OFFICE OF SUPERINTENDENT
OF PUBLIC INSTRUCTION

K-12 SCHOOL CONSTRUCTION FUNDING FORMULA TRANSPARENCY STUDY

BERK & ASSOCIATES

Final Report: October 1, 2008

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Executive Summary

INTRODUCTION

Legislative Direction and Implementation

This report was prepared in response to direction and a proviso issued by the 2008 Legislature to study the transparency and efficacy of the State's current School Construction Assistance Grant Program (SCAGP). The Legislature directed the Office of the Superintendent of Public Instruction (OSPI) to undertake a K-12 school construction funding formula study to analyze aspects of the State's grant program, and to present options for formula and program improvements to the Joint Legislative Task Force on School Construction Funding. Specifically, the proviso called for OSPI to:

> 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*)

Work Group Role and Engagement

As directed by the legislative proviso, a School Construction Funding Formula Work Group was formed to discuss the analysis of the current formula and recommend options to increase its transparency. The Work Group is a multi-jurisdictional committee comprised of school district representatives from across the state, as well as other stakeholders knowledgeable about the State's school construction and funding system. The 11-member group includes representatives from large, medium, and smaller-sized school districts. A roster of Work Group members and the organizations they represent is contained in Attachment A, along with the Work Group charge and meeting plan.

Since its formation, the Work Group has met monthly, in nearly all-day sessions. The Group will meet a total of six times, from July through December 2008. The Group has grappled with the funding formula in concept as well as in practice in their districts, and has discussed all of the issues included in this report. The report reflects the Work Group's discussions, key findings, and their consensus-based recommendations to the Joint Legislative Task Force.

Work Group members have also presented their findings and recommendations to the Joint Legislative Task Force. Attachment B contains the Work Group's findings as presented to the Task Force on August 13, 2008. These findings constitute the foundation of the recommendations contained in Chapter 7.0 of this report.

SCHOOL CONSTRUCTION FUNDING SOURCES AND FUNDING HISTORY

Revenues for K-12 capital projects come from a variety of federal, state and local accounts and sources:

- Federal: mineral revenue and impact aid
- State: Trust Land revenue, Trust Land Transfer Program, the Education Savings Account, the Education Construction Account, Common School Permanent Account interest, State General Obligation bonds, interest, and general fund excess reserve
- Local: school district General Obligation bonds, capital levies, impact and mitigation fees, revenue, and other miscellaneous revenue

Key findings of this examination of revenue sources for K-12 capital projects include the following:

- **Total spending on capital projects has fluctuated, with an overall increasing trend.** Expenditures recorded in school districts' Capital Projects Funds and the total costs of SCAGP projects have fluctuated from year to year considerably.

  Total expenditures in school districts' Capital Projects Funds equaled $1.7 billion in FY 2006-07. Looking at the most recent 10-year time period in which data are available (FY 1996-97 to 2006-07), there was a 56.6% nominal increase in spending, and a 10.3% real increase in spending, calculated using the Engineering News-Record Construction Cost Index.

  For SCAGP projects, total costs equaled $1 billion in FY 2008-09. The percent change in the 10-year time period between FY 1998-99 and FY 2008-09 equaled 123%, 76% of which is not accounted for by inflation.

- **Local sources are increasingly paying a larger portion of capital costs.** In FY 2006-07, local sources funded 81.8% ($1.37 billion) of all capital construction expenditures. When looking only at projects eligible for state assistance through SCAGP, local sources funded 66% ($410 million) of capital project costs in FY 2006-07.

- **The largest percentage of state revenue comes from the management of State trust lands.** Revenues from the Common School Trust Land and Trust Land Transfer Program have been the largest source of state appropriations for common school capital projects. Together, these sources equaled 57.7% of all state appropriations in the 1989-91 biennium and 45.4% in the 2007-2009 biennium.

  Revenue from the Common School Trust Land alone, however, has been decreasing as a share of total state appropriations, equaling 57.5% in the 1989-91 biennium and 27% in the 2007-09 biennium. In comparison, in the 2007-09 biennium, lottery revenue the Education Construction Account accounted for 28.2% of all state appropriations. Revenue from the Trust Land Transfer Program has fluctuated between 10-18% since the1991-93 biennium.

- **Bonds have consistently been the largest source of local revenue.** The percentage of local revenue from bonds has varied between approximately 62% and 83% of total local funding sources. In FY 2006-07, $1 billion generated from the sale of bonds went to capital project expenditures. A school district's ability to use this financing tool is constrained, however, by the statutory debt limit of 5%.

COMPARATIVE SURVEY OF OTHER STATES' APPROACHES TO SCHOOL FACILITY CONSTRUCTION FUNDING

In an effort to gain an understanding of school construction funding approaches and funding formulas in other parts of the country, interviews were conducted with representatives from nine states: Arizona, California, Kentucky, Massachusetts, New Jersey, New Mexico, New York, North Carolina, and Ohio. School Facilities materials, such as Program Handbooks, Design Manuals, websites, and annual reports were also reviewed. In addition to the nine states studied in-depth, a summary level review was conducted for Idaho and Oregon. Given that both states contribute minimal funding (less than 5%) to school construction projects, their programs were not reviewed in detail.

Of the nine states surveyed, there were similarities with respect to certain practices, but each state had its own approach resulting from its history of past practices, litigation, agency reform or creation, or legislative intervention. While none of the states surveyed have a school construction funding model that is directly comparable to Washington, all of the states have some program components or features that are similar. Most states use some type of formula to allocate state funding, attempt to account for the wealth of the district when determining the amount of funding to individual districts, and rely on enrollment projections to measure unmet need and prioritize projects.

High Level Findings

- There are many different models and no one model that is completely applicable. Relatively high state share of funding generally means relatively strong state oversight
- Clear program mission is key to transparency
- With the exception of Arizona, local validation is required to some extent by all of the states surveyed
- Objective needs-based prioritization systems increase transparency
- Inventories help policy makers determine the goal and appropriate dollar amount for state funding
- Construction best practices can reduce costs and increase efficiency

Funding Formula Findings

Approaches to funding school construction range from Washington's model, which calculates state participation percentage based on school district wealth, to New Mexico's model, which assesses need on a building-by-building basis, to Ohio's approach, which is addressing all the schools in the poorest districts first and moving down the list. With the exception of North Carolina, which allocates money on the basis of student enrollment, the states surveyed use a funding formula to calculate state funding. New York is similar to Washington in that the formula has been in existence for about 50 years and has been repeatedly refined but never reviewed or improved systematically. New York is currently working to simplify its formula because it is viewed as overly complex.

Six of the nine states surveyed have decided or been ordered to account for district wealth in a way that dedicates significantly more resources to poorer districts.

Transparency, Outreach, and Communication Findings

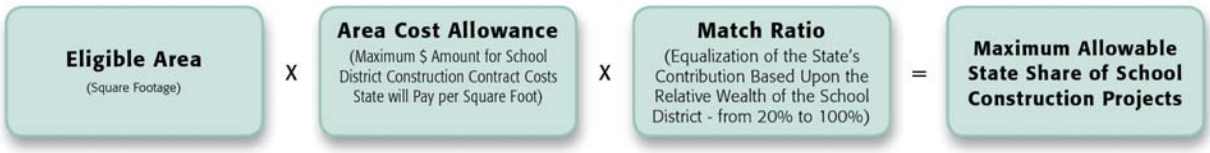
All of the states surveyed invest resources in communicating their role and programs and promoting the projects they fund, by using handbooks and manuals; online materials and templates; specific language for voter materials; customer satisfaction surveys; annual reports; and news coverage .

SCAGP FORMULA DESCRIPTION AND KEY DRIVERS

Washington's K-12 School Construction Funding Formula

Exhibit ES-1 below shows the components of the State's main K-12 school construction and modernization funding formula. The formula elements and its strategic drivers are discussed comprehensively in Chapter 5.0. In addition to the major formula presented below, there are nine other funding formulas, or companion formulas, covering the multitude of associated school construction and modernization "soft" project elements. The formula below is used for construction costs ("hard costs") of instructional space.

Exhibit ES-1
SCAGP Formula



Source: OSPI

Evaluation of Formula Allowances

Two components of the basic school construction formula are constants, set by OSPI and the Legislature: the per student space allowance and area cost allowance (ACA). As mentioned above, these formula elements are established by the State, and do not align with actual student space needs and construction costs. School districts report having a higher cost per square foot than the state formula provides for, and typically use more than the eligible square foot allocation in the state formula.

