

OFFICE OF SUPERINTENDENT OF PUBLIC INSTRUCTION K-12 SCHOOL CONSTRUCTION FUNDING FORMULA & ENROLLMENT STUDY

Legislative Task Force Meeting – August 13, 2008

DISCUSSION TOPICS

Introduction and Overview

- Project schedule
- Work Group charge and meeting plan
- Work Group roster
- Stakeholder interviews conducted

Preliminary Work Group Findings: Funding Formula, Transparency, and Policy Principles

- Preliminary findings
- Other states research
 - Preliminary findings
 - Questions

Enrollment Projections

- Legislative proviso and tasks
- Preliminary findings

PROJECT SCHEDULE

Updated August 6, 2008

2008

2009

	July	August	September	October	November	December	January - June	
	Phase A: Analysis & Studies, Work Group Facilitation, Task Force Meetings						Phase B: Implement Task Force Recommendations	
OSPI Project Management Meetings	○ ○	Ongoing Project Management Meetings/Conference Calls				○ ○	Task Force Implementation Plan Development	Exact tasks TBD, based on Task Force Recommendations
OSPI Leadership		2		4			Meetings to review implementation progress	
Work Group Meetings	△ 1 △ 2		△ 3	△ 4	△ 5	△ 6	Exact tasks TBD, based on Task Force Recommendations	
Advisory Group Meetings • Technical Advisory Committee (TAC) • Citizens Advisory Panel (CAP)			CAP TAC				Briefings on implementation progress	
Joint Legislative Task Force Meetings & Presentations		Aug 13 Policy Principles & Inputs to Transparency	Sept 17 Enhanced transparency recommendations; Pilot template of fund sources	Oct 15 Presentation & Final Enrollment Report	Nov 5 Preliminary Task Force Recommendations	Dec 17 Task Force Final Recommendations		
Draft & Final Reports		K-12 Formula Methods Study Draft Report Sept 8 Final Report Oct 1			Enrollment Projection Evaluation Draft Report Dec 8 Final Report Dec 30			

OFFICE OF SUPERINTENDENT OF PUBLIC INSTRUCTION K-12 SCHOOL CONSTRUCTION FUNDING FORMULA & ENROLLMENT STUDY

Work Group Charge and Meeting Plan

WORK GROUP CHARGE

Convene a work group to develop methods and options for making the current school construction assistance grant program more transparent in terms of the formula components, assumptions, and expected funding sources for projects funded from the grant program.

(Chapter 328, Laws of 2008, Section 5008, K-12 Formula Methods Study)

MEETING PLAN

Meeting #1: July 21, 2008

- Introductions, Work Group charge and operating principles
- Formula components and transparency: brainstorming and discussion
- Policy Principles brainstorming and discussion

Meeting #2: July 31, 2008

- Continuation of formula transparency and Policy Principles discussion; recommendations
- Legislative perspectives and issues
- Discussion of OSPI enrollment projections

Meeting #3: September 8, 2008

- Review draft report: K-12 Formula Methods Study
- Preliminary pilot template of fund sources and analysis of SCAGP distributions

Meeting #4: October 7, 2008

- Discuss enrollment projection analysis
- Other issues and recommendations for the Task Force

Meeting #5: November 3, 2008

- Continue to discuss enrollment projection analysis
- Implementation issues associated with Task Force recommendations
- Other issues and recommendations for the Task Force

Meeting #6: December 9, 2008

- Review draft Report: Enrollment Projection Evaluation
- Final recommendations to the Task Force

OFFICE OF SUPERINTENDENT OF PUBLIC INSTRUCTION K-12 SCHOOL CONSTRUCTION FUNDING FORMULA & ENROLLMENT STUDY

Work Group Roster

Work Group Members

Bill Chaput, Principal, Hutteball & Oremus Architecture
Todd Horenstein, Assistant Superintendent, Facilities & Capital Projects, Vancouver School District
Mel Murray, Director, District Programs & Capital Projects, Tumwater School District
Greg Brown, Director, Capital Projects, Spokane School District
Pete Wall, Director, Planning & Construction, Tacoma School District
Reg Martinson, Executive Director, Facilities, Evergreen School District
Don Gilmore, SSD Program Manager, BEX Capital Projects, Seattle School District
John Dekker, Assistant Executive Director, WASA
Dan Winter, Superintendent, Pioneer School District
Dan Steele, Assistant Executive Director, Governmental Relations, WSSDA
Doug Nichols, Director, Construction Services Group, ESD 112

