



## HOUSE COMMITTEE ON APPROPRIATIONS

# FISCAL NOTE

HOUSE BILL NO. 2124

PRINTERS NO. 3663

PRIME SPONSOR: Grove

### COST / (SAVINGS)

FUND	FY 2013/14	FY 2014/15
General Fund	\$0	See "Fiscal Impact"

#### SUMMARY:

House Bill 2124 makes numerous changes to the Public School Code primarily concerning school construction and the state reimbursement process for school construction. It would take effect immediately.

#### ANALYSIS:

In Section 731 of the Public School Code this legislation requires the Department of Education (PDE) to provide an electronic database on its website for the purpose of providing public access to information on public school construction and reconstruction projects, building purchases and charter school lease reimbursements submitted for the approval of, or approved by, the Department of Education. It also adds that school districts need not seek Commonwealth approval for a construction project if the district is not seeking Commonwealth reimbursement for that project.

House Bill 2124 adds a new section to the Public School Code to be known as Section 731.2, "Accountability and Reducing Costs in Construction Process." It requires that, no later than July 1, 2015, the Department must develop and implement a process, including standardized forms and procedures, to be used by school districts to apply for Commonwealth reimbursement for school construction and reconstruction projects. It will be called the Accountability and Reducing Costs in Construction, or ARC Con Process. In developing this process, the Department must separate the process into five benchmark steps which are detailed in the bill. School district projects must be reimbursed by the Department in the order received, with one exception. Projects from school districts in financial recovery status may be given priority over other projects.

This new section requires school districts to develop a complete districtwide facility study of all district educational facilities, including the district administrative offices. This must be completed prior to, and within five years of, the initial date of submission to the PDE of an application for Commonwealth reimbursement of a school construction project. The content of the study is detailed in the legislation.

In order to receive reimbursement through ARC Con school districts must complete and submit to PDE a cost-benefit analysis of each project. This analysis must present substantial evidence of the necessity of a new building, if a new building is proposed, as compared to a building expansion or renovation.

Under this new section, once a school district receives reimbursement through ARC Con for a construction project on a school building the district is not eligible to seek reimbursement again on the same building for 30 years. However, exceptions to this rule are provided for natural disaster, fire, flood, mold contamination or an extraordinary and unanticipated increase in student enrollment.

School districts will not be eligible for Commonwealth reimbursement of school construction or reconstruction project costs for any existing building where the cost of expansion or renovation of the building, excluding costs for building purchase, movable fixtures and equipment, asbestos abatement, roof replacement, site development, and architect fees, is less than 40% of the replacement value of the entire building. In current law this is at 20%.

The ARC Con process must be automated as much as possible so documents can be submitted electronically and there can be no requirement that documents be submitted on microfilm.

The Department must develop rules and guidelines within one year for this program.

Currently, under Section 732.1 of the Public School Code, PDE has completed a preliminary analysis of the Commonwealth's school districts' school facilities and future capital needs and submitted it to the General Assembly. This legislation would require PDE to complete that analysis and submit it to the General Assembly by May 1, 2015.

House Bill 2124 adds a new section to the Public School Code to be known as Section 2581, "Lump Sum Reimbursement for Construction or Reconstruction." It creates a process by which school districts can receive lump sum reimbursements from the Commonwealth for construction or reconstruction projects if they choose to, but there is no penalty for a district that does not opt for a lump sum payment. The lump sum payment can be no greater than 75% of the total allowable construction or reconstruction reimbursement.

This legislation adds a section to the Public School Code concerning reimbursement for school districts not submitting required documentation. As of the effective date of the bill, school districts that have received reimbursement approval for a project, but which have not submitted all documentation requested by PDE within 3 months following the approval, must submit the documentation by October 31, 2014. Each district receiving reimbursement approval as of the effective date of the bill, but receiving a request for documentation after the effective date of the bill must submit the documentation within 3 months. Each project for which a school district fails to comply with these requirements will be removed from the reimbursement order until the documentation has been approved, and PDE will advance all subsequent projects in the reimbursement order. In addition, PDE must develop rules and guidelines, including a waiver process for school districts that are reconciling financial records, or facing litigation or bond refinancing delays.

Finally, this legislation provides that for FY 2014-15 and each fiscal year thereafter, the State Public School Building Authority must assist school districts in refinancing projects that are receiving State reimbursement in order to make additional funds available with which to provide State reimbursement to new projects.

**FISCAL IMPACT:**

The various provisions of House Bill 2124 will have an impact on Commonwealth finances as described below:

The implementation of an internet database to provide public access to information on public school construction and reconstruction projects, building purchases and charter school lease reimbursements will have a fiscal impact on the Department. The database will likely cost at least \$250,000 to implement, but PDE estimates it could cost as much as \$1 million.

The ARC Con process described in House Bill 2124 is essentially a streamlined version of the PlanCon process in current law. The goal is to make the approval and reimbursement process more efficient for PDE and school districts. This should ultimately produce savings for all parties involved, but data are not available to produce a reliable estimate of those savings at this time.

The section providing school districts the option of taking a lump sum reimbursement for construction projects could free up funding within the program to advance projects more quickly through the reimbursement process. However, the amount that might be made available will depend upon the number of school districts that choose to exercise this option, and cannot be estimated at this time.

The requirement that school districts submit project documentation within three months or have their projects removed from the reimbursement order could free up funding within the program to advance projects more quickly through the reimbursement process. The PDE indicates the amount of money made available could be up to \$70 million, but will depend upon how many school districts submit documentation.

The requirement that the State Public School Building Authority assist school districts in refinancing projects could also free up additional funding in a similar fashion, but an estimate of the amount is not currently available.

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House Appropriations Committee (R)

**DATE:** June 9, 2014

*Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*