While the State completely funded its matching obligation based on current formulas during the past ten years, the actual level of state assistance for 2008 was about one-third or 34% of total state-recognized costs. This level represents a marked decline from the 61% state funding level in 1985.

The primary reason the actual contribution is presently 34% is that the ACA and Eligible Area allowances have not kept pace with modern school requirements and construction costs. The state's ACA is considerably lower than the actual cost and the eligible square feet per student are less than what is typically used by school districts.

ASSESSMENT OF SCHOOL CONSTRUCTION INFORMATION PROVIDED TO VOTERS

Purpose of Assessment

In order to make recommendations about how to achieve transparency of the State's school construction assistance formula, a review of voter materials related to local school construction bonds was conducted. The purpose of the review was to inventory the various types of materials and the level of detail provided to voters, to assess the clarity and accuracy of information presented, particularly related to the state matching funds, and to evaluate the need for drafting standardized language available to school districts through the creation of a voter materials template.

The review was designed to include materials from a range of school districts in terms of enrollment, geographic location, and match ratio. Thirty districts in 22 counties were selected for assessment, producing a sample of approximately 10% of the State's 295 districts and 24% of the total student population.

Research Approach

Once the districts were identified, research was conducted to obtain voter materials distributed regarding each bond measure. Sample materials were assembled using school district websites, bond measure campaign websites, and the League of Education Voters' Levy Library. Of the 30 districts selected, 21 still had voter information available regarding the most recent bond measure, although it is possible that these districts produced additional voter materials that are no longer available. The remaining nine districts had already removed the bond information from their websites or the campaign website had been dismantled, and the voter materials had not been uploaded to the League of Education Voter's Levy Library.

Key Findings

There is a wide range of information and level of detail in the voter materials reviewed. Overall, state matching funds are not well communicated in voter information. Mention of state funds is typically relegated to the Frequently Asked Questions section of a pamphlet or website, mentioned in some but not many voter materials, or not mentioned at all. The fact that state funding is contingent upon local validation through approval of the bond measure is frequently omitted. Most materials place very little emphasis on the contribution of state funds to school construction and modernization projects.

The formula is complex, as is the SCAGP program. Individual school districts use various approaches to explain it to voters and some communicate better than others. Providing information and materials that succinctly communicate the state's funding formula and program would help increase understanding and transparency and allow the school districts to highlight the potential for a state contribution in their voter materials.

WORK GROUP RECOMMENDATIONS

Improvements to Increase Formula Transparency

More Accurately Name Formula Components

The naming of some formula components is confusing and hinders transparency. The terms "state match" and "match ratio" create a disconnect – districts say "we are a 60% (equalization) district, but we actually get 16% (in State funding)." Districts also struggle to explain that discrepancy to voters.

Recommendations:

- "State match" could be called "state contribution," "state funding assistance," or "state share"
- "Match ratio" could be called the "equalization ratio"

Increase Formula Allowances to Reflect Reality, and Balance Funding Constraints with a State Affordability Factor

The formula could be made more transparent if allocation levels kept pace with true facility sizes and actual costs. Both the area cost allowance (ACA) and the allowable square footage per student are now held artificially low, in order to cap the state's contribution. The fact that allowances are set at artificially and unrealistically low levels is a major contributor to the transparency problem.

The establishment of true cost and space allowances would more accurately communicate project requirements.

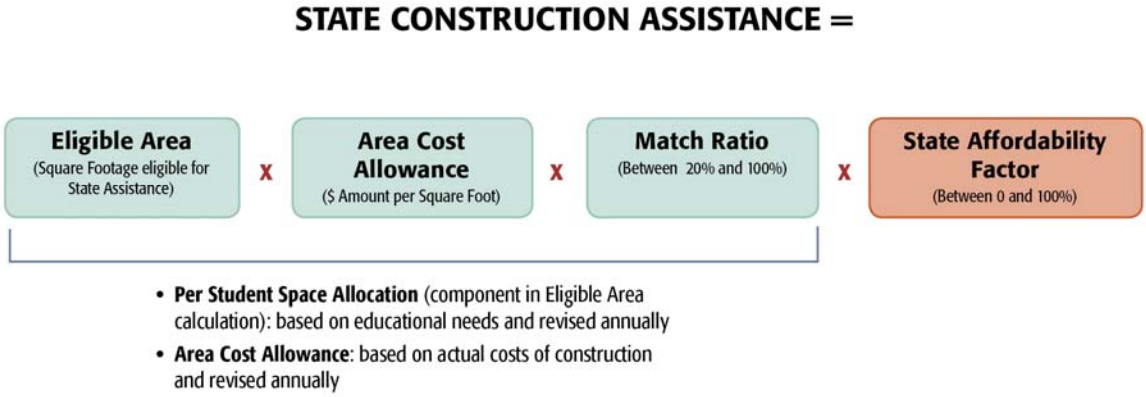
Development of a "State Affordability Factor" that is applied to the true allocation levels would show the state's contribution more directly. Institution of an affordability factor that could change from biennium to biennium would serve to balance increases in the allocation levels for the area cost allowance and allowable square footage. Identification and application of such a factor would also demonstrate more clearly that the State cannot fully fund all projects.

Recommendations:

- Increase the ACA to be based on the true costs of construction, and the allowable square footage per student to be based on actual educational needs. Ensure that these numbers are revised annually to keep pace with reality.
- To keep the level of funding for school construction consistent, introduce a "State Affordability Factor" as an adjustment factor for the funding formula. This factor could be calculated based on available funding and adjusted every biennium.

These concepts are shown graphically in Exhibit below:

Exhibit ES-2
Funding Formula with Proposed New State Affordability Factor



Combine Multiple Funding Formulas

Total construction and modernization project cost is comprised of several components, including construction costs and expenditures, such as architectural fees and construction management costs. The State provides assistance for many construction components; there are more than ten separate grants, each with their own formulas and limits, and approval processes.

Recommendations:

- Combine many of the component formulas together to simplify the process and improve transparency of the program.

Develop New Communication Protocols, Tools and Materials

The funding formula and the SCAGP program are complex. Individual school districts are each trying to explain it to Board members, voters and others in their own way. Providing standardized information and materials that succinctly communicate the formula and program would help generate understanding and transparency. Ongoing communication about the state funding level for school construction, new school openings, and modernized schools is also important.

Recommendations:

A. Develop standard terms and language to describe the program and its funding levels

- Statements that refer to "fully funding" applications for school construction projects obscure the true situation and can be misleading. New standardized language could more accurately describe the situation, and be provided to all stakeholders for use.

B. Develop clear informational materials for school district use

- Succinct, summary-level communication materials that describe the program and funding formula would help generate understanding and transparency, and ensure that consistent and accurate messages are conveyed to the public.
- Design and develop a folio or one-page program description, and a simplified program handbook.

C. Provide tools that will help school districts replicate the formula calculations

- Some districts reportedly have difficulty replicating how the state calculates their share of funding, using the formula.
- Implement an online grant calculator to help school districts better estimate state funding.

D. Provide information about the outcomes of state funding

- Communication that makes the State's funding program more visible would help increase transparency. This information could include funding levels and releases for school construction, new school openings, and lists of modernized schools.
- Including photos of new and improved schools in communication materials would also demonstrate the impact of the program.

E. Improve OSPI's website to provide readily accessible, summary-level information

- The website provides an opportunity to make descriptive and informational materials, such as FAQs, available both to the school districts and to the public.
- OSPI should undertake a website improvement project, from both content and a usability perspective.

Recommendations for Other School Construction Program Approaches

The Work Group would like to discuss and recommend potential options for revamping the current school construction assistance program and formula.

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Contents

ATTACHMENTS

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

1.0 INTRODUCTION

1.1 Project Purpose and Definitions

Legislative Direction and Implementation. This report was prepared in response to direction and a proviso issued by the 2008 Legislature to study the transparency and efficacy of the State's current School Construction Assistance Grant Program (SCAGP). The Legislature directed the Office of the Superintendent of Public Instruction (OSPI) to undertake a K-12 school construction funding formula study, to analyze aspects of the State's grant program, and to present options for formula and program improvements to the Joint Legislative Task Force on School Construction Funding.

