P3 Final Report

Fiscal and Operational Viability of Public-Private Partnerships for CCPS

December 3, 2024

P3 Workgroup Members

Appointed by the President of the Senate
Senator Michael Jackson
Senator Jack Bailey
Appointed by the Speaker of the House
Delegate Jeffrie Long
Delegate Todd Morgan
Appointed by the Calvert County Board of County Commissioners
Commissioner Mark C. Cox, Sr.
Commissioner Catherine M. Grasso
Appointed by the Calvert County Board of Education
Board of Education Member Lisa M. Grenis
Board of Education Member Inez N. Claggett
Designee of the Chair of the Interagency Commission on School Construction
IAC Executive Director Alex Donahue
Designee of the Executive Director of the Maryland Stadium Authority
Senior Vice President, Capital Projects Development Group, Eric Johnson

P3 Staff Members

Calvert County Public Schools
Dr. Andraé Townsel, Superintendent
Dr. Susan Johnson, Chief Operations Officer
Shuchita Warner, Director of Planning and Construction
Karen Maxey, Administrative Assistant to the Board of Education
Calvert County Government
Julian M. Willis, County Administrator
Linda Turner, Deputy County Administrator

Web Accessibility Message

Portions of this document were not created by Calvert County Public Schools and cannot be made accessible. If you require assistance in obtaining details or information contained within this document, please contact the Calvert County Public Schools Board of Education at 443-550-8000.

Contents

Background/Introduction

During the 2024 Legislative Session, the Maryland General Assembly passed House Bill 515 requiring the establishment of a Workgroup for the purpose of studying the Fiscal and Operational Viability of Public-Private Partnerships for Calvert County Public Schools (CCPS). The bill became effective June 1, 2024 and terminates June 30, 2025. The bill requires the Workgroup to study the following:

- ***The fiscal and operational viability of using a P3 for financing, constructing, maintaining, and operating schools in Calvert County;***
- ***Implementation of a P3 by CCPS; and***
- ***How a Public-Private Partnership (P3) may relieve the significant burden for funding new school construction and renovations for CCPS.***

The Workgroup is charged with making recommendations regarding using a P3 for:

- ***New school construction; and***
- ***Maintenance and rehabilitation of schools to meet the identified needs at a lower cost.***

On or before December 31, 2024, the Workgroup is required to report its findings and recommendations to the Board of Calvert County Commissioners, the Calvert County Board of Education, the Interagency Commission on School Construction, and in accordance with § 2-1257 of the State Government Article, the members of the Calvert County Delegation to the General Assembly.

On July 30th, 2024, CCPS reached out to the fully appointed membership of the Workgroup to schedule the meetings. A total of five public meetings were held as follows:

MEETING #1 - Tuesday, August 20, 2024 from 5PM – 7PM

MEETING #2 - Tuesday, September 17, 2024 from 5PM – 7PM

MEETING #3 - Tuesday, October 15, 2024 from 5PM – 7PM

MEETING #4 - Tuesday, November 12, 2024 from 5PM – 7PM

MEETING #5 - Tuesday, December 3, 2024 from 5PM - 6PM

Meeting Agenda and Work Plan

A total of five public meetings were held by the Workgroup to understand, review, and discuss the P3 financing model to assess its viability towards reducing the fiscal and operational constraints faced by CCPS for new school construction and maintenance and rehabilitation of schools.

A Detailed P3 Workplan was developed and utilized to structure the meeting agenda, as follows:

Phase 1: Establishment and Initial Organization (August 20)

Meeting 1 (2 hours)

- **Task 1**: Conduct initial kickoff meeting to introduce members, elect Chair and outline objectives.
- **Task 2**: Develop and approve the working group's legislative charge.
- **Task 3**: Develop a detailed work plan with tasks, timelines, and milestones.
- **Task 4**: Presentation to help working group develop an understanding of the fundamentals of public-private partnerships.

Phase 2: Research and Data Collection (September 17)

Meeting 2 (2 hours)

- **Task 5**: Collect data on current school funding, construction, and maintenance costs and capital improvement needs/plans.
- **Task 6**: Provide case studies and examples of P3 in school projects from other jurisdictions.
- **Task 7**: Analyze the legal and regulatory framework for implementing P3 in CCPS
- **Task 8**: Presentation of current data and P3 case studies.
- **Next Steps**: Prepare subcommittee members for analysis and drafting recommendations to be discussed during meeting #3.

Phase 3: Analysis and Drafting Recommendations (October 15)

Meeting 3 (2 hours)

- **Task 9**: Assess the potential impact of P3 on reducing funding burdens for new school construction and renovations.
- **Task 10**: Discuss preliminary findings and develop consensus on key issues.
- **Task 11**: Develop preliminary recommendations regarding the use of P3 for new school construction and maintenance.

Phase 4: Review, Finalization, and Reporting (November 12)

- **Task 12**: Circulate draft recommendations to all group members for review and feedback.
- **Task 13**: Incorporate feedback and finalize recommendations.

At the final meeting on December 3, 2024, the draft report was approved.

Overview of P3 as a Financing Method

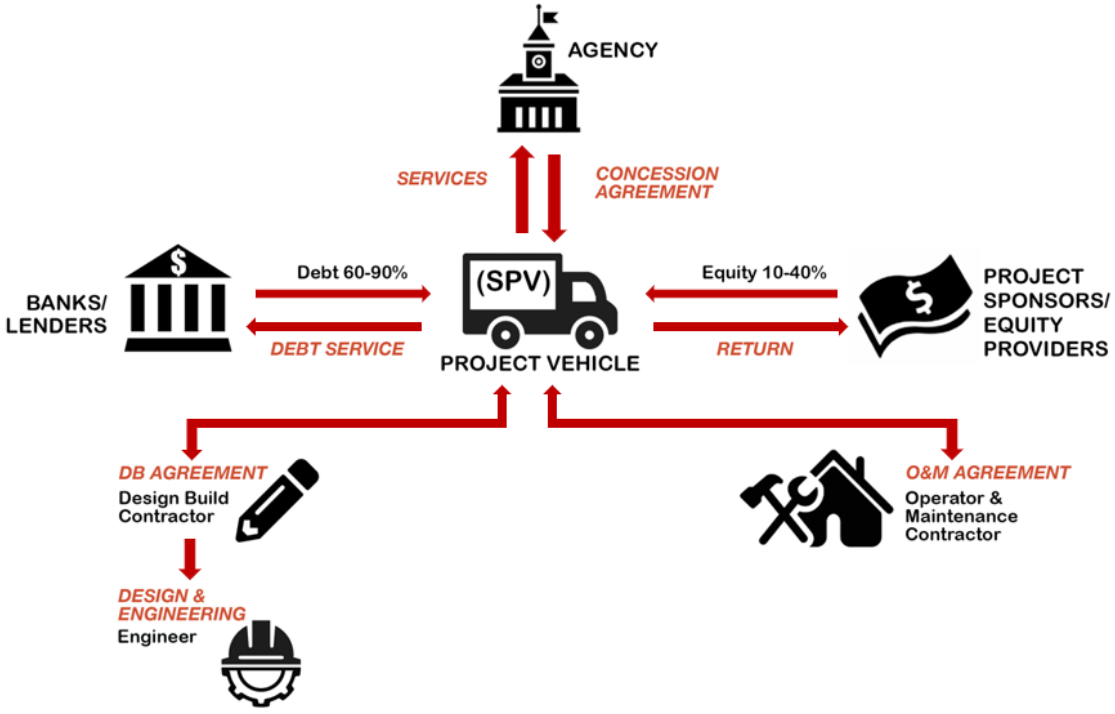
The Association for the Improvement of American Infrastructure (AIAI), a 501C (6) non-profit organization provides education, information, and resources to elected and appointed officials and governmental agencies to better understand P3s, via P3 Direct.