Legislative Staff

Bryon Moore, Fiscal Analyst, Senate Ways and Means Committee
Susan Howson, Staff Coordinator, House Capital Budget Committee
Nona Snell, Fiscal Analyst, House Capital Budget Committee

OFM

Sandi Triggs, Capital Budget Assistant

JLARC Staff

Nina Oman, Research Analyst

OSPI Staff

Gordon Beck, Director
Ron Zier, Program Administrator
Brenda Hetland, Financial Consultant
Tom Kuehn, SW WA Regional Coordinator
Angie Wirkkala, Business Manager
Jeanne Rynne, NW WA Regional Coordinator
Carrie Hert, Administrative Assistant

Consultants

Bonnie Berk, Berk & Associates
Natasha Fedo, Berk & Associates

OFFICE OF SUPERINTENDENT OF PUBLIC INSTRUCTION K-12 SCHOOL CONSTRUCTION FUNDING FORMULA & ENROLLMENT STUDY

Legislative Task Force Meeting – August 13, 2008

Preliminary Work Group Findings: Funding Formula, Transparency, and Policy Principles

Overarching Findings

1. **Policy intent is not clear.** The policy needs to set direction for state school construction assistance program. What policy objective is the state trying to achieve?
2. **A new model for school construction funding is needed.** The model we are using is outdated and doesn't acknowledge the need to be flexible in how schools are constructed and modernized, given lack of available land and urbanizing areas, and the need for repairs and maintenance.
3. **The SCAGP basic formula was developed decades ago.** The funding formula was last comprehensively reviewed and revamped in the mid-1980's. More than 20 years later, much has changed. The formula has not kept pace with the funding needs, changes, or with today's school construction requirements.
4. **Over time, the state's role has changed.** The balance between state and locals has shifted, but that shift has not been acknowledged. For those school districts that applied for State construction funding, the state's contribution declined from 60% in 1985 to 34% in 2008. (Exhibit 1, OSPI data on state vs. local school construction funding)
5. **Original intent vs. current reality.** It is assumed the original intent of the SCAGP was to define the state's responsibility, to be equitable, and to equalize funding across districts. In fact, the State's responsibility is not functioning as it was intended, and it is not providing for equity across districts.
 - The program operates under Policy Principles developed in the 1980's.
 - Bond approval is a baseline requirement for funding. Some school districts have difficulty passing bond measures and some never present bond issues to the voters.
 - **In the last 10 years, 154 of the state's 295 school districts (52%)** have received construction funding through the program. Of these 154 districts, half (79) have only received funding once in the last 10 years. Thus, for this period, **75% of the state's school districts have received construction funding through the program only once or not at all** (Exhibit 2, OSPI data on history of submittals). *Note that some school districts may have applied for school construction assistance from the state between 1997 and 2007, but have not received funding either due to failing to pass the bond or for other reasons.*
6. **For those who do apply for state funding assistance, the formula serves to effectively cap the State's contribution.** Because area cost allowance and square foot allowance per student are kept artificially low, the formula acts as a complicated way of limiting the amount of funding the legislature authorizes for the program.

The Transparency Challenge: Key Findings

There are four major issues associated with the “transparency” of the funding formula:

1. The Formula is Complex and Not Intuitive

- **Authority for the formula is in both RCW and WAC.** Which portions of the formula are contained within what authority is confusing.
- **Not just one formula or approval; there are multiple funding categories and processes.** There are multiple components to State school construction funding: there is the primary formula for hard capital costs for instructional space. There are also more than ten separate formulas and approval processes for various other construction project components. Some of these components are now required for all projects; consolidating submittal requirements would be helpful to school districts.
- **Funding is limited to “instructional use” project components.** Several elements of school construction projects are not eligible for funding under the state formula – “there are many caveats to what the state will fund – it’s a pea in a walnut situation”.

2. The Communication and Naming Issue: The naming of some of the components adds to the confusion. Challenging terms are:

- **State match:** Terminology creates a disconnect – districts say “we are a 60% district, but we actually get 16%.” Could be called “state contribution” or “state funding assistance”
- **Match ratio:** This is not a match ratio, could better be termed the “equalization ratio”

3. The Funding Issue: it is not clear that the formula is an approach to allocating limited state funding.

- This fact can be obscured by reports of “fully funding” applications for funds; the state is not “fully funding” school construction.