The focus of the legislative proviso and this report is the transparency of the State's current school construction funding formula and the grant program by which funding is administered. Specifically, the proviso called for OSPI to:

> 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*)

Working Definition of Transparency. In responding to the proviso, a working definition of "transparency" was developed. In the context of this project and the State's school construction funding formula, "transparency in action" was generally defined as an understandable funding process and approach that can be clearly explained to the full range of participants—from school district administrators and Board members to voters—and with a fundamentally consistent logic, guiding assumptions, and outcomes. The goal of a transparent school construction funding system would be clear and internally consistent elements that support public understanding of the State's school construction funding role and contributions.

1.2 Work Group Role and Composition

As directed by the legislative proviso, a School Construction Funding Formula Work Group was formed to discuss the analysis of the current formula and recommend options to increase its transparency. The Work Group is a multi-jurisdictional committee comprised of school district representatives from across the state, as well as other stakeholders knowledgeable about the State's school construction and funding system. The 11-member group includes representatives from large, medium, and smaller-sized school districts. There is also a mix of districts with differing State match ratios, or equalization ratios, as well as a diversity of school facility challenges represented within the Group. These challenges range from the rapidly urbanizing district, where limited land is available for new school construction, to the built-out district facing aging facilities and flat enrollment levels. A roster of

Work Group members and the organizations they represent is contained in **Attachment A**, along with the Work Group charge and meeting plan.

Since its formation, the Work Group has met monthly, in nearly all-day sessions. The Group will meet a total of six times, from July through December 2008. The Group has grappled with the funding formula in concept as well as in practice in their districts, and has discussed all of the issues included in this report. The report reflects the Work Group's discussions, key findings, and their consensus-based recommendations to the Joint Legislative Task Force.

Work Group members have also presented their findings and recommendations to the Joint Legislative Task Force. **Attachment B** contains the Work Group's findings as presented to the Task Force on August 13, 2008. These findings constitute the foundation of the recommendations contained in Chapter 7.0 of this report.

1.3 Project Elements and Report Chapters

As directed by the Legislature and further refined by OSPI, this project encompassed seven analytic tasks and major areas of study related to the funding formula:

- **Stakeholder Interviews**. **Attachment C** lists the stakeholders that were interviewed. All members of the Task Force were contacted, and most were interviewed. Interviews were also conducted with legislative staff and other stakeholders statewide.
- **Funding Formula and Program Background**. Chapter 2.0 presents an overview of the school facility management and governance, history of the State's school construction funding program, statutory and administrative authority, its policy underpinnings, recent litigation, and information on its recent grant awards.
- **Funding Source Analysis**. An inventory and description of both state and local school construction funding sources and their recent trends is shown in Chapter 3.0.
- **Comparative Survey of Other States**. School construction funding formulas, policies, funding models, and program operating practices were assessed for 11 states across the country, including in-depth reviews of nine states. This survey is presented in Chapter 4.0.
- **Funding Formula Analysis**. An analysis of the State's current school construction funding formula and its strategic drivers was conducted. This assessment, including summary-level schematics diagramming the formula components, is contained in Chapter 5.0 of this report.
- **Information Presented to Voters**. A review and assessment of examples of school construction funding information provided by school districts to voters was conducted to learn how the State's funding contribution is characterized and explained to voters. Chapter 6.0 presents the methodology used in the analysis, and summary-level findings.
- **Recommendations for Options to Improve Formula Transparency**. Chapter 7.0 contains the Work Group's recommendations to the Task Force for improvements to the formula and the State's funding program.

Other tasks conducted were support and facilitation of the Working Group's meetings, and presentations to the Joint Legislative Task Force on School Construction Funding.

Enrollment Projection Study. A separate but related study of the State's school enrollment projection methodology is also being conducted by OSPI for the Task Force. As with the funding formula analysis, the school enrollment study is being undertaken in response to a 2008 Legislative proviso. This study is due to the Task Force on December 1, 2008, and will have its own analysis, findings, and final report.

Implementation of Study Recommendations and Task Force Direction. Following completion of the Work Group's charge, the project team will continue working with OSPI in 2009 to provide technical assistance in implementing the Task Force's direction and recommendations.

2.0 BACKGROUND: SCHOOL CONSTRUCTION FUNDING FORMULA, PROGRAM HISTORY AND AUTHORITY

2.1 School Facility Governance and Management

OSPI's School Facilities and Organization Division is responsible for managing the technical and analytic elements of this project, as well as the monthly Work Group meetings and presentations to the Joint Legislative Task Force. The School Facilities and Organization Division's 13-member staff works with the State's 295 school districts, and is responsible for administering the SCAGP, for tracking State funding to school districts, and for providing technical assistance to school districts regarding the program.

In 2006, the Washington State Legislature transferred capital programs from the State Board of Education (SBE) to OSPI. The transfer provides OSPI with direct authority and funding for the administration, management and approval of state supported capital projects for primary and secondary education. Within this transfer, all records, contracts, rules, and pending business of the SBE relating to school facilities transferred to the OSPI effective June 7, 2006.

OSPI is led by the Superintendent of Public Instruction. The Superintendent is a constitutionally authorized, nonpartisan elected executive officer of the State of Washington and serves a four year term.

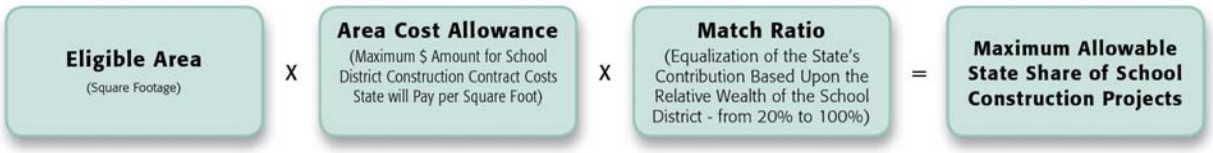
A Technical Advisory Committee advises and assists OSPI staff on a variety of issues related to school construction. The Committee consists of representatives of organizations, professions, construction traders, maintenance officials, and others involved in school facilities.

In July 2006, a Citizen's Advisory Panel was formed to provide citizen oversight on issues pertaining to school facilities and funding for school construction and to make recommendations on these issues.

2.2 Washington's K-12 School Construction Funding Formula

Exhibit 1 below shows the components of the State's main K-12 school construction and modernization funding formula. The formula elements and its strategic drivers are discussed comprehensively in Chapter 5.0. In addition to the major formula presented below, there are nine other funding formulas, or companion formulas, covering the multitude of associated school construction and modernization "soft" project elements. The formula below is used for construction costs ("hard costs") of instructional space.

Exhibit 1
SCAGP Formula



Source: OSPI

2.3 Statutory and Administrative Authority

The State's SCAGP is governed both by legislative action (Revised Code of Washington) and by OSPI's administrative rulemaking process (Washington Administrative Code). As delineated in Chapter 5.4 of this report, the following authority guides the school construction funding formula and OSPI's grant program:

- General authority for the State's New Construction and Modernization/Replacement programs are defined in the Washington Administrative Code (WAC)
- The three formula components are guided by a mix of Revised Code of Washington (RCW) and WAC provisions:
    - The Eligible Area is defined by WAC, as is the Area Cost Allowance (ACA). However, annual funding for the ACA is Legislatively determined through the biennial budget process
    - The State's Match Ratio is determined both by RCW and by WAC. Computations of State matching percentages and computations of the percentage of State assistance to be used in determining eligibility are governed by RCW. Other elements of this formula driver are contained in WAC
- Project prioritization is likewise codified by RCW and WAC

The complexity of the formula's governing authority is a reasonable reflection of the level of complexity associated with the K-12 funding formula generally, and the State's school construction funding program.

Exhibit 29 in Chapter 5.4 is a schematic of the funding formula that graphically shows the statutory and administrative authority for each formula component. A complete summary of relevant statutes and code provisions is also contained in **Attachment D**, organized by formula component.

2.4 Overview of State K-12 Funding Formula and Program History

The following summary was prepared based on information provided to the Task Force:

The Program's Early Years. The State's General Fund support for K-12 school construction dates from at least 1950. Throughout the 1950s and 1960s, State funding for school construction was funded from bonds paid by revenues from cigarette sales and the motor vehicle excise tax (MVET). In 1967, an amendment to the State Constitution created the Common School Construction Fund, and State trust land revenues were dedicated to K-12 school construction. However, by 1979, trust fund revenues had become insufficient to meet school facility funding needs, and in response, the State Legislature approved $105 million in general obligation bond revenue. The following year, however, the $105 million bond bill was found to be flawed and debt funding could not go forward. As replacement funding, the Legislature approved $27.5 million as compensation for trust lands transferred to the State Parks & Recreation Commission.