At the August 20th Workgroup meeting, an overview of P3 was provided, by members of AIAI.

A P3 or Public-Private Partnership is a delivery model whereby a public agency and a private entity enter into a contractual agreement to finance, design, construct, and potentially maintain and operate public infrastructure or services. The goal is to leverage private sector expertise, efficiency, and financing, while sharing risks and rewards between both parties. When used in the K-12 environment the model most often applied is **design, construction, financing, and maintenance (DBFM)** leaving the operations under the auspices of the school district.

It is important to emphasize that a P3 agreement is not an avenue to privatize a public sector facility. The public agency retains ownership and ultimate control of the asset. By incorporating performance-based contracting and linking project financing to agreed-upon outcomes, P3s can allow school districts to optimize long-term planning and investment. Ownership of the assets remains with the public sector, ensuring that public interests are safeguarded.

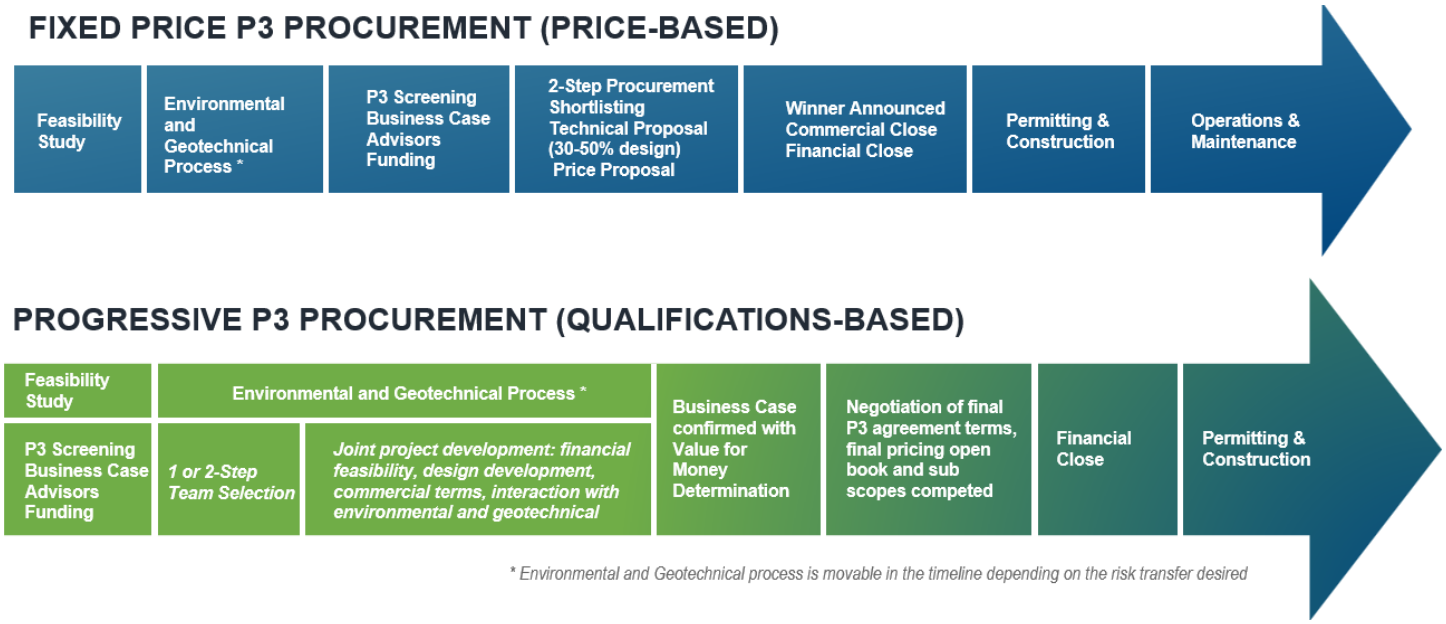
A typical P3 term can last anywhere from 20 to 99 years. The private financing and equity must be repaid, via an availability payment, and a funding/revenue stream must be in place and be creditworthy to ensure a viable P3. Finally, A P3 delivery model must be analyzed carefully to ensure that it makes sense for the public agency's needs. The structure of a typical P3 is noted below:



Courtesy of AIAI

One of the most attractive aspects of a P3 stems from the accelerated delivery of the project. However, in order to attract private investors, project packages should typically be valued at $100M or more. Smaller projects would require bundling, to be attractive to private investors. Additionally, one of the key drivers for the successful development of a P3 project is a well-defined, properly structured procurement process that encourages interest and innovative ideas from private sector companies.

Another aspect to consider is whether a Fixed Price P3 Procurement (Priced Based) is the best option versus the Progressive P3 Procurement (Qualifications-Based). This depends largely on the complexity of the project and how well defined the scope is. For unique, one-of-a-kind projects, progressive P3s may lend some much-needed flexibility and collaboration through a range of stakeholders.



Courtesy of AIAI

CCPS Facilities Needs Overview

Calvert County Public Schools, located in Southern Maryland, is home to 14,899 students, according to the official September 30, 2023 enrollment count. CCPS maintains 25 active school buildings at 2,475,898 GSF, representing the 12th greatest square footage of LEAs in Maryland. The current replacement value of CCPS' GSF, at the Interagency Commission on School Construction's (IAC) current replacement cost/SF is approximately $1.2 Billion.

Since FY 2020, as CCPS facilities have been getting replaced through the Capital Improvement Program (CIP), facility sizes have increased slightly. This increase is largely due to updated programmatic requirements to support the student population's learning needs, especially the design and construction of collaborative type spaces for small group learning, one on one spaces, as well as itinerant spaces to house student support staff. As square footages have increased and costs of construction have risen, the current replacement value (CRV) as calculated by the IAC, has increased significantly. The Association of Physical Plant Administrators (APPA) recommends that 2% of Facility Current Replacement Value (CRV) for Operations and Routine maintenance and a separate 2% for Capital Maintenance be allocated annually for budgetary purposes. Although CCPS' Operation & Maintenance budget has been somewhat adequately funded, the Capital Maintenance budget has been unable to keep pace.