4. The Policy Basis is Not Clear: People don’t understand how the funding and formula levels have been set.

- The fact that the area cost allowance and square footage per student are set at artificially low levels adds to the lack of transparency and confusion.

Legislative Task Force Meeting – August 13, 2008
Work Group Preliminary Findings: Funding Formula,
Transparency and Policy Principles

Exhibit 1
SUMMARY OF STATE VS. LOCAL % OF SCHOOL CONSTRUCTION PROJECTS
FUNDED BY YEAR 1985 - 2008

	TOTAL PROJECT COST	LOCAL FUNDS	STATE FUNDS 1/	STATE % OF TOTAL
JULY 1, 1985	\$137,180,023.41	\$48,350,243.52	\$83,532,636.22	60.89%
JULY 1, 1986	\$85,309,847.37	\$30,290,769.29	\$55,019,078.08	64.49%
JULY 1, 1987	\$166,079,809.83	\$73,138,621.38	\$92,941,188.45	55.96%
JULY 1, 1988	\$227,058,131.39	\$111,281,021.57	\$114,996,765.82	50.65%
JULY 1, 1989	\$289,298,563.83	\$153,539,374.67	\$135,759,189.16	46.93%
JULY 1, 1990 2/	\$543,363,885.09	\$308,256,555.91	\$232,117,521.35	42.72%
JULY 1, 1991	\$335,331,555.39	\$181,418,797.91	\$153,912,757.48	45.90%
JULY 1, 1992	\$542,973,582.32	\$317,996,317.15	\$224,977,265.17	41.43%
JULY 1, 1993	\$287,496,968.85	\$150,867,103.26	\$136,629,865.59	47.52%
JULY 1, 1994 3/	\$349,057,988.36	\$219,303,178.41	\$129,754,809.95	37.17%
JULY 1, 1995	\$524,314,762.76	\$314,314,762.76	\$210,000,000.00	40.05%
JULY 1, 1996 4/	\$403,647,324.07	\$254,401,039.18	\$149,246,284.89	36.97%
JULY 1, 1997	\$385,553,042.53	\$263,766,246.23	\$121,786,796.30	31.59%
JULY 1, 1998 5/	\$468,088,426.32	\$310,815,620.99	\$157,272,805.33	33.60%
JULY 1, 1999 6/	\$556,082,426.92	\$377,940,541.83	\$178,141,885.09	32.04%
JULY 1, 2000	\$518,234,030.45	\$346,992,614.59	\$171,241,415.86	33.04%
JULY 1, 2001	\$352,801,897.73	\$246,045,805.84	\$106,756,091.89	30.26%
JULY 1, 2002	\$542,279,178.49	\$331,454,132.37	\$210,825,046.12	38.88%
JULY 1, 2003	\$542,656,478.33	\$364,036,794.41	\$178,619,683.92	32.92%
JULY 1, 2004	\$629,404,885.01	\$458,558,628.99	\$170,846,256.02	27.14%
JULY 1, 2005	\$706,304,395.67	\$424,375,432.06	\$281,928,963.61	39.92%
JULY 1, 2006	\$620,436,060.21	\$409,913,111.34	\$210,522,948.87	33.93%
JULY 1, 2007	\$1,219,303,672.59	\$824,162,778.72	\$395,140,893.87	32.41%
JULY 1, 2008 7/	\$1,044,026,746.19	\$690,076,867.43	\$353,949,878.76	33.90%
TOTALS 85-06	\$11,476,283,683.11	\$7,211,296,359.81	\$4,255,920,027.80	37.08%