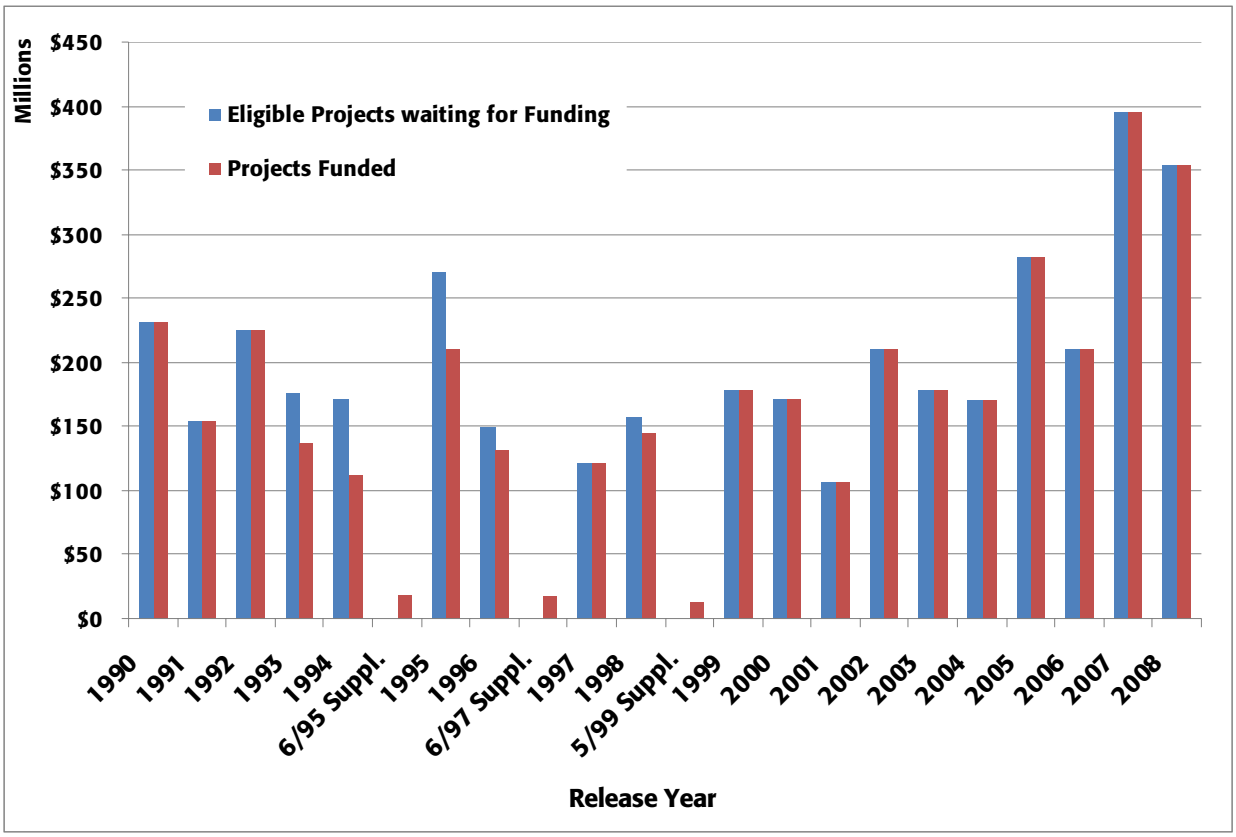
The 1980s: Structural Funding Challenges and Lowered Allowances. In the 1980s, a number of structural funding shifts occurred in the State. The State's timber industry declined rapidly, timber defaults occurred, and shortfalls were again created in the Common School Construction Fund. In 1983, in response to these revenue shortfalls, the State Board of Education reduced the Eligible Area Allowance by 20% and the Area Cost Allowance by 15%. In 1985, the State Board cancelled the previous "first come, first served" grant funding policy and instituted a priority ranking system. A project backlog ensued, totaling $410 million at its peak in 1987-89.

The 1990s: A Focus on Project Prioritization and Supplemental Funding. In the early 1990s, the Legislature considered various options to address the school construction funding problem. The State Board of Education was directed to develop a new prioritization system; the new prioritization system was implemented in 1992. At the same time (1990), a study of the State's K-12 school enrollment projection methodology was commissioned, and changes to the way the State forecasted enrollment were implemented in response to the report's recommendations.

In the same time period, the Legislature also took action to buttress the State's program. These steps included creation of the Education Construction Account (1994) and the Education Savings Account (1997). In 1995, 1997, and 1999, trust land revenues were supplemented with a total of $795 million in state bonds and cash to eliminate the backlog of unfunded school construction projects, and to enable the State to fund all grant applications in the year they are submitted.

Since 1999, the State has funded all qualifying projects submitted by school districts. **Exhibit 2** shows the State's funding history of qualifying projects from1990-2007. The Exhibit shows the three biennial supplements and the relationship of qualifying projects to those funded for the 18-year period.

Exhibit 2
Summary of Projects Qualified For Release to Actual Projects Released



Source: OSPI

2000-07: The Legislature Increases Allowances to Help Catch-up to Actual Costs. In 2000-07, the Legislature also undertook efforts to provide additional funding for the program. In 2000, the Legislature appropriated the excess Emergency Reserve Fund (ERF) balance in the Education Construction Account annually, instead of biennially. Subsequently, however, passage of Initiative 728 resulted in elimination of ERF funds from the Education Construction account altogether. This funding was replaced by a portion of state lottery proceeds.

In 2003, the Legislature increased the Area Cost Allowance from $110 to $125 in 2004, and to $129 in 2005.

In 2005, the Legislature increased the Area Cost Allowance to $141.95 in 2006 and $154.22 in 2007. The Legislature also increased the Eligible Area allowance for all grade levels, and increased the amount paid for modernization projects from 80% to 100% of the Area Cost Allowance.

In 2007, the Legislature increased the Area Cost Allowance to $162.43 in 2008 and $168.79 in 2009.

2.5 Policy Principles and the State's Role

In the mid-1980s, with revenues declining and the State Board of Education acting to reduce funding formula allowances, and therefore the State's contributions to K-12 school construction, a set of policy principles was developed to clarify the State's intent and approach. These policy principles are shown below.

- **Balance.** Balance state and local interests and obligations.
- **Ownership.** Ownership is invested in the local district(s).
- **Validation.** Need is locally validated.
- **Equalization.** Related to local taxpayer burden/geography/growth.
- **Neutrality.** Minimize influence of regulations on local decisions.
- **Timeliness.** Predictability of project progress and state funding.
- **Priority.** System acceptable to both the districts and the state.

Three of these concepts stand out as being of overarching importance to the State's current program: striking a balance and sharing responsibility for funding between the State and local districts; validation of local needs as reflected through voter-approved bond measures; and equalization of opportunities to receive State funding across districts of varying levels of wealth. Other important concepts are ownership (school building ownership being vested in the local districts) and timeliness (the importance of project progress and state funding predictability).

These core concepts help define the intent behind Washington's school construction assistance program, and its funding formula: needs for new or modernized schools are identified locally, and the State's role is to allocate funding through the formula and its allowances. Importantly, this includes striving to address differentials in district wealth through equalization measures and calculations.

Given their importance to Washington's program, these concepts were used to develop interview questions for the comparable states research. This research and analysis aimed to identify how other selected states across the country manage the challenging issues of state-local funding balance, local validation of need and support, and equalization of funding statewide.

2.6 Court Cases and Judicial Rulings Regarding the State's Facility Funding Requirements

As discussed in the comparative states survey (Chapter 4.0) school construction funding in many states across the country has been influenced or redesigned in recent years, in response to state judicial rulings about funding duties and requirements. In Washington, the State Constitution reads:

"It is the paramount duty of the state to make ample provision for the education of all children residing within its borders, without distinction or preference on account of race, color, caste, or sex."

Over the years, there have been several law suits filed by plaintiffs alleging that the State is not fulfilling its duty with respect to education. All of these law suits have encompassed broader education finance issues and were not specifically focused on school facilities.

- In 1978, the Supreme Court of Washington found the State's school finance system to be unconstitutional (Seattle School District No. 1 v. State). Specifically, the court determined that it was the duty of the State to provide an adequate education using "sufficient funds" from "dependable and regular tax sources." The court noted that local tax levies should not be necessary to fund a basic education.