See figures below:

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
TOTAL SF	2,475,989 SF	2,475,989 SF	2,456,795 SF	2,456,795 SF	2,463,800 SF	2,446,083 SF
CURRENT REPLACEMENT VALUE (CRV)	$1,225,614,555	$1,190,950,709	$1,125,212,110	$1,046,594,670	$964,602,338	$924,619,374
RECOMMENDED O&M BUDGET*	$24,512,291	$23,819,014	$22,504,242	$20,931,893	$19,292,047	$18,492,387
ACTUAL O&M BUDGET	$23,500,272	$23,066,650	$22,310,298	$20,198,134	$19,173,370	$16,736,662

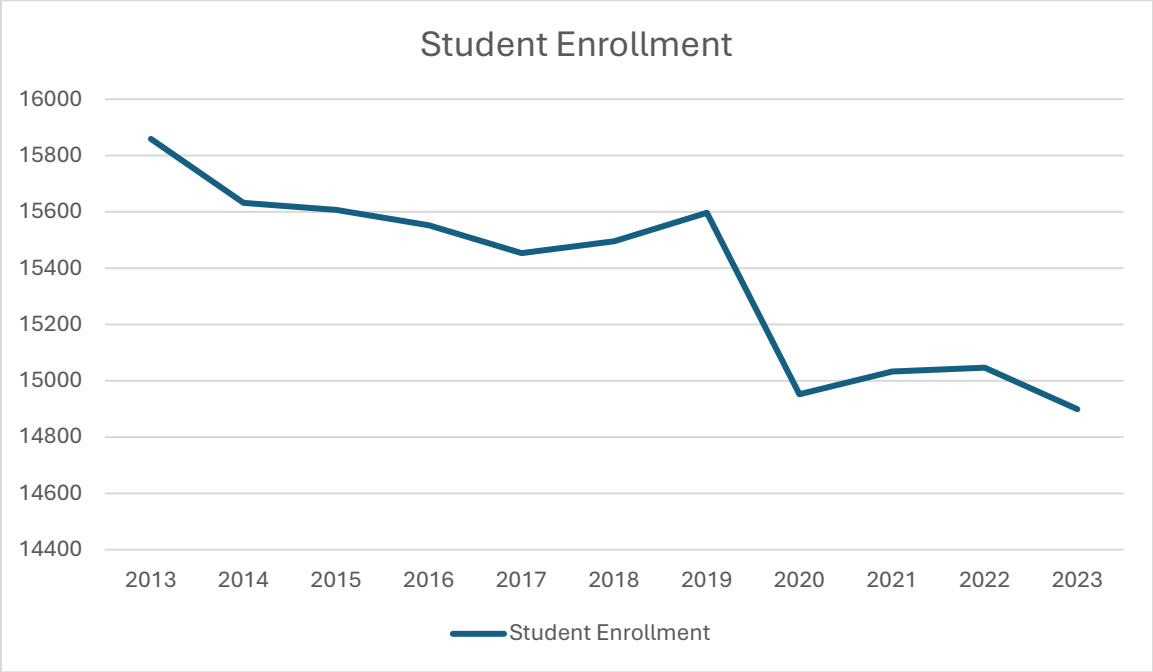
	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
TOTAL SF	2,475,989 SF	2,475,989 SF	2,456,795 SF	2,456,795 SF	2,463,800 SF	2,446,083 SF
CURRENT REPLACEMENT VALUE (CRV)	$1,225,614,555	$1,190,950,709	$1,125,212,110	$1,046,594,670	$964,602,338	$924,619,374
RECOMMENDED CAPITAL MAINTENANCE BUDGET**	$24,512,291	$23,819,014	$22,504,242	$20,931,893	$19,292,047	$18,492,387
ACTUAL CAPITAL MAINTENANCE BUDGET	$2,452,610	$5,423,015	$5,796,705	$7,426,656	$8,484,684	$5,650,879

Based on APPA's recommendation for the Capital Maintenance budget allocation, CCPS is significantly underfunded, and the trends indicate that the gap has increased over the last 5 fiscal years. In FY 2020,

the actual Capital Maintenance Budget was 30% of the APPA recommended budget, based on the CRV at that time. In FY 2025, the actual budget equated to 10% of the recommendation. A combination of increased square footage and constrained budgets has hampered Capital Maintenance efforts, making it challenging for CCPS to keep pace with the long-term investments required for CCPS' physical assets.

It is important to note that the APPA's budgetary guidelines are just one of several benchmarks for budgeting, and they may in fact be low, when specifically speaking to the needs of public K-12 facilities. The National Council on School Facilities (NCSF) recommends that an LEA annually spend about 3% of CRV for Operation & Maintenance (including utilities costs) plus an average of 4% of CRV for capital expenditures. (See p. 28 of the 2021 State of Our Schools report at https://www.wellcertified.com/state-of-our-schools).

State projections for Calvert County's population indicate a 0.59 percent annualized growth rate between 2020 and 2025, compared to the overall State of Maryland annualized growth rate of 0.68 percent. CCPS enrollment has been modestly decreasing over the last 10 years. Prior to COVID-19, from 2017 to 2019, enrollment saw a slight increased trend however, post COVID, student enrollment has not fully recovered to pre-COVID figures.



As noted in the FY 2026 Educational Facilities Master Plan, through SY 2033, overall enrollment is projected to increase to a modest 15,301 students. Because current enrollment projections do not support planning of any additional new schools to the inventory, CCPS Capital Improvement Program (CIP) projects have generally consisted of replacement facilities of the existing building stock as well as systemic renovation projects to renew select building assets.

The Interagency Commission on School Construction uses a widely recognized metric called the Facility Condition Index (FCI) to evaluate the condition of schools in Maryland. The FCI assigns a score between 0 and 100 to assess the overall state of buildings and their individual components. As buildings and their assets age, the FCI score increases. The graph below illustrates the relationship between a building's FCI score, its overall condition, and its functionality.

CALVERT OVERALL FCI SCORE 51%

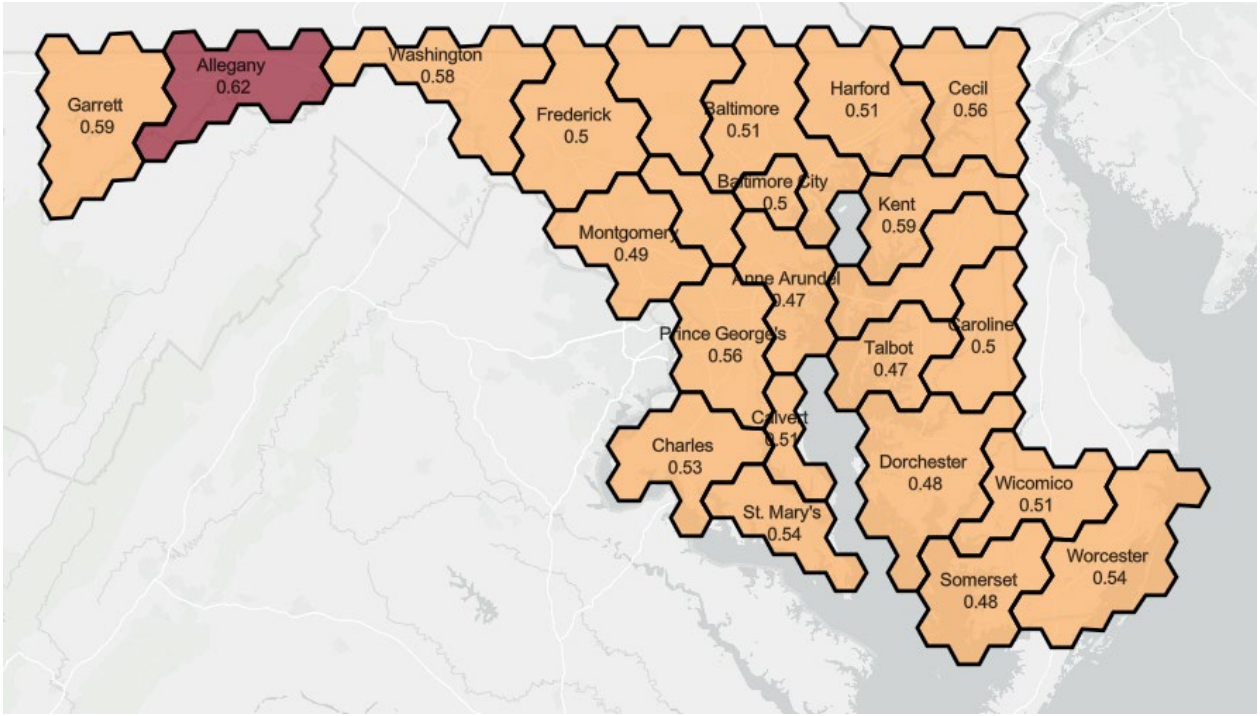
0%

Lower FCI is better

100%

FCI	Common First Perceptions
15% and below	Feels like a new building!
15-30%	Good condition. Comfortable. Appears to be in good overall repair. Generally, everything operates as intended.
30-45%	Condition is satisfactory, although some repairs are needed. Does not generally feel uncomfortable anywhere in the occupied spaces of the facility.
45-60%	Visibly in need of repair. Conditions verge on uncomfortable with some areas of the facility worse than others. Building generally functions OK, but occasionally becomes unreliable.
Above 60%	Building functions have become unreliable. Not esthetically or environmentally comfortable in some or all areas of the facility.