1/ Includes art grants

2/ Includes 3/91 supplemental release

3/ Includes 6/29/95 supplemental release

4/ Includes 6/30/97 supplemental release

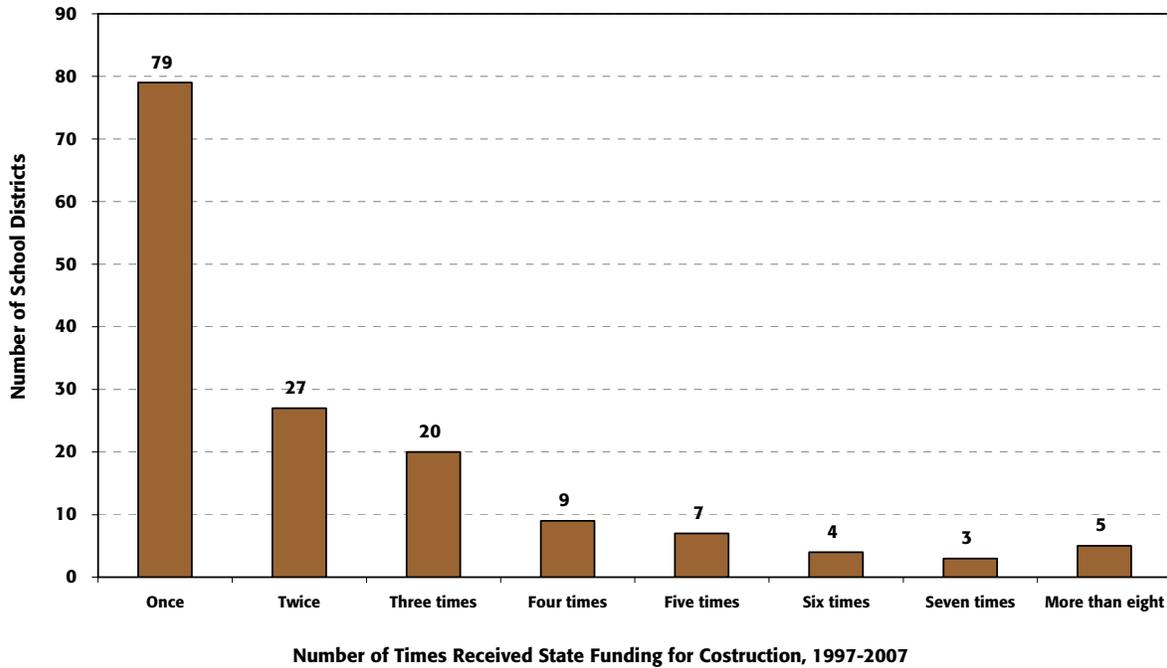
5/ Includes 5/17/99 supplemental release

6/ Revised 4/25/01 to include CM & BC

7/ Preliminary

Source: OSPI, 2008

Exhibit 2
School Districts that Received State Funding for School Construction, 1997-2007



Source: OSPI, Berk & Associates, 2008

Note: some school districts may have received funding for more than one project per year, but are only counted here per each "release".

In the last ten years:

- 154 (52%) of total school districts have applied for State funding
- 79 school districts (27% of total) applied for State funding only once
- 75 school districts (25% of total) applied for State funding more than once
- 75% of the state's 295 school districts have used the program only once or not at all

OFFICE OF SUPERINTENDENT OF PUBLIC INSTRUCTION K-12 SCHOOL CONSTRUCTION FUNDING FORMULA & ENROLLMENT STUDY

Legislative Task Force Meeting – August 13, 2008

Summary Assessment of Other States

Best Practice States

In collaboration with OSPI, eight states have been identified across the country to survey regarding their approaches to school construction funding and eligibility. We are conducting in-depth telephone interviews with state level representatives at School Facilities departments and reviewing related documents and web sites. The primary purpose of this assessment is to determine if any funding, program, or communication practices might be applicable to the State of Washington.

As of August 4, 2008 we have conducted in-depth interview with representatives from the following states:

- California
- Kentucky
- Massachusetts
- New Jersey
- New York

The following states have expressed an interest in participating in the assessments but interviews have not yet been completed:

- Arizona
- Ohio
- North Carolina

Interviews are structured around the interview protocol at the back of this document.

Preliminary Findings

California

- CA funds school construction through periodic bond issues. It is a locally driven process with little state oversight.
- There is no statewide inventory of existing facilities and no long range planning requirement.
- The state/local contributions are 50/50 for new construction and 60/40 for modernization. However, these matches are based on what the state estimates things should cost. Districts say they are actually paying anywhere from 60-80% due to market costs and costs for specialized schools, such as science magnet schools.

Kentucky

- KY's educational funding system was overhauled after a 1990 Supreme Court ruling that concluded that the structure for funding public schools was inadequate and inequitable and, thus, in violation of the Kentucky constitution.
- School construction is funded entirely through revenue streams. While local districts manage their own projects, the state has a great deal of oversight in the process.
- Kentucky conducted a statewide inventory of its schools to assess the state of existing facilities. The inventory will be in an online database by fall 2008.