- A subsequent suit in the early 1980s, known as Seattle II, led a trial court to conclude that the Legislature had underfinanced basic education in violation of the State constitution, particularly in urban areas.

  Both Seattle I and Seattle II (also referred to as Doran I and II after Judge Doran) focused on provision of a basic education and funding disparities among school systems resulting from the State system. Neither case had a direct impact on the school construction program.

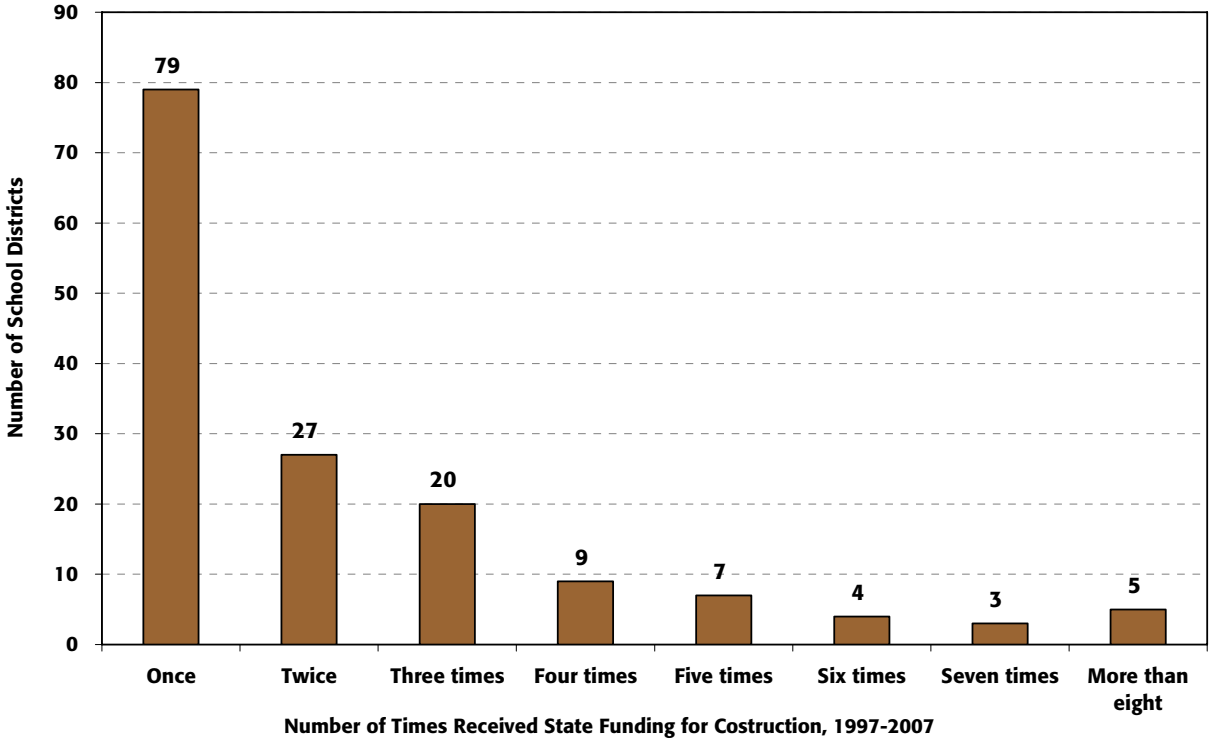
- On January 11, 2007, a group of parents, organizations, coalitions, and school districts filed McCleary v. State, an adequacy lawsuit that argues that the State fails to fund a basic education as defined by the statutes. Plaintiffs are asking the court to issue an enforcement order requiring the State to "determine how much it will actually cost to deliver the constitutionally required basic education to every child" and then fully fund that cost "with stable, dependable, and regular funding sources." The plaintiffs contend that "ample" means more than adequate and thus, should not require supplementary funds from local levies, fundraising, or other non-state sources. On August 24, 2007, the court denied plaintiffs' motion for summary judgment. The case will likely proceed to trial in March 2009.

The McCleary case could have implications for the school construction program, especially if the court decision specifically calls out school facilities. If the State was required to fully fund the school construction costs, there would be much greater demands for funding and the SCAGP program would likely need to be completely revised.

2.7 Recent Use of the School Construction Funding Program

Exhibit 3 below summarizes ten years of data provided by OSPI, from 1997 to 2007. The Exhibit shows the number of school districts that have applied to OSPI for school construction or modernization funding assistance during the period. As shown in the Exhibit, 154 of the State's 295 school districts (52%) have applied for funding assistance in the study period. Of these, 79 districts (27%) have applied for funding only once; 75 districts (25%) have applied for funding more than once. Of these 75 districts, 27 (or 9% of the total district) have applied twice, and 48 (or 16% of total districts) have applied three or more times.

Exhibit 3
School Districts that Received State Funding for Construction, 1997-2007



Source: OSPI

Viewed from another perspective, these data show that about half (48%) of the State's 295 school districts have not used the program in the last ten years, and another 27% have used it only once. Thus, 75% of the districts have used the program once or not at all during the period examined.

It is also important to note that a district may be building or renovating schools and not participating in the SCAGP program.

School district use of the SCAGP is likely affected by a broad mix of local factors, including success in passing bonds, debt capacity, program eligibility, and others. The following chapter describes the funding formula and its components, as well as its relevant operating history.

3.0 SCHOOL CONSTRUCTION FUNDING SOURCES AND FUNDING HISTORY

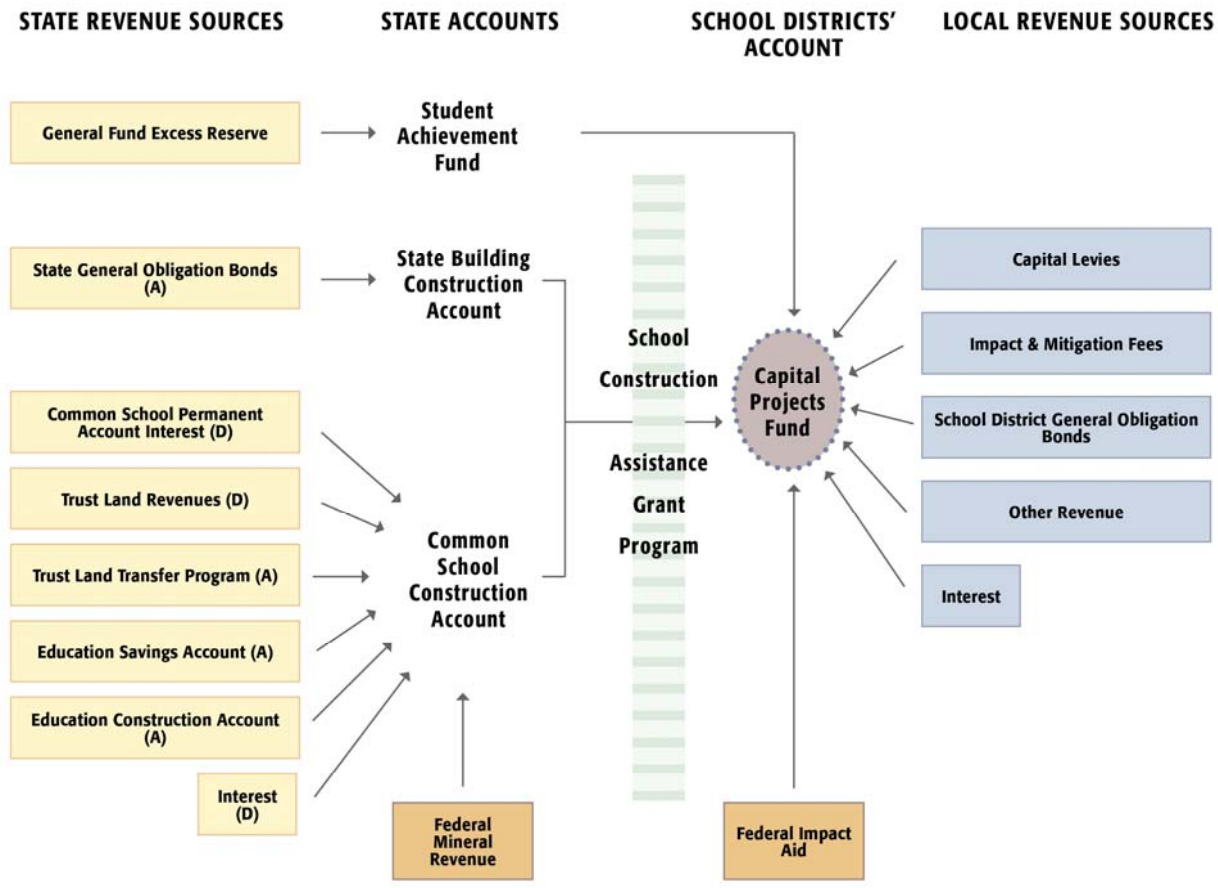
3.1 Introduction

Funding for K-12 school construction comes from a variety of federal, state, and local revenue sources. This Chapter identifies these revenue sources, the accounts where they reside and through which they flow, and trends of funding levels over time. This chapter is organized into the following sections: an overview of K-12 capital accounts and revenues; identification of Capital Projects Fund revenue sources; descriptions of federal, state, and local revenue sources; and summary conclusions.