Calvert's overall score of 51% places it well within the range of other school districts within Maryland, however as needs continue to outpace funding, Calvert's overall FCI will continue to rise, necessitating additional maintenance funding to keep the facilities operational.



FCI State Map provided courtesy of IAC
Ratings based on data set published 3/1/2024

The very modest projected enrollment growth through 2033 allows CCPS to fully focus on existing building stock, in order to alleviate issues surrounding aging facilities or outdated educational spaces that do not meet educational sufficiency standards. However, as the existing building stock ages, the available State and Local Capital funding is not sufficient to keep pace with the overall needs.

From FY 2020 through FY 2025 the published targeted funding allocation from the State has continued to decrease. With the sharply rising costs of construction, the combination does not allow for adequate funding to keep pace with the aging building stock.

STATE PUBLISHED COST OF CONSTRUCTION VS. CCPS TARGETED ALLOCATION

	2026	2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
IAC PUBLISHED COST/SF*	$495/SF	$481/SF	$458/SF	$426/SF	$405	$391.51	$378
CCPS TARGETED STATE ALLOCATION	$3,832,523**	$3,815,075	$3,815,075	$3,815,075	$5,080,000	$6,046,794	$6,686,438

*IAC COST PER SQUARE-FOOT IS BASED ON BIDS RECEIVED FOR NEW SCHOOL CONSTRUCTION IN THE PRIOR YEAR AND COST INFORMATION DERIVED FROM INDUSTRY RESOURCES

**FY 2026 STATE TARGETED ALLOCATION IS BASED ON WEALTH-ADJUSTED ENROLLMENT AND FACTORS IN FUNDING LEVELS OVER LAST 3 FISCAL YEARS (FY 2023 FY 2025).

For example, a typical CCPS elementary school, scheduled to be replaced, could be completed (Phased occupied construction including new construction, demolition, and final site work) in 2 years. However when accounting for the State share of 56% towards the project and applying the current targeted allocation of $3.8M from the State, the project cost would have to be additionally escalated to mid-point of construction based on actual cash flow. Not only would the project be more expensive due to anticipated escalation, the same project would take over 6 years to complete, due to cash flow restrictions.

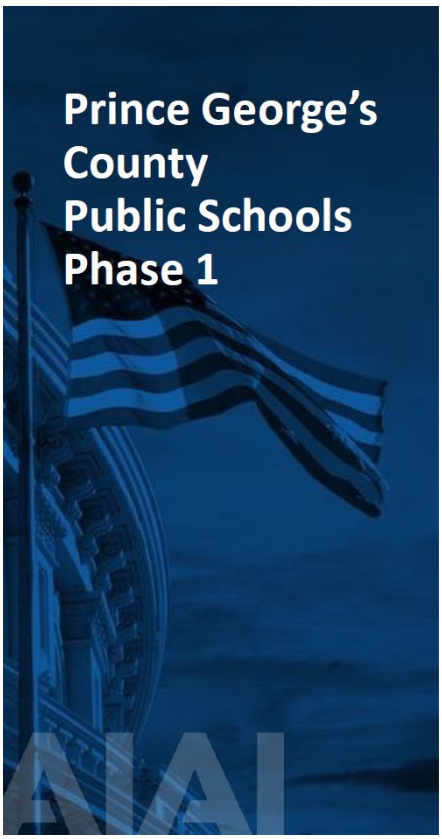
Such constraints not only extend the existing building systems beyond their useful life but also demand increased maintenance funds to sustain a collection of deteriorating assets.

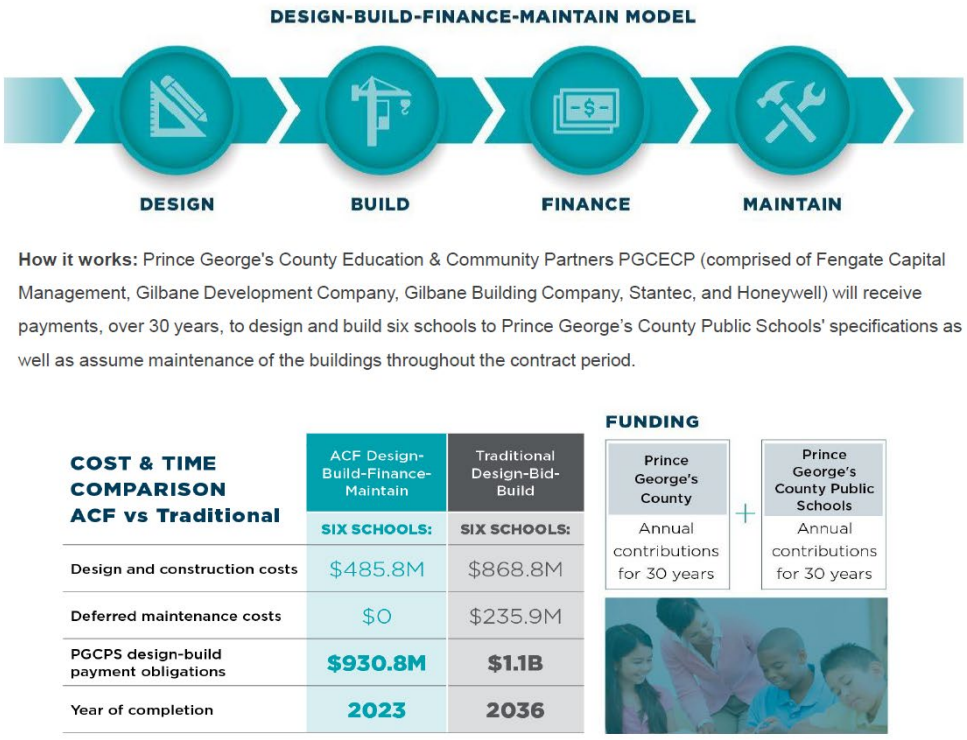
Historical Case Studies and P3 Examples of School Projects in Maryland

Prince George's County Public Schools (PGCPS) operates nearly 200 school facilities, making it the second largest school district in Maryland, on the basis of gross square footage (GSF). PGCPS is the first and remains the only school district in Maryland to have entered into a P3 arrangement under a Design-Build-Finance-Maintain Model. Phase 1 consisting of six schools (Five middle schools and one K-8 school) helped PGCPS alleviate some of its immediate issues including overcrowding, aging infrastructure, deferred maintenance, difficulty passing bonds to cover extent of needs, as well as difficulty recruiting and retaining skilled building operators and technicians.

