

**Maryland General Assembly  
Joint Committee on the Management of Public Funds**

**2015 Interim Membership Roster**

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**Senator Jim Rosapepe, Senate Chair  
Delegate Ana Sol Gutiérrez, House Chair**

**Senators**

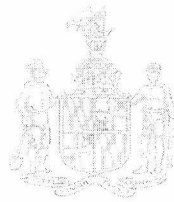
Joanne C. Benson  
Richard S. Madaleno, Jr.  
Edward R. Reilly

**Delegates**

Carolyn J. B. Howard  
David E. Vogt, III  
Alonzo T. Washington

**Committee Staff**

Trevor S. Owen  
Matthew B. Jackson



THE MARYLAND GENERAL ASSEMBLY  
ANNAPOLIS, MARYLAND 21401-1991

**Joint Committee on the Management of Public Funds**

December 17, 2015

The Honorable Thomas V. Mike Miller, Jr., Co-Chair  
The Honorable Michael E. Busch, Co-Chair  
Members of the Legislative Policy Committee

Ladies and Gentlemen:

The Joint Committee on the Management of Public Funds is pleased to present this report on its activities undertaken during the 2015 interim in the conduct of its charge to oversee the general management of State public funds. The joint committee met two times and was briefed on several relevant topics, including school construction, the activities of the Comptroller's and Treasurer's offices, and audits of local governments.

A summary of the activities of the joint committee is enclosed. In addition, electronic copies of the written testimonies provided to the joint committee are available by request through committee staff Matthew B. Jackson ([matthew.jackson@mlis.state.md.us](mailto:matthew.jackson@mlis.state.md.us)) or Trevor S. Owen ([trevor.owen@mlis.state.md.us](mailto:trevor.owen@mlis.state.md.us)).

The joint committee greatly appreciates the assistance of the many individuals who participated in the activities of the joint committee during the 2015 interim.

Respectfully submitted,

Senator Jim Rosapepe  
Senate Chair

Delegate Ana Sol Gutiérrez  
House Chair

JR:ASG/MBJ:TSO/ccz

Enclosure

cc: Mr. Warren G. Deschenaux  
Ms. Lynne B. Porter

# **Joint Committee on the Management of Public Funds 2015 Interim Report**

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The Joint Committee on the Management of Public Funds held two meetings in Annapolis during the 2015 interim.

## **December 2, 2015 Meeting**

### **School Construction**

Dr. Jack Smith, Interim State Superintendent of Schools and Chair of the Interagency Committee on School Construction (IAC), opened the presentation by giving an overview of Maryland's school system, as well as briefing the committee on the school system's future construction needs. He expressed interest in launching a study in 2016 of ways to update Maryland's school construction policies to better address future needs.

A panel that included Dr. David G. Lever, Executive Director of the Interagency Committee on School Construction (IAC); Gary McGuigan, Senior Vice President of the Maryland Stadium Authority (MSA); Keith Scroggins, Chief Operating Officer of Baltimore City Public Schools (BCPS); and Jessica Clark, Executive Assistant to 21<sup>st</sup>-Century Schools briefed the committee on the roles and responsibilities of their respective entities with regard to the Baltimore City school construction program. According to the panel, the program is a collaborative effort between a number of entities and local organizations that seek to maximize opportunities for BCPS students and city residents.

The panel noted that the program has encountered its share of successes and challenges since its inception. The current projection for cost per square foot has fallen from \$309 per square foot in 2014 to \$294 per square foot in 2015. The program remains on schedule for completion in 2020 and will ultimately serve approximately 18,000 students.

The panel then went on to discuss financing options and issues that affect the ability of the program to reach its goals. The program allows MSA to leverage \$60.0 million annually for 30 years for up to \$1.1 billion in bonds for the program.

One committee member noted a concern about underutilization of facilities throughout the school system. BCPS noted that it is committed to an 86% district-wide utilization rate by 2020 and remains on target to meet that utilization rate. A discussion between the panel and committee members regarding BCPS's committed 86% district-wide utilization rate ensued. The panel explained that the 86% figure is across all schools within the BCPS system. Some facilities will be fully utilized, whereas others will fall below the 86% threshold. The panel went on to explain that the targeted utilization rates allow for the program to accommodate student mobility.



Another committee member asked generally about the program's maintenance plan. The panel stated that a comprehensive maintenance plan was approved in September 2014. In addition, BCPS is currently in the process of procuring a computerized maintenance management system to increase efficiency and reporting abilities. While this system is not currently in use, the panel noted that the procurement process for the system should be complete in the near future.

Rachel H. Hise of the Department of Legislative Services then spoke about the costs of recently approved public school construction projects throughout the State. These projects involve the replacement and renovation of school buildings. Ms. Hise elaborated on project costs and, among other things, highlighted each project's cost per student and cost per square foot.

Ms. Hise noted the average cost per student of the various statewide replacement projects she reviewed ranged from approximately \$38,000 per student for elementary school projects to approximately \$49,000 per student for middle and high school replacement projects. Within her sampling of recent statewide renovation projects, Ms. Hise noted average costs of approximately \$38,000 per student in statewide elementary school projects, \$29,000 per student in statewide middle school projects, and \$53,000 per student in statewide high school projects. She observed that costs per student varied widely statewide and within districts. The lowest was approximately \$20,000 and the highest, based on IAC rated capacity, was approximately \$81,000.