3.2 Overview of K-12 Capital Accounts and Revenues

Exhibit 4 presents a schematic overview of the federal, state, and local accounts and revenues involved in the construction of K-12 capital facilities.

Exhibit 4
Overview of K-12 Capital Facilities Accounts and Revenues



Source: Berk & Associates, 2008 and OSPI, 2008

Primary accounts and linkages that comprise the funding process are as follows:

State Assistance. The State provides local school districts assistance through its School Construction Assistance Grant Program. To be eligible for state assistance a school district must raise a portion of total project cost through local revenues. The amount of state assistance for specific projects is determined using the SCAGP formula.

Once the amount of the state contribution has been determined, the majority of funds come from the ***Common School Construction Account (CSCA)***. The CSCA is authorized by the Washington State Constitution Article IX, Section 3 and is to be used exclusively for the purpose of financing the construction for the common schools. This fund has several dedicated revenue streams, as shown in **Exhibit 4**. Currently, the CSCA targets a minimum fund balance of $40 million, informally agreed-upon by OSPI, OFM, and the State Legislature. This minimum balance may, however, change in the future.

Usually, a smaller portion of the state contribution comes from the ***State Building Construction Account (SBCA)***. Revenue from this account comes from the state's issuance of General Obligation (GO) bonds. Each release of state funds involves a mixture of CSCA and SBCA funds. The proportion from each account varies from year to year. In general, the practice agreed upon by OSPI, Office of Financial Management (OFM), and the Legislature is to first use funds from the CSCA, and then use the SBCA to supplement the remainder of the total amount appropriated.

Unrelated to the state match is a small amount of revenue that comes from the ***Student Achievement Fund (SAF)***. The SAF is distributed to school districts for a variety of educational operating and capital purposes, including building improvements.

School Districts' Capital Projects Funds. A school district's Capital Project Fund (CPF) accounts for the financial resources used by a school district for the acquisition and construction of major capital facilities. In particular, uses of the CPF include:

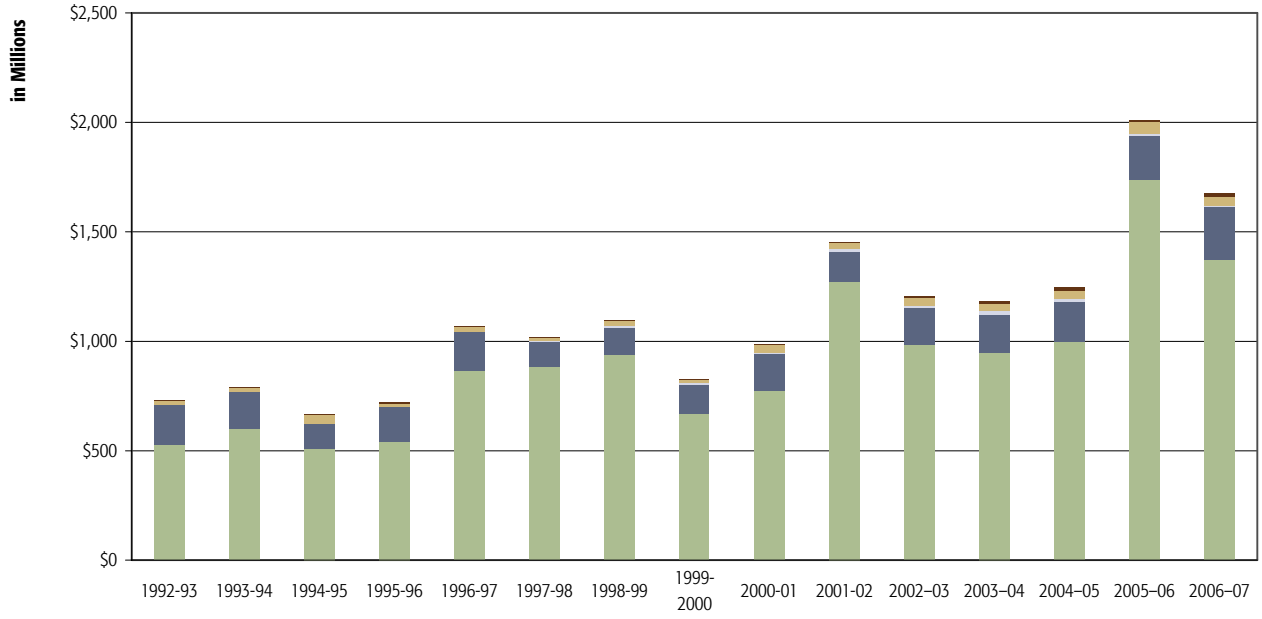
> The purchase or improvement of school sites; the construction of new facilities; remodeling or modernization of existing buildings; and for initial expenditures for the purchase of library books, textbooks, and reference books in new buildings (OSPI, *Organization and Financing of Schools,* 2006)

Most, but not all school districts, have a CPF. CPFs usually exist in large or growing districts; a CPF may not be used in smaller districts with stable or declining enrollments. The CPF is one of five funds (General Fund, Debt Service Fund, Associated Student Body Fund, and Transportation Vehicle Fund) in which a school district can record expenditures. In the 2004-2005 school year (September through August), total expenditures from all school districts' CPFs equaled $1.2 billion, or approximately 12% of total school district expenditures. The General Fund, used for maintenance and operations expenditures, accounts for the majority of school district spending. In the 2004-2005 school year, General Fund expenditures equaled approximately 78% ($7.7 billion) (OSPI, *Organization and Financing of Schools*, 2006).

3.3 Capital Projects Funds: Local, State, and Federal Revenue Sources

Funds from federal, state, and local sources flow into a school district's CPF. **Exhibit 5** shows the total expenditures by source from all school districts' CPFs in nominal (not adjusted for inflation) dollars, and **Exhibit 6** shows the percentage breakdown by source for the same time period between Fiscal Year (FY) 1992-93 and FY 2006-07.