Had PGCPS relied on historical levels of state and local funding, it would have taken approximately **13 additional years** to complete these schools, during which the district estimated spending about **$236 million in deferred maintenance costs** on outdated facilities. The P3 model enabled the district to overcome funding limitations, accelerate construction timelines, and provide students and staff with state-of-the-art educational environments much sooner.

The time and cost comparison below demonstrates significant reductions in both project duration and the overall cost of design and construction. The financing for Phase 1 will be repaid via availability payments by Prince George's County Government as well as PGCPS through annual contributions over the 30-year term.





Courtesy of AIAI

The Phase 2 package for PGCPS consists of eight schools throughout the county with a Design and Construction budget of $800M and three staggered completion dates across a four-year construction period. The package also includes the demolition of eleven existing facilities as well as maintenance and rehabilitation of the new schools throughout a 30-year term.

Legal and Regulatory Framework for Implementing P3 in Maryland Public School Projects and at CCPS

A Public-Private Partnership or P3 is one of seven "alternative financing methods" available to LEAs under Maryland Law. A P3 is defined within the Education Article, Section 4-126.1(a), Annotated Code of Maryland for public school construction in Maryland as "an agreement in which a county board of education contracts with a private entity for the acquisition, design, construction, improvement, renovation, expansion, equipping, or financing of a public school, and may include provisions for operation and maintenance of a school, cooperative use of the school or an adjacent property, and generation of revenue to offset the cost of construction or use of the school."

The IAC, an independent agency within the State of Maryland, works with LEAs to allocate State capital funding for school construction. In the case of the PGCPS Phase 2, State funding was allocated towards the package via the Build to Learn Act (BTL) funds. The IAC's role within the Phase 2 rollout includes approving projects, being a signatory to the 4-party MOU, approving the overall project agreement, and providing oversight to ensure statutory compliance and performance outcomes.

The IAC's role within the PCGPS Phase 2 project was unique and if CCPS were to pursue a P3 for future projects, any potential for State funding towards availability payments would need to be determined by the General Assembly.

Under the current legal and regulatory framework, CCPS can pursue a P3. However, the responsibility for funding the availability payments would fall entirely on CCPS and the Calvert County Government.

CCPS Potential P3 Project Considerations

In understanding whether a P3 is the correct avenue for CCPS to pursue, CCPS needs to first identify what challenges the district is trying to solve, related to its infrastructure and capital needs:

- ***What are the challenges that CCPS is trying to solve?***
  - Cash flow limitation for major marquis projects = increased costs
  - Pre-K capacity
    - Space in CCPS facilities is limited to expand PreK for 3- and 4-year-olds per Blueprint requirements
  - Cash flow limitations for Capital Maintenance Projects
    - Capital Maintenance projects are not robustly scoped to refresh full systems adequately
    - Deferred maintenance = escalated future construction costs and higher maintenance costs
    - Almost 50% of CCPS Facilities have major assets with FCI scores above 60
  - Inadequate Capital Maintenance budget as a percentage of Current Replacement Value (CRV)

CCPS' average Facility Condition Index score is 51%, however there are a number of facilities with FCI scores over 60% or are approaching the 60% threshold.

LATEST CCPS FCI SCORES AT A GLANCE

- LATEST STATE DATABASE SHOWS 12 FACILITIES WITH FCI SCORES OVER 60%
- 1 FACILITY REPLACED AND 2ND IN PROCESS
- 9 FACILITIES WITH FCI SCORE 45% TO 60%

Location	LEA	PSC	School	FCI
1135	Calvert County	04.006	Northern Middle	72.56%
1136	Calvert County	04.018	Patuxent Elementary	70.34%
1140	Calvert County	04.011	Beach Elementary	69.67%
2585	Calvert County	04.010	Huntingtown Elementary	68.57%
2592	Calvert County	04.015	Plum Point Elementary	67.96%
2588	Calvert County	04.007	Mt. Harmony Elementary	67.26%
1137	Calvert County	04.009	Southern Middle	67.00%
3739	Calvert County	04.020	Windy Hill Elementary	63.57%
1138	Calvert County	04.013	Appeal Elementary	62.66%
3737	Calvert County	04.021	St. Leonard Elementary	62.36%
1133	Calvert County	04.004	Calvert Elementary	61.79%
3738	Calvert County	04.014	Sunderland Elementary	61.17%
2591	Calvert County	04.019	Patuxent High	56.47%
3740	Calvert County	04.022	Windy Hill Middle	55.04%
2589	Calvert County	04.002	Mutual Elementary	54.42%
2587	Calvert County	04.024	Mill Creek Middle	54.19%
1144	Calvert County	04.023	Dowell Elementary	50.53%
2586	Calvert County	04.026	Huntingtown High	50.40%
1141	Calvert County	04.012	Calvert Country	49.77%
2593	Calvert County	04.017	Plum Point Middle	49.20%
1143	Calvert County	04.025	Career and Technology Academy	46.64%
1139	Calvert County	04.028	Barstow Elementary	41.42%
2590	Calvert County	04.029	New Calvert Middle	36.07%
1142	Calvert County	04.003	Calvert High	33.96%
1134	Calvert County	04.005	Northern High	16.82%

The current 6-year Capital Improvement Program (CIP) includes four major marquis projects. Except for Northern Middle School, which is already being funded through State/Local CIP funds as well as the Build to Learn Act funds, the remaining projects could be evaluated for a P3 delivery. The table below shows the current planned design and construction funding cycles for all four projects.

SELECT CURRENT CIP PROJECTS

SCHOOL	DESIGN FUNDING CYCLE	CONSTRUCTION FUNDING CYCLE	TOTAL CIP BUDGET*	POTENTIAL P3?
NORTHERN MIDDLE SCHOOL	FY 2024-2025	FY 2025-2028	FUNDED THRU CIP/ BTL	NO
CALVERT ELEMENTARY SCHOOL	FY 2027-2028	FY 2029-2031	$53,694,256	?**
CALVERT COUNTRY SCHOOL	FY 2028-2029	FY 2031-2032	$40,711,228	?**
MT. HARMONY ELEMENTARY SCHOOL	FY 2031-2032	FY 2033-2034	$64,671,545	?**

*BUDGET INCLUDES DESIGN, CONSTRUCTION, AND FFE COSTS. ESCALATION APPLIED TO MID POINT OF CONSTRUCTION

**P3 ANALYSIS WOULD REQUIRE DELIVERY OF CES AND CCS IN FIRST PHASE AND MT. HARMONY ES TO BE DELIVERED IN SECOND PHASE

Calvert County Public Schools
Academics - Athletics - The Arts

Additional considerations for potential P3 delivery could include the build-out of a centralized Pre-K facility or multiple PreK centers to address Maryland Blueprint mandates. These could be considered as part of a larger bundle that includes the replacement projects noted above. Calvert County has very few private providers who are interested in participating in the full-day PreK program for 3- and 4-year-olds. Additionally, finding space in existing buildings to expand the current program is challenging.

Based on the FCI scores of 60 at twelve facilities as well as nine facilities having a score of 45-60%, P3 could be evaluated for full renovation or replacement projects at the highest FCI scoring schools. Any prioritization for bundling of projects needs to account for schools with capacity issues as well as lack of current swing space at CCPS.