Additionally, Ms. Hise reviewed the costs of year one Baltimore City Public School Construction revitalization projects. Costs of these projects averaged approximately \$45,000 per student for renovation projects and \$48,000 per student for replacement projects. One committee member noted that the year one costs of the Baltimore City School Construction program's projects generally parallel the costs of the statewide projects as presented by Ms. Hise.

Steve Baldwin, Vice President and Chief Financial Officer of The Children's Guild, spoke about the Monarch Academies and cost effective options for school construction. Monarch Academies are the charter and contract school brand for The Children's Guild, which operates charter and contract schools in Laurel, Baltimore City, and Glen Burnie. Contract and charter schools are not financed through the Maryland school construction program. Mr. Baldwin noted the construction and renovation costs per student of the three K-8 Maryland-based schools his agency oversaw ranged from approximately \$11,000 per student for its charter school in Baltimore City to \$15,500 for its contract school in Laurel.

Mr. Baldwin highlighted his organization's alternative school construction methods. For instance, his organization uses pre-engineered buildings, extra tough drywall instead of masonry, and metal roofing products. In addition, he said that extra costs from Minority Business Enterprise and prevailing wage rules are not major. One committee member noted that the savings achieved by The Children's Guild through alternative construction methods should be further studied and considered.



## **December 8, 2015 Meeting**

### **Comptroller's Office – Update on Activities**

Comptroller Peter Franchot provided an update on the activities of the Comptroller's Office. During 2015, the Comptroller's Office again focused on providing effective and efficient services to taxpayers along with tax fairness and fiscal responsibility.

The Comptroller's Office advises that the most recent tax season was the most successful to date, as the State collected a gross amount of \$11.2 billion and processed approximately 3.0 million tax returns. Out of those 3.0 million tax returns, approximately 2.5 million were filed electronically.

The Comptroller's Office continues to take a hard line against fraud and identity theft. The Comptroller's data warehouse has been instrumental in protecting citizens from fraud and identity theft. In addition, the Comptroller will present legislation in the 2016 session – the Taxpayer Protection Act – that seeks to strengthen the Comptroller's ability to protect Maryland taxpayers. A detailed discussion of the specific provisions of the Taxpayer Protection Act ensued.

One committee member noted that the committee would like to start a discussion with the Comptroller's Office regarding State agency cash fund balances.

### **State Treasurer's Office – Update on Activities**

State Treasurer Nancy Kopp, Chief Deputy Treasurer Bernadette Benik, and Mary Christine Jackman, Director of the Investment Division, provided an update on the activities of the Treasurer's Office. Treasurer Kopp reported that in June 2015 all three rating agencies affirmed the State's AAA bond rating. Maryland is one of only eleven states in the nation with AAA ratings from all three rating agencies.

There is general consensus among the rating agencies that Maryland's debt policies, fiscal management, and economy are all credit positives; however, the State's debt and pension burdens are concerns. All three rating agencies point to the State's history of strong, sound financial management, and the State's debt affordability guidelines and rapid amortization of debt are credit strengths that help offset concerns about the State's debt burden. Standard & Poor's and Moody's state that the Capital Debt Affordability Committee (CDAC) and the debt affordability process have a positive stabilizing effect on the State's debt profile.

Fitch Ratings noted that “[d]espite pensions being a comparative credit weakness, the state has taken multiple steps to reduce their burden and improve sustainability over time.” All three rating agencies noted the State's recent pension reforms, teacher pension cost sharing, and phase-out of the corridor funding method.

In September 2015, the CDAC recommended \$995 million for new general obligation bond authorizations to support the fiscal 2017 capital program. The CDAC further recommended to maintain the authorization at \$995 million in future fiscal years. With these debt levels, the debt

affordability ratios remain within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues.

The Treasurer requested that the joint committee introduce legislation for their office. The proposed bill would permit the Treasurer to invest in obligations issued and unconditionally guaranteed by supranational issuers denominated in U.S. dollars, eligible to be sold in the United States, and having the highest investment credit rating by at least two nationally recognized statistical rating organizations. A general discussion regarding the proposed legislation ensued, and the committee requested that the Treasurer's Office circulate a draft of the legislation with the committee members for consideration.

### **Office of Legislative Audits – Review of Local Government Audit Reports**

Robert Garman, Assistant Director of Quality Assurance in the Office of Legislative Audits (OLA), presented information on the desk reviews of local government audits for fiscal 2014.

OLA's report summarized the most significant and frequent problem areas his agency found during its annual review of local government audits. These problem areas include: failing to file an audit report; failing to present the audit or financial statements in accordance with generally accepted auditing and accounting principles; failing to present all required statements; lacking adequate disclosures; and the issuance of qualified or adverse opinions by an auditor. Five local governments – Deer Park, Glenarden, Hyattsville, Marydel, and Morningside – had not filed an audit report for fiscal years 2013 or 2014, and one other local government – Baltimore City – had not filed an audit report for fiscal 2014.

OLA reported that a letter describing the areas of noncompliance with the audit guidelines was sent to each local government and its independent auditor. For areas of noncompliance with State laws and potential financial problems, OLA requests that the local governments provide written descriptions of the actions to be taken to eliminate the conditions, when appropriate. OLA then reviews and evaluates the responses.