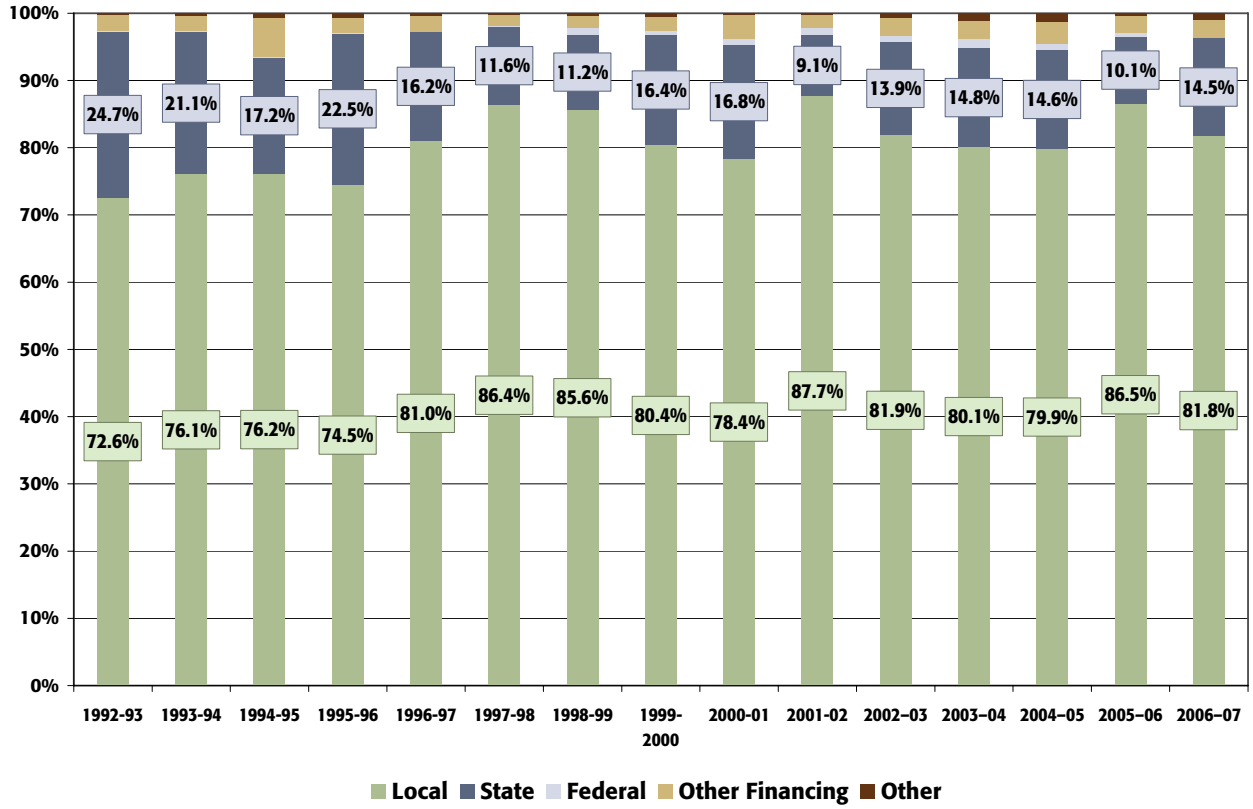
Exhibit 5
Capital Project Funds: Actual Nominal Expenditures (in Millions) by Revenue Source, FY1992-1993 to 2006-2007



	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002–03	2003–04	2004–05	2005–06	2006–07
Other	$2	$3	$4	$5	$5	$2	$4	$4	$2	$3	$7	$13	$17	$6	$17
Other Financing	$18	$17	$39	$16	$24	$16	$20	$17	$36	$29	$34	$32	$40	$53	$43
Federal	$1	$2	$1	$0	$0	$2	$11	$6	$9	$14	$10	$16	$13	$9	$3
State	$180	$167	$115	$163	$174	$118	$123	$136	$166	$133	$168	$175	$182	$202	$243
Local	$529	$602	$507	$539	$868	$881	$938	$667	$775	$1,275	$986	$947	$997	$1,737	$1,372

Source: OSPI, School District and ESD Financing Reporting Summary Reports FY1992-1993 to 2006-2007

Exhibit 6
Capital Project Funds: Actual Expenditures (Percentage by Source), FY1992-1993 to 2006-2007



Source: OSPI, *School District and ESD Financing Reporting Summary Reports FY1992-1993 to 2006-2007*

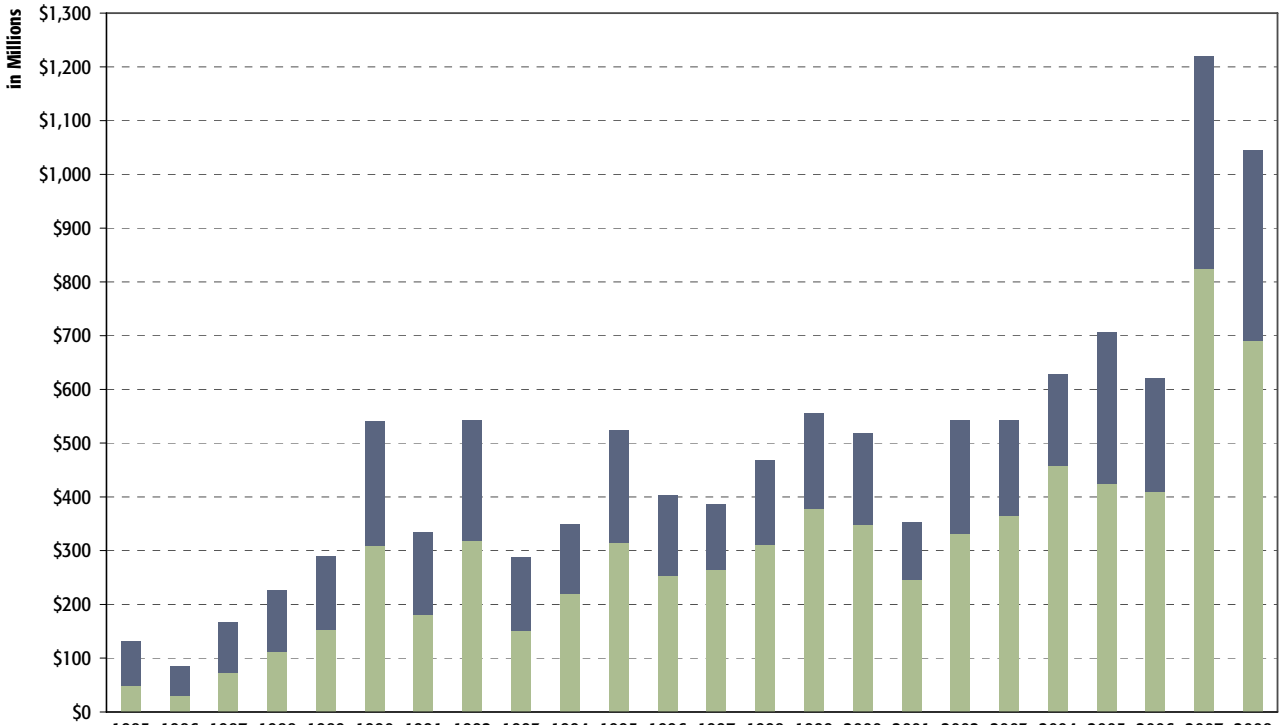
The Exhibits above show the following key information:

- Total expenditures reached a high of approximately $2 billion in FY 2005-06. In FY 2006-07, nominal expenditures equaled approximately $1.7 billion.
- Local contributions have increasingly funded the majority of actual expenditures for capital projects during the 15-year period analyzed.
- The State's contribution toward capital projects has decreased as a percentage of total expenditures, from 24.7% in FY 1992-93 to 14.5% in FY 2006-07. The local share, on the other hand, has increased from 72.6% in FY 1992-93 to 81.8% in FY 2006-07.

Total Capital Expenditures vs. State Eligible Expenditures

The total expenditures presented in **Exhibit 5** and **Exhibit 6** represent expenditures for all school district capital projects, not only projects that are eligible and have applied for state assistance. This means that the total includes capital projects that did not apply for state assistance through SCAGP. In contrast, **Exhibit 7** presents state and local cost shares of SCAGP eligible projects in nominal dollars. **Exhibit 8** converts those nominal amounts to constant 2008 dollars, using the Engineering News Record construction cost index. **Exhibit 9** shows the percentage of state and local funds out of the total project cost of SCAGP projects.