POTENTIAL FUTURE PROJECTS

- REPLACEMENT OR RENOVATION OF SCHOOLS WITH **FCI SCORE = OR > 60** COUPLED WITH **ENROLLMENT PROJECTIONS EXCEEDING 100% CAPACITY BY 2031**

SCHOOL	FCI SCORE	2031 ENROLLMENT PROJECTION AS % OF CAPACITY	P3 CANDIDATE?
CALVERT ELEMENTARY SCHOOL*	65	93%	
PLUM POINT ELEMENTARY SCHOOL	71	103%	
PATUXENT ELEMENTARY SCHOOL	73	107%	

*IDENTIFIED AS CURRENT CIP PROJECT

CCPS could also consider potential combinations of full renovation coupled with limited renovation projects to “refresh” roofs, skin, (windows, doors, veneer), HVAC systems based on asset FCI scores over 60, within the IAC’s database. Additionally, adding solar to roofs could be a consideration to assist with operational costs. Since an important aspect of a P3 is risk transfer over a long period of time, these smaller, targeted projects need to be examined for associated risks due to unknown conditions and to determine if the efficiencies created through a P3 would be still apply in these cases. Lack of swing space could be addressed through portables, but that would come at an added cost to the project.

Possible combinations for potential P3 projects would need to be further analyzed as part of a feasibility study that includes an analysis of available funding. Factors for P3 project considerations should include future programmatic needs, high FCI scores, inadequate educational sufficiency, building utilization, enrollment trends, and operational costs.

Fiscal and Operational Viability

Financial Analysis:

The financial health of Calvert County Public Schools is a critical factor in determining the feasibility of implementing public-private partnerships. Below is a general assessment based on available information:

1. Operating Budget

- **Revenue Sources**: CCPS's operating budget primarily comprises funding from state aid, and county appropriations.
- **Budget Trends**: In recent years, CCPS has experienced modest increases in its operating budget to account for inflation, enrollment changes, and program expansions.
- **Expenditure Allocation**:
    - **Instructional Costs**: A significant portion is dedicated to salaries and benefits for teachers and instructional staff.
    - **Support Services**: Funds are allocated for student transportation, food services, and administrative support.
    - **Maintenance and Operations**: Ongoing expenses for facility upkeep, utilities, and custodial services.

2. Capital Budget

- **Facility Needs**:
    - **Aging Infrastructure**: Many school buildings require renovations or replacements due to age and changing educational needs.
- **Funding Mechanisms**:
    - **County Bonds**: Calvert County issues bonds to finance large capital projects, impacting its debt capacity.
    - **State Contributions**: The State of Maryland largely provides capital funding through programs like the Public School Construction Program. Limited funding for targeted project types is additionally available through the Healthy School Facility Fund Program (HSFF), Aging Schools Program (ASP), and the School Security Grant Program (SSGP).
    - **Grants and Other Sources**: Occasionally, federal grants supplement capital funding.

3. Financial Challenges

- **Deferred Maintenance**: Budget constraints have led to postponed maintenance projects, increasing long-term costs and impacting educational environments.
- **Limited Debt Capacity**: The county must balance its debt levels to maintain fiscal health, potentially restricting the ability to fund new projects through traditional borrowing.
- **Competing Priorities**: Other county needs, such as public safety and infrastructure, compete for limited financial resources.

4. Financial Opportunities

- **Community Support**: Strong local advocacy for quality education may facilitate alternative funding approaches, including P3s.
- **Efficiency Improvements**: Implementing cost-saving measures and operational efficiencies can free up funds for capital projects.

Assessing the Viability of Capital and Operating Funding Commitments by the State of Maryland

Understanding the state's ability to maintain funding commitments over the term of a P3 contract is essential for long-term project viability.

1. State Operating Funding

- **Funding Formula**: The state's Foundation Program allocates funds based on student enrollment and county wealth factors.
- **Historical Stability**: While subject to economic conditions, the state has generally provided consistent operating funding to school districts.
- **Potential Risks**:
    - **Economic Downturns**: Recessions or budget shortfalls at the state level could affect future funding levels.
    - **Policy Changes**: Legislative adjustments to funding formulas or priorities could impact allocations.

2. State Capital Funding

- **Public School Construction Program**:
    - **Annual Allocations**: Capital funding is determined annually, with amounts varying based on statewide needs and budget availability.
    - **Matching Requirements**: Calvert County's capital funding is split at a 56/44 percent rate for State/Local funding. Additionally, COMAR 14.39.02.05 allows project-based add-ons to the State Cost Share based on concentration of poverty, maintenance effectiveness assessment results, as well as Net-Zero design.
- **Legislative Initiatives**:
    - **Built to Learn Act**: Enacted to increase state investment in school construction. For CCPS, all allocated BTL funding has been utilized to provide adequate cash flow for the Northern Middle School replacement project.
- **Challenges**:
    - **Funding Uncertainty**: Reliance on annual appropriations introduces uncertainty for long-term projects.
    - **Competitive Process**: CCPS must compete with other districts for limited state funds.

While this assessment provides a general overview, it is crucial to engage professional financial and legal advisors with experience in alternative delivery to conduct comprehensive analyses. Advisors can:

- **Perform Detailed Financial Projections**: Evaluate long-term revenue and expenditure forecasts for CCPS and the State of Maryland.
- **Assess Funding Mechanisms**: Explore innovative financing options that align with county and state policies.
- **Evaluate Risks**: Identify potential financial, legal, and operational risks associated with P3 agreements.
- **Ensure Compliance**: Verify that all regulatory and statutory requirements are met.
- **Optimize Value**: Recommend strategies to maximize the benefits of P3s for the county and its residents.

Project Financial Benefits and Risks Associated with P3s

Financial Benefits:

- **Risk Transfer:** P3s allow public agencies to transfer risks (e.g., construction delays, budget overruns, and operational failures) to private partners, stabilizing costs and minimizing unexpected financial burdens on public agencies.
- **Access to Private Capital**: P3s provide access to capital from private investors, which can reduce the strain on public budgets and enable the public sector to allocate resources to other needs.
- **Cost Efficiency**: Private sector efficiencies, expertise, and innovative approaches can reduce life-cycle costs, leading to savings in design, construction, and maintenance, as well as faster project completion.
- **Revenue Generation**: Some P3 projects, like toll roads or public utilities, create ongoing revenue streams that can benefit both partners, making the project more financially sustainable.
- **Lifecycle Cost Management**: P3s often incorporate long-term operations and maintenance obligations, incentivizing the private partner to focus on reducing maintenance costs and extending the asset's lifespan.

Financial Risks:

- **Complex Financial Structures:** The structuring of P3 deals can be complex, leading to potentially high transaction costs and financial structuring that might not always be transparent.
- **Higher Financing Costs:** Private capital in many cases has a slightly higher cost compared to public financing (due to higher interest rates or required returns), which may impact the project's total costs.
- **Long-Term Financial Commitment**: P3 contracts are often long-term, binding public agencies to fixed terms that may not align with changing priorities or market conditions, leading to potential inflexibility.
- **Political and Regulatory Risk:** Changing political landscapes or regulatory environments may impact P3 projects, particularly in cases where subsidies, tax incentives, or regulatory permits play a key role in project feasibility.

- **Other Factors**: In order to make a P3 package as financially attractive as possible, the design of the facilities may not truly reflect the school system's programmatic and performance needs. Any P3 structure would need to carefully ensure that such requirements are accounted for and enforced during the design process.