Massachusetts

- The MA School Building Authority (MSBA) was established in 2004, as part of a reform measure that pledged 20% of the state's future sales tax as a dedicated revenue stream to pay down existing \$10.7B in debt. MSBA tries not to focus on the funding formula but rather on eligibility and the creation of a fair process to distribute state funds to the neediest projects.
- The school building grant program is a non-entitlement program, which is a key difference from many other states. The MSBA can decide which projects get funded and which do not and not all proposed projects will receive funding.
- The state contributes 40% to 80% of the eligible project cost with the local district contributing the rest. There is no mechanism at the moment for the state to assist when the school has trouble raising its portion of the funding.

New Jersey

- The Schools Development Authority (SDA) is responsible for the management of design, pre-construction, and construction activity related to approved SDA District (formerly Abbott District) projects. SDA projects receive full funding for all eligible costs.
- NJ typically pays about 60% of eligible project costs on non-SDA District projects. The SDA disburses the money at milestones and reviews the level and quality of work and reviews all the project documents.
- All school districts are required to complete a long range facilities plan every five years that catalogues actual and estimated enrollment, age of facilities, maintenance needs of facilities, etc.

New York

- NY is required to fund all eligible projects; this has an impact on the state budget since they never know for certain how many proposals they will receive in a year.
- Facilities Planning oversees all public school construction, including review of capital projects, floor plans, and enrollment projections, and provides the district with an estimate of eligible state aid. It also issues the building permits according to a statewide building code for public schools; public school projects are not held to their local building codes.
- The Facilities Planning department uses a 50 year old formula that is complex and not well understood by school districts or the public

DRAFT INTERVIEW QUESTIONS FOR OTHER STATES

General

- Please provide an overview of your State's role in K-12 school construction and modernization.
 - What is the State's annual (or biennial) funding program for capital construction?
 - Does school construction get funded through the capital budget or through periodic non-recurring bond issues?
 - What is the annual funding level for school construction? (most recent year/biennium)
 - What is the State's share of school construction funding as opposed to local share?
- What types of school construction funding does your department administer? Direct aid? Matching grants? Debt service assistance?
- Is there a great degree of local school district control, or is the school system more centralized? If centralized, what is the governing body and what are its duties?
- What amount of oversight and control do the states have when giving money to the school districts or education service districts (ESDs)?
- What are the revenue sources for school construction funding? Have they significantly changed over the years?
- Do school districts pay state sales tax on school construction contracts?

Funding Eligibility

- What eligibility requirements must be met in order to apply for funding?
- What types of school construction costs are eligible for funding?
- Does the State fund new construction and modernization projects differently?
- Does the state provide for a dedicated fund for maintenance and repair of school district buildings?
- Does the state provide funds for emergency repair or other infrastructure projects?

Funding Formula and Process

- How does the State determine the amount of funds?
- Does the State use a particular formula to determine the amount of state funds?
 - What elements are considered?
 - Are enrollment projections used? If so, how? What is the enrollment projection methodology?
 - Are any benchmarks or cost indices incorporated?
 - Does the funding formula account for relative differences in wealth among the school districts?
- What is the brief history of the formula?

**Legislative Task Force Meeting – August 13, 2008
Preliminary Summary Assessment of Other States**

- What is the State's current process for applying the formula and funding school construction? What is the process to provide and track the state's funds?
- Are there any relevant documents or forms that we can review that outline how the funding formula works?

Priorities

- Is the State able to fully fund all eligible requests for construction or modernization projects? If not, how do you determine which projects to fund?
 - Are there any state legislative priorities with respect to funding?
 - Does the state use health and safety data in prioritizing capital improvements?
 - Is there a prioritization system?
 - Who determines the priorities?
- Do you try to determine what may be the reasonable expectation for future school construction funding demand?

Communication and Transparency

- How do you educate school district stakeholders and the public about the application process?
- Is the public concerned with how state school construction funding is determined and allocated?
 - What steps have you taken to ensure transparency?
- Do you get the sense that generally the public feels it is a fair system? Can external stakeholders easily understand how funding choices are made?
 - What about the school districts?
- Do you actively promote to the public the amount and allocation of money spent on K-12 construction and modernization in your state?
- Are there any benchmarks or performance measures in place to determine if the current school construction funding system is working effectively? If so, what are they?

Closing Questions

- Do you have any plans to revisit the school construction funding system? Have you encountered any challenges? Are there areas for improvement?
- Are there any other documents or information that you could send us that might be helpful for this study? Is there anyone else that you think we should speak with?

