Prince George's County Public Schools

Blueprint Schools Phase II Overview

Program Pillars

At the outset of the engagement, PGCPS made it clear that the Blueprint Schools Program would have the following three overarching Program Pillars:

1. Ensuring Program Affordability
2. Maximizing Local Hiring and Community Investment
3. Robust Minority Business Enterprises & County-Based Business Participation

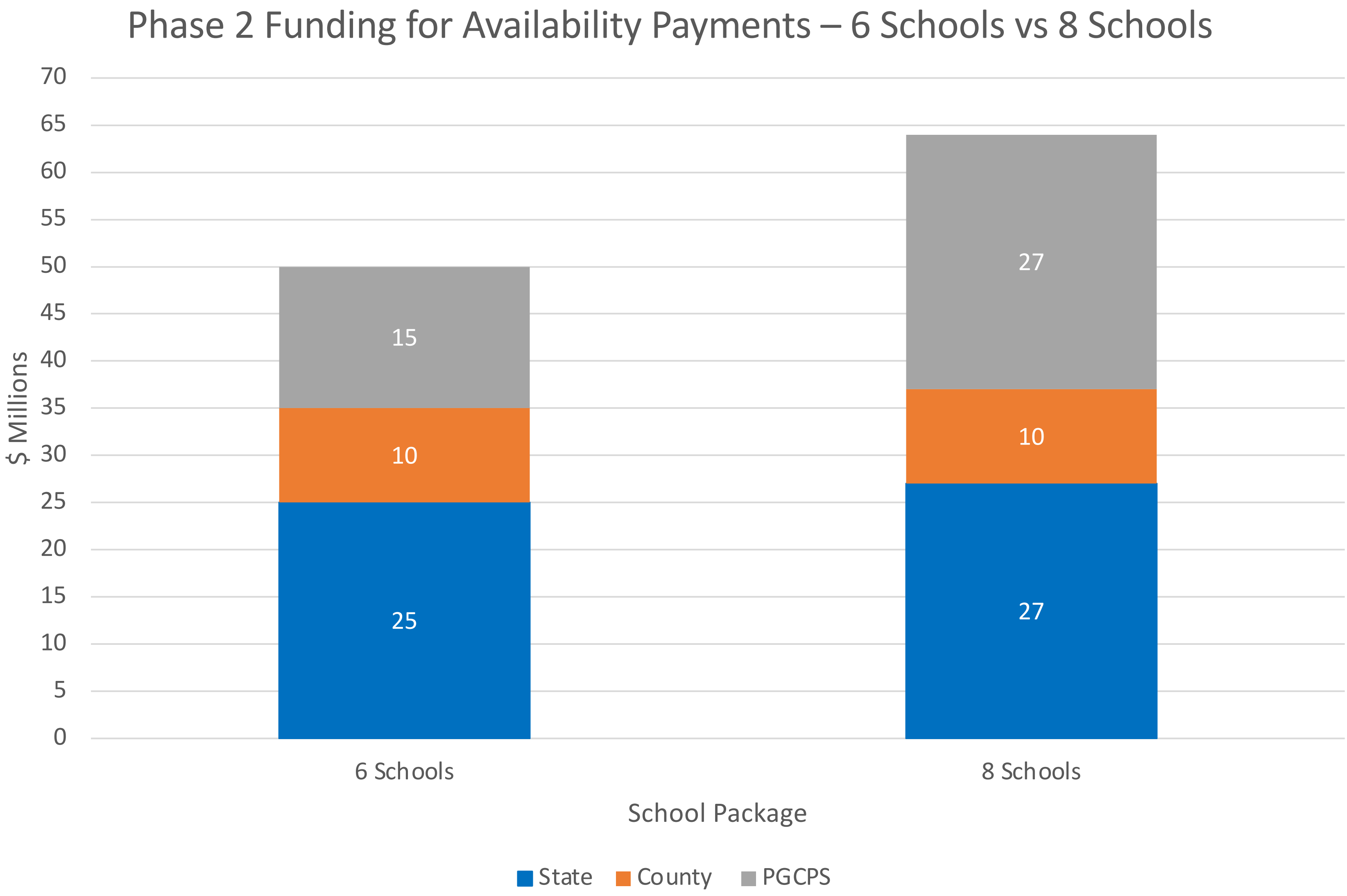
BUILD TO LEARN ACT

- **Specific Provisions Included in the Build To Learn Act**
    - Mandating the minimum number of 8 schools (up from 6 schools)
    - Granting the Interagency Commission on School Construction approval rights on the Phase 2 Project Agreement
    - Providing State Matching funds - $25 million one-time payment; $27 million per year for 30 years; totaling $810 million
    - Instituting a statutory drop-dead date of **June 30, 2024** for PGCPS to complete a deal or forfeit State matching funds
    - Requiring a four-party Memorandum of Understanding between Maryland Stadium Authority, Maryland Interagency Commission on School Construction (IAC), the County and PGCPS
    - Establishing a State P3 Fund