Comparison of Costs: Traditional Public Funding vs. P3 Funding

Traditional Public Funding Costs:

- **Lower Financing Costs**: Public projects are generally financed through lower-interest government bonds, which tend to have more favorable rates than private loans. However, these types of bonds require fixed payments from the School District regardless of the performance of the assets they financed.
- **No Profit Requirement**: The public sector does not need to deliver profits to investors, meaning project costs typically exclude private sector profit margins.
- **High Upfront Capital Expenditure**: Traditional projects require significant upfront capital for design and development work from public funds or debt, which may strain government budgets or require trade-offs in other areas of public spending. Payments on a P3 project generally do not commence until the School District receives beneficial use of the developed assets.
- **Slower Delivery and Increased Risk of Cost Overruns:** Public sector-led projects can face lengthy procurement and decision-making processes, often leading to delays and higher costs due to inefficiencies.

P3 Funding Costs:

- **Higher Private Capital Costs:** P3s involve private sector investment, which may require higher returns than government borrowing, potentially raising overall costs. However, the efficiencies gained through private expertise and risk-sharing can partially offset these higher financing costs. Also, it's common to structure P3 deals with Availability Payment deductions for sub-optimal performance against contracted Key Performance Indicators.
- **Reduced Public Financial Burden:** P3s can alleviate the need for substantial upfront public investment, enabling more projects to proceed without immediate public capital or debt increases.
- **Value-for-Money Consideration:** The choice to pursue a P3 often hinges on value-for-money (VfM) analysis, where the public sector assesses whether long-term benefits (e.g., cost certainty, risk transfer, lifecycle efficiency) justify the potentially higher private financing costs compared to traditional public funding.

In summary, while P3s can involve higher financing costs due to private capital, they offer value in risk transfer, lifecycle cost management, and reduced public budget strain, whereas traditional funding leverages lower-cost public financing but may bear risks of delays and overruns more heavily.

Operational Efficiency:

Integrated Project Delivery:

- P3s often adopt a "Design-Build-Finance-Operate-Maintain" (DBFOM) model, where a single entity or consortium manages the entire project lifecycle. This integration reduces delays and handoffs between phases, leading to streamlined workflows and improved project coordination.

Innovation and Technology:

- The private sector brings technological innovation and management expertise that often leads to construction and operational efficiencies. Examples include advanced construction techniques, digital project management tools, and efficient asset management practices.

Performance-Based Incentives:

- P3 agreements commonly include performance-based contracts that incentivize private partners to meet specific operational standards. For instance, penalties for service delays or quality issues can encourage high performance, ultimately benefiting project outcomes and user satisfaction.

Enhanced Resource Allocation:

- With private partners often handling multiple operational elements, P3s can achieve efficiencies in staffing, equipment use, and material procurement, reducing redundancy and waste. This contrasts with public projects that may have compartmentalized roles and longer procurement processes.

Efficient Risk Management:

- P3s typically shift risks such as construction delays, cost overruns, and operational setbacks to the private sector. Private entities, incentivized by profit and performance standards, are often more effective in managing these risks, resulting in smoother project execution and operations.

Impact on Long-Term Maintenance and Operational Costs

Lifecycle Cost Optimization:

- P3 projects emphasize lifecycle costing, where maintenance is planned and budgeted from the start. This approach could potentially lead to better quality construction and materials, and may minimize long-term operational and maintenance costs, depending on the P3 structure. In contrast, traditionally funded projects may face deferred maintenance due to budget constraints.

Predictable Maintenance Expenditures:

- Under P3 contracts, maintenance costs are often fixed and predictable over the contract term. The private partner is responsible for adhering to set maintenance schedules, reducing the likelihood of unexpected expenses that often arise in publicly funded projects without dedicated maintenance budgets.

Cost Savings Through Efficiency:

- Private operators often employ proactive asset management strategies, leveraging advanced data analytics to monitor asset conditions in real time. This predictive maintenance can reduce the need for emergency repairs, extending asset life and lowering overall costs.

P3 focus on Lifecycle leads to Energy Efficiencies:

- The pursuit for lowest lifecycle costs on a project lasting 30-years could have a direct impact on the equipment being installed at the outset. Better systems and equipment will be more energy efficiency and save money throughout its life and will usually last longer than equipment purchased under lowest first cost procurements.

Potential for Improved Service Levels:

- Performance requirements included in P3 agreements incentivize private entities to maintain high service levels, translating into smoother, more reliable operations. This can indirectly reduce costs related to user complaints, downtime, and rehabilitation needs, which are often more costly if deferred.

Handback Provisions:

- P3s offer a Handback provision in their contracts which will dictate the condition of the assets developed by the project on contract expiry. This typically means the School District can outline a requirement that schools be returned in a very good or excellent condition as described by a Facility Condition Index or remaining years of useful life which guarantee the assets will perform well for years after the end of term.

In summary, P3s can enhance operational efficiency through integrated management, risk transfer, and performance incentives, and they often result in lower long-term maintenance and energy costs due to lifecycle cost optimization. However, these efficiencies depend on well-structured contracts, as inflexible agreements may create challenges if project demands shift over time.

Implementation of a P3 by Calvert County Public Schools

If CCPS were to move forward with consideration towards a P3, the following steps would be important as part of the implementation phase:

- **Strategic Planning**:
  - Outline the strategic steps necessary for implementing a P3.
  - Identify key stakeholders and their roles in the process.
    - Hire advisors
- **Risk Management**:
  - Identify potential risks and mitigation strategies.
  - Develop a risk management plan for P3 projects.
- **Project Management**:
  - Define the project management framework for overseeing P3 projects.
  - Establish performance metrics and monitoring procedures.

Strategic Planning

Outlining the strategic steps necessary for implementing a P3

- **Engage appropriate advisory services**

- **Initial Feasibility Assessment:**
  - Conduct a feasibility study to determine if a P3 is the best option compared to traditional funding and project delivery methods. This involves evaluating financial, operational, and timeline requirements.

- **Define Project Objectives and Scope:**
  - Clearly outline the goals, scope, and specific needs of the school infrastructure project. Determine the facilities needed, such as classrooms, sports complexes, or joint-use spaces for community engagement.

- **Stakeholder Engagement and Consensus Building:**
  - Gather input from key stakeholders, including school board members, community leaders, and government agencies, to build consensus and secure initial buy-in.

- **Develop a Business Case and Value-for-Money (VfM) Analysis:**
  - Prepare a business case that compares costs, benefits, and risks of a P3 against traditional models, incorporating a VfM analysis to justify the P3 approach. It is important to note that while the legislative authority to utilize the P3 Model exists in Maryland, the IAC does not currently participate in funding P3 public school construction projects. Any VFM analysis would need to take this into consideration when comparing against a traditional model where State funding is provided.

- **Secure Approval from Decision-Makers:**
    - Present the P3 business case to the school district board, local government, and relevant regulatory bodies for approval to proceed.

- **Procurement and Partner Selection:**
    - Create a procurement strategy, then initiate a competitive bidding process to select a private partner with the necessary experience, financial stability, and resources.

- **Contract Structuring and Negotiation:**
    - Draft and negotiate a detailed contract outlining risk-sharing, performance metrics, maintenance requirements, and financial obligations over the lifecycle of the project.

- **Project Mobilization and Execution:**
    - After finalizing the contract, mobilize project resources, assign roles, and establish communication channels for project execution.

- **Ongoing Monitoring and Evaluation:**
    - Implement a system for continuous monitoring and evaluation throughout the project lifecycle, with regular performance reviews to ensure adherence to agreed KPI and service standards.

It is important to note that the key to a successful P3 includes collaborative engagement with key stakeholders. Identifying stakeholders and developing a stakeholder engagement plan that outlines roles, responsibilities, communication strategies, and collaboration methods will be crucial to a successful outcome. This plan will facilitate active involvement from all parties throughout the project lifecycle, enhancing the likelihood of a successful and beneficial outcome for the Calvert County community.

