to the Executive Order. Please contact me if you have any questions regarding this outline or the request for extension.

My Best Regards,



David Lever, R.A., D.A.
Executive Director
Maryland Public School Construction Program

Enclosure

cc: Ms. Nancy K. Kopp, State Treasurer's Office
Mr. Peter Franchot, Comptroller's Office
State Superintendent Lillian M. Lowery, Chair, Interagency Committee on School Construction
Secretary David Craig, Member, Interagency Committee on School Construction
Secretary Gail Bassette, Member, Interagency Committee on School Construction
Mr. Timothy F. Maloney, Member, Interagency Committee on School Construction
Mr. Jonathan Bohannon, Member, Interagency Committee on School Construction
Mr. Roy McGrath, Office of the Governor
Mr. Mark Newgent, Office of the Governor
Ms. Susanne Brogan, State Treasurer's Office
Mr. John Gontrum, Comptroller's Office
Ms. Terri Garraty, Department of Budget and Management
Ms. Kate Allen, State Treasurer's Office
Ms. Sheila McDonald, Board of Public Works
Ms. Rachel Hise, Department of Legislative Services
Mr. David St. Jean, Maryland Energy Administration
Ms. Irene Magruder, Maryland Clean Energy Center
Mr. Wyatt Shifflet, Maryland Clean Energy Center
Ms. Joan Schaefer, Public School Construction Program
Ms. Barbara Bice, Maryland State Department of Education
Ms. Patricia Goucher, Maryland Department of Planning
Mr. Fred Mason III, Department of General Services
Ms. Lauren Buckler, Department of General Services



The State of Maryland

Executive Department

EXECUTIVE ORDER
01.01.2014.06

Public School Construction Financing Study

- WHEREAS, School facilities are critical to a strong education system and a strong community;
- WHEREAS, Building on the record school construction funding provided through the O'Malley Brown Administration and the General Assembly, continued investment in school facilities is needed now to ensure that 21st century teaching and learning environments are available to prepare our students for the future;
- WHEREAS, Investment in school facilities is in the interest of the State as a whole, as it will help ensure a prosperous economy, strong business growth, and our students' ability to compete for good jobs in the global, high-technology economy;
- WHEREAS, A robust program of school construction will further State policies on high performance building design, community revitalization and stabilization, emergency preparedness, and Minority Business Enterprise participation; and
- WHEREAS, If the State intends to continue to position itself as a global leader in education, the State and counties must collectively pursue a path forward by looking at all available options for meeting the financial demands of public school construction.
- NOW THEREFORE, I, MARTIN O'MALLEY, GOVERNOR OF THE STATE OF MARYLAND, BY VIRTUE OF THE AUTHORITY VESTED IN ME BY THE CONSTITUTION AND LAWS OF MARYLAND, HEREBY PROCLAIM THE FOLLOWING EXECUTIVE ORDER, EFFECTIVE IMMEDIATELY:
- A. The Interagency Committee on School Construction, in collaboration with the Department of Budget and Management and the Department of Legislative Services, shall conduct a study and make recommendations consistent with the goals of maintaining a structurally balanced State budget and sound debt management practices on:

(1) Developing creative means, financing or otherwise, to increase funding for public school construction;

(2) Creating more reliable revenue streams that could include leveraging funds by counties to meet public school construction needs;

(3) The use of lease payments or other alternative financing methods for public school construction; and

(4) Local funding for public school construction, county tax capacity, and county tax effort.

B. In conducting the study, the Interagency Committee on School Construction, Department of Budget and Management, and Department of Legislative Services shall:

(1) Examine how other states fund public school construction, including the use of alternative financing mechanisms; and

(2) Solicit input from the State Treasurer's Office, county boards of education, and county governments.

C. On or before September 1, 2015, the Interagency Committee on School Construction shall submit a report of its findings and recommendations to the Governor.

GIVEN Under My Hand and the Great Seal of the State of Maryland, in the City of Annapolis, this 6th Day of May 2014.



Martin O'Malley
Governor

ATTEST:

John P. McDonough
Secretary of State