Funding Sources

- In Phase 2: The affordability limit is set at **$64 million**. The final first-year Availability Payment will not be known until the end of the Exclusive Negotiation Period (tentatively in June).
- The State, PGCPS and the County will share in the funding of the Availability Payment. Currently, the allocations are set at:
  - PGCPS: $27 million
    - Per County OMB, PGCPS' contribution of the Availability Payment is required to be funded from the **Operating Budget**
  - Prince George's County: $10 million
  - State: $27 million
- PGCPS and County contributions are required to be deposited into the State P3 Fund, prior to State matching funds.

Funding Evolution



Notes:

- Funding also includes prepaid Availability Payments for 6 schools and 8 schools of $50M and $90M, respectively
- The State contributes $27M toward prepaid Availability Payment for the 8-school package
- After Year 1, PGCPS is responsible for Availability Payment escalation
- Assumed that 30% of the Availability Payment will escalate with CPI each year
- PGCPS funding comes from the Operating Budget

Phase II Procurement Process

- *Progressive ENA Process:*
  - *Developer is required to advance designs, determine Guaranteed Maximum Price and secure financing to meet Board and State approved affordability threshold, no later than June 30, 2024.*
  - *PGCPS role is to work with Developer to drive value maximization and demand justification of **all** proposed costs – Developer fees, hard costs, financing costs, O& M costs – to meet affordability threshold.*
  - *If the affordability threshold is not met and Blueprint Schools Phase II is unable to be finalized by the statutory deadline, PGCPS is at risk of losing State matching funds.*

Affordability Considerations

- The Developer is required to submit a monthly status report setting forth its current assumed first-year Availability Payment (which ultimately must be below affordability for PGCPS to approve).
    - The expectation is that as the project advances, designs become more developed and subcontractor pricing gets tighter and more accurate. Tighter pricing will in turn reduce the Availability Payment.
    - The Availability Payment consists of the following 4 main components:
        - *Design and Construction Soft Costs & Upfront Financing and Developer Fees*
        - *Construction Hard Costs*
        - *Interest Rates*
        - *Operations, Maintenance and Lifecycle Costs*
- ***Every cost, assumption and fee is subject to scrutiny and verification.*** *PGCPS Technical, Legal and Financial Advisors vet every cost and assumption provided by the Developer to ensure compliance with legal agreements (ENA and Project Agreement) and market cost benchmarks.*

Current Affordability Challenges

- **Since PEP's initial proposal and commencement of the ENA Period, the following changes have occurred with respect to the program and costs:**
  - PEP has:
    - Reduced hard costs and fees by $19M, disregarding the impact of a PLA
    - Reduced soft costs and upfront fees by $29M
    - Reduced O&M and lifecycle costs by $4.6M
    - Adjusted the financial model to reflect 0.25% increase in interest rates
  - PGCPS has:
    - Reduced the square footage of the schools by over 106,900 sq. ft.
    - Determining dual use space opportunities with curriculum and academic teams
    - Reduced student capacity at certain schools
    - Reduced parking spaces
    - Reduced outdoor amenities
- If we had to close the deal right now, we would not have an approved project. In its latest report, the Developer indicated an Availability Payment of **$69.8 million.**

Current Affordability Challenges

- PGCPS informed PEP and MCN Build that as currently proposed we were unable to grant a waiver to allow this pricing ($5.8M in excess of affordability limit approved by the Board and IAC for 30 years). As such, they were directed to identify and start actioning on the drivers of unaffordability.
- Project Labor Agreement
  - **Note: MCN Build is (and always has been) able to sign the PLA, as drafted.**
  - Concerns
    - Required to be part of the Phase II project (was not in PEP's bid Availability Payment)
    - Will help PGCPS and PEP meet project objectives
    - Affordability Concerns prompted by minimum bid requirements
      - 3 – bid requirement vs. 1 – bid requirement
    - Participation Concerns prompted by lower thresholds
      - Targeted Business Enterprises Exemptions

Next Steps

- PGCPS will meet with Building Trades and PEP in coming days to work collaboratively to address affordability concerns, finalize PLA, and to ensure project is a success.
- PEP will continue developing the school designs and refining pricing to prepare a guaranteed maximum price and final Availability Payment by the end of March.
    - This will be the final determination of whether the project is affordability limit.
- PGCPS will engage OMB to examine possibilities for PGCPS to satisfy obligations through capital budget vs. operating budget.

QUESTIONS