Overall Recommendations

New School Construction

- **Assess Project Scope and Feasibility:**
    - Begin with a thorough needs assessment to determine the scope, location, and specific requirements for new school facilities. Evaluate if the construction aligns with broader educational goals and community needs.

- **Consider a Design-Build-Finance- -Maintain (DBFM) Model:**
    - The DBFM model is well-suited for new school construction P3s as it integrates the entire lifecycle of the project under one consortium. This structure reduces risks associated with handoffs between design, construction, and maintenance, streamlining the process and ensuring long-term quality.

- **Incorporate Lifecycle Maintenance Standards:**
    - Build maintenance and lifecycle requirements into the contract to ensure the facility remains in optimal condition throughout the contract term. Also, consider a suitable handback provision to ensure the systems and equipment will have many years of useful life after contract expiry. This approach aligns the private partner's incentives with the long-term quality and usability of the school.

- **Conduct Value-for-Money (VfM) Analysis:**
    - Use VfM analysis to compare the costs, risks, and benefits of a P3 versus traditional funding. This analysis can highlight potential savings in construction time, risk transfer, and maintenance costs, which are often more predictable under P3 structures.

- **Ensure Community Engagement and Support:**
    - Hold community meetings to gather input and address concerns regarding new school construction. Community buy-in is crucial for the project's success, especially when it involves public infrastructure and local taxes.

- **Emphasize Sustainable Design and Energy Efficiency:**
    - Encourage the private partner to integrate sustainable, energy-efficient designs to reduce long-term operating costs and support environmental goals. Energy savings can significantly lower lifecycle costs, benefiting both the district and the community. Many P3's have also included energy consumption guarantees into the contract as one of the performance outcomes.

- **Identify Potential P3 Project Candidates**

  Multi-Use Facilities for Community Engagement:
    - Consider projects that can serve both school and community functions, such as combining a school with a public library, recreation center, or performing arts space. These joint-use facilities maximize value for the district and the community and attract broader support.

Maintenance and Rehabilitation

- **Bundle Maintenance Projects Across the District:**
  - Bundling multiple maintenance projects under a single P3 contract can achieve economies of scale, making it more attractive for private partners and more cost-effective for the district. This approach is particularly effective for facilities requiring regular, predictable maintenance.

- **Incorporate a Facility Management (FM) Component in P3 Contracts:**
  - For projects with significant maintenance requirements, an FM agreement can be added, where the private partner is responsible for regular upkeep, repairs, and ensuring the facility meets performance standards. This strategy allows for predictable maintenance costs and improves facility quality over time.

- **Implement a Performance-Based Maintenance Model:**
  - Use performance-based contracts that set clear standards and performance metrics for the maintenance work. This approach incentivizes the private partner to maintain facilities at a high standard and reduces the likelihood of deferred maintenance.

- **Include a Handback Provision in the P3 Contract:**
  - Set a contract expiry condition for the return of the schools, systems and equipment back to the District. Traditional measures include a Facility Condition Index or defining remaining years of useful life for discrete asset components.

- **Evaluate Long-Term Cost-Benefit of Rehabilitation vs. Replacement:**
  - For older buildings, assess whether rehabilitation or full replacement offers better value. P3s may offer solutions for either scenario, depending on lifecycle costs and the potential for improving the learning environment.

- **Prioritize Preventative Maintenance and Energy Efficiency Upgrades:**
  - To minimize long-term costs, prioritize projects that incorporate preventative maintenance and energy efficiency upgrades. Projects that reduce utility costs or extend the life of critical systems (HVAC, roofing, electrical) should be a top consideration.

Prioritize Projects Based on Urgency and Impact

- **Safety and Compliance-Related Projects:**
  - Projects addressing urgent safety issues, ADA compliance, or other regulatory standards should be prioritized, as they directly impact student and staff safety and the district's compliance obligations.

- **High-Use, High-Visibility Facilities:**
  - Schools and facilities with high student populations or those that serve as central community assets should take priority. Enhancing these facilities offers broader benefits, improves community engagement, and can have a positive impact on public perception.

- **Projects with Clear Cost Savings or Revenue Generation Potential:**
  - Prioritize projects that offer measurable financial benefits, such as energy efficiency upgrades or maintenance bundles that reduce utility costs or increase facility longevity. These types of projects have a direct financial return on investment.

Conclusion

The high level assessment of implementing Public-Private Partnerships (P3s) in Calvert County has revealed several key findings:

- **Funding Challenges**: Calvert County Public Schools (CCPS) face significant financial constraints that limit their ability to maintain and upgrade aging educational facilities. Traditional funding sources are insufficient to address the extensive repairs, replacements, and modernizations needed to meet current educational standards.
- **Financial Relief Potential**: P3s offer a viable solution by introducing alternative financing mechanisms. Through collaboration with private entities, CCPS can reduce immediate capital expenditures, transfer certain risks to private partners, and benefit from private sector efficiencies and innovations.
- **Cost-Benefit Advantage**: Performing a comparative analysis would determine if P3s can provide greater overall value than traditional funding methods. Advantages include cost savings from streamlined construction and maintenance processes, accelerated project delivery timelines, and improved long-term facility management.
- **Community Impact**: Implementing P3s can positively affect the community by enhancing educational environments for students, providing parents with confidence in the quality of school facilities, and ensuring that taxpayers' funds are utilized effectively. Additionally, P3 projects can stimulate local economic activity through job creation during construction and maintenance phases.

Recommendations

Based on the findings, the following recommendations are proposed for consideration:

1. **Commission a Comprehensive Feasibility Study**: Engage professional advisors to conduct an in-depth analysis of the long-term value and viability of P3s, Identifying projects from the Capital Improvement Plan ensuring alignment with county regulations and financial policies.
2. **Promote Stakeholder Engagement**: Initiate inclusive dialogues with all relevant stakeholders—including CCPS leadership, county officials, educators, parents, and community members—to gather input and build consensus on the P3 approach.
3. **Develop a Strategic Implementation Plan**: Create a detailed plan outlining the objectives, scope, and desired outcomes based on the capital plan, including performance metrics and risk management strategies and identify how P3s can address current challenges.
4. **Secure Multi-Level Funding Commitments**: Explore and obtain necessary funding commitments from state and local sources to support P3 projects, enhancing financial sustainability and reducing reliance on traditional funding methods.

Next Steps:

To advance the implementation of P3s, the following actions are recommended:

1. **Appoint a P3 Task Force**
   Action: Form a dedicated team comprising representatives from CCPS, county government, and expert advisors to oversee the exploration and implementation of P3 projects.
2. **Engage Professional Advisors**
   Action: Hire experienced legal, financial, and technical consultants to provide specialized guidance and conduct necessary analyses.
3. **Conduct a Feasibility Study**
   Action: Perform a comprehensive study assessing financial implications, regulatory compliance, risk factors, and the overall viability of P3 models for CCPS based on core objectives.
4. **Create a Stakeholder Engagement Plan**
   Action: Outline strategies for effective communication and collaboration with all stakeholders, including scheduling public forums and feedback sessions.

By following these steps, Calvert County can effectively leverage Public-Private Partnerships to address its educational infrastructure needs, ensuring enhanced learning environments for students and prudent financial management for the community.

At the final meeting on Tuesday, December 3, 2024, the Workgroup agreed on the following recommendation, as next steps, at the conclusion of the workgroup's charge:

Conduct a detailed feasibility study via local funds as funding is made available.