OFFICE OF SUPERINTENDENT OF PUBLIC INSTRUCTION K-12 SCHOOL CONSTRUCTION FUNDING FORMULA & ENROLLMENT STUDY

Task Force Meeting – August 13, 2008 Enrollment Projections – Initial Discussion

OVERVIEW

Legislative Proviso

The appropriation in this section is provided solely for OSPI to contract with a research organization to conduct an evaluation of the accuracy and reliability of the current method used for forecasting school district enrollment for determining eligibility for the school assistance program. This evaluation must also include a review of different methodologies used by school districts in projecting their enrollment for capital planning and budgeting purposes. A final report resulting from this evaluation must be submitted by January 1, 2009.

(Chapter 328, Laws of 2008, Section 5016, Enrollment Projections Evaluation Study)

Task: Research and Analyze School Enrollment Projection Methodologies

1. Document OSPI's current enrollment projection formula
2. Review and assess the findings and applicability of OSPI's September 1990 enrollment projection study
3. Evaluate the accuracy and reliability of OSPI's current method used for forecasting school district enrollment.
4. Review the various methodologies used by school districts in projecting their enrollment for capital planning and budgeting purposes.
5. Review and assess school enrollment forecast methods used in other states.
6. Provide analytically valid comparisons and data to support the evaluation of OSPI's current enrollment forecast method.
7. Options for comparative evaluative approaches.

Work Products

- **August 13, 2008:** Presentation to the Task Force. Interim deliverable: current enrollment projection methodology and how it is used.
- **October 15, 2008:** Presentation to the Task Force: assumptions, methods, findings and recommendations of the Enrollment Projection Methodology Study.
- **December 8, 2008:** Draft Report
- **December 30, 2008:** Final School Enrollment Projection Methodology report



OSPI METHODOLOGY – K LINEAR COHORT PROJECTION

Description of K Linear Cohort Projection

- Projects Kindergarten enrollment based on the average Kindergarten enrollment trend experienced during the prior five years.
- Projects enrollments in grades 1-12 based upon the average grade progression rate experienced during the prior five years
- OSPI uses either a 3 year or 5 year average to project future enrollments (in growing districts it uses whichever yields a higher projection and in declining districts it uses whichever yields a lower projection)

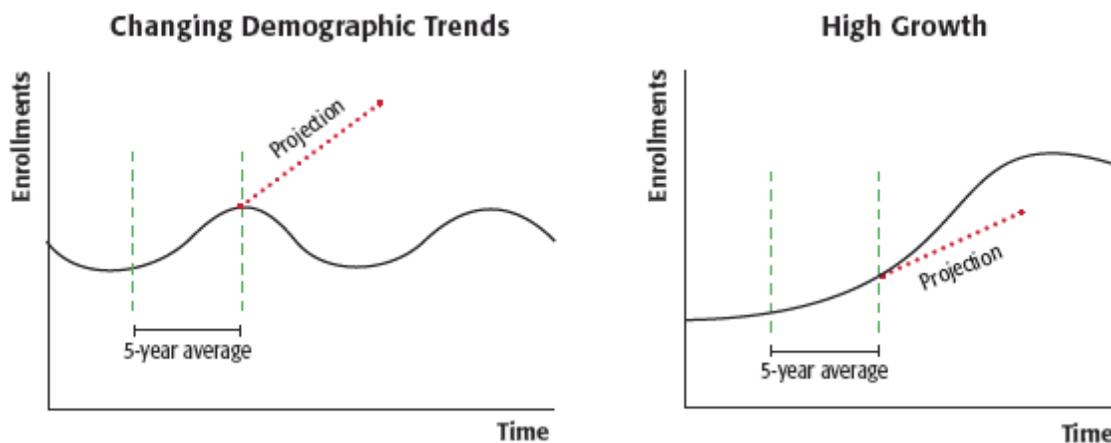
Advantages of K Linear Cohort Projection

- Per the 1990 Study, OSPI's current methodology projects over 70% of the State's districts within $\pm 5\%$
- The current methodology is relatively simple to calculate (actual enrollments by grade is the only data input required)

Disadvantages of K Linear Cohort Projection

- In districts where demographics are rapidly changing, the current methodology is less accurate – this has been cited as a concern with respect to high growth districts

Exhibit 3 Challenges with Cohort Survival Enrollment Projection Methodology



Source: Berk & Associates

- In smaller districts, where a small change in numbers of students results in larger percent changes, the method is less accurate

Exhibit 4