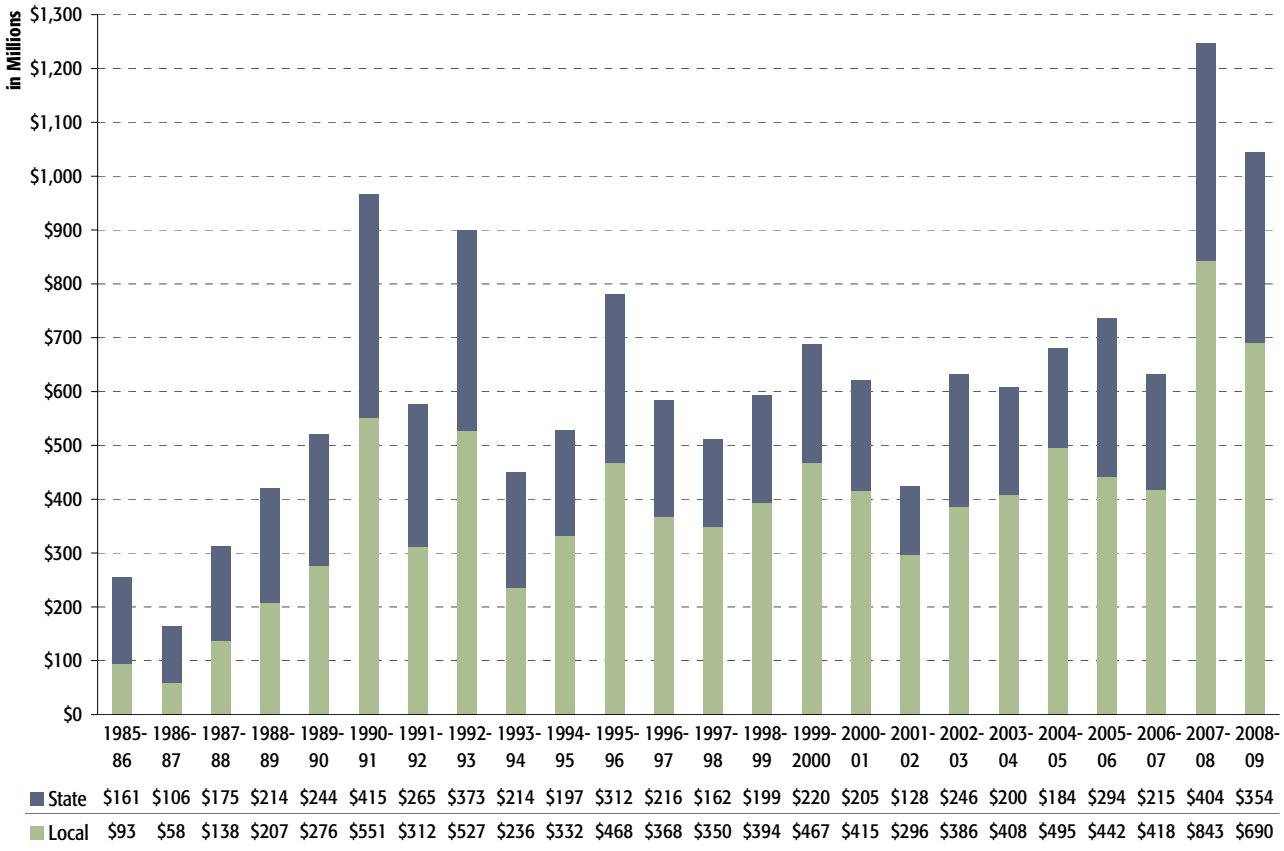
Exhibit 7
State and Local Funds for SCAGP Project Costs (in Millions, Nominal Dollars), FY 1985-86 to 2008-09



	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
State	$84	$55	$93	$115	$136	$232	$154	$225	$137	$130	$210	$149	$122	$157	$178	$171	$107	$211	$179	$171	$282	$211	$395	$354
Local	$48	$30	$73	$111	$154	$308	$181	$318	$151	$219	$314	$254	$264	$311	$378	$347	$246	$331	$364	$459	$424	$410	$824	$690

Source: OSPI, 2008

Exhibit 8
State and Local Funds for SCAGP Project Costs (in Millions, Constant 2008 Dollars), FY 1985-86 to 2008-09

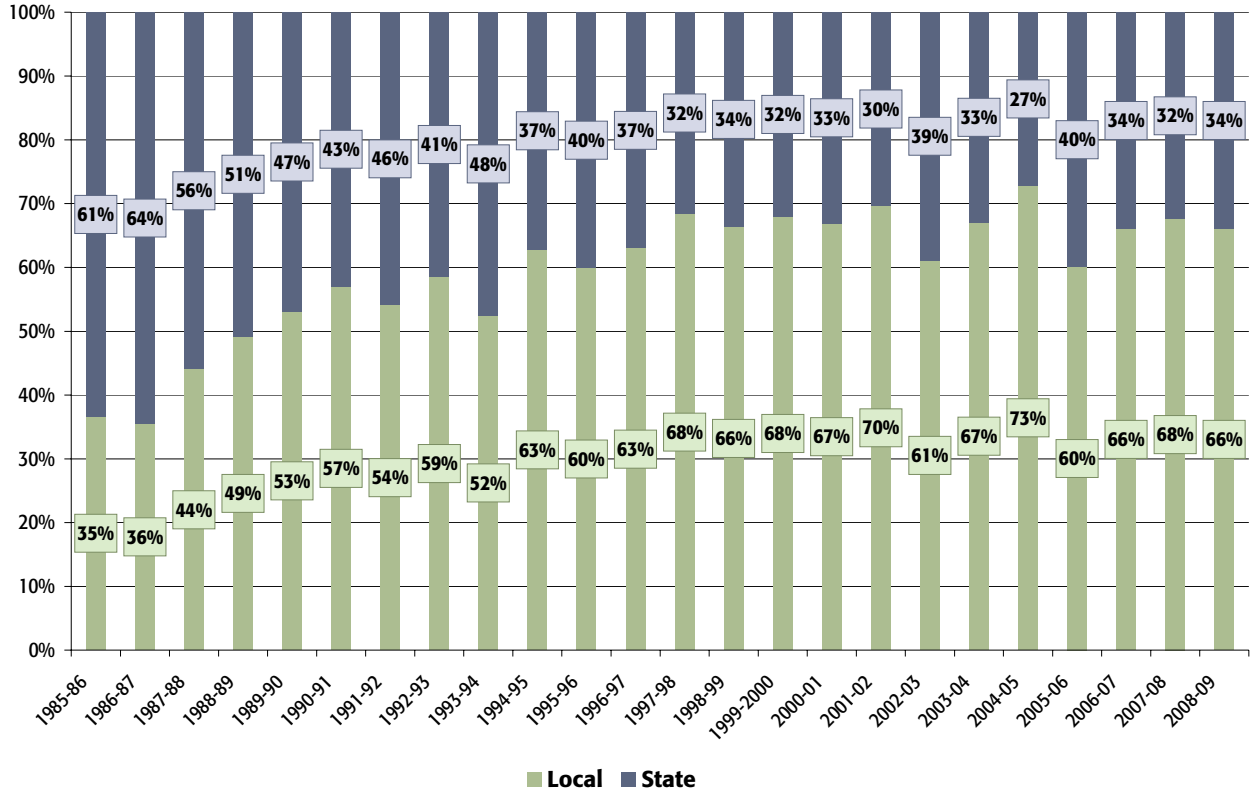


	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
State	$161	$106	$175	$214	$244	$415	$265	$373	$214	$197	$312	$216	$162	$199	$220	$205	$128	$246	$200	$184	$294	$215	$404	$354
Local	$93	$58	$138	$207	$276	$551	$312	$527	$236	$332	$468	$368	$350	$394	$467	$415	$296	$386	$408	$495	$442	$418	$843	$690

Source: Berk & Associates and OSPI, 2008

Note: Constant 2008 Dollars were calculated using the Engineering News-Record Construction Cost Index (ENR CCI) for Seattle. All years used the December CCI, with the exception of 2008, which uses the month of September.

Exhibit 9
Percentage of State and Local Fund Expenditures for SCAGP Projects, FY1985-2008



Source: Berk & Associates and OSPI, 2008

Key findings from analysis of the data in the Exhibits above are as follows:

- Total costs of SCAGP projects have been increasing, reaching a peak in FY 2007-08 of $1,247 million constant 2008 dollars.
- The State's share of project costs decreased between 1985 and 2008.
- Since FY 1989-90, local contributions have equaled more than 50% of total project costs.
- In FY 2008-09, the local share equaled approximately two-thirds (66%) of total SCAGP project costs.
- The difference in reported percentage share is significant. For example, in FY 2006-07, the State's contribution equaled 34% of total SCAGP project costs, as seen in **Exhibit 9**, but only 14.5% of all total capital expenditures recorded in the school districts' CPFs, as seen in **Exhibit 6**.

3.4 Federal Revenue Sources

Federal revenue comprises a small percentage of the total funding available for K-12 capital projects.

Federal Mineral Revenue (dedicated). Half of the net receipts generated from royalties, rents and bonuses from mineral leases on public domain lands in Washington (Forest Service, Bureau of Land Management, Fish and Wildlife, and Military lands) benefit schools located in the county or counties in which the public domain land is located. This revenue stream is authorized by the federal Mineral Leasing Act, as amended in 30 U.S.C. 191. It is a dedicated source of funding for the CSCA.

Federal Impact Aid. Through Public Law 81-815, some school districts qualified for impact aid maintenance and operation assistance and capital construction needs between 1950 and 1994. The Public Law was repealed and replaced by the 1994 Improving America's School Act, which continues to provide some construction assistance. This impact aid goes directly to a qualifying school district's CPF.

3.5 State Revenue Sources

State CSCA Revenue Sources

The CSCA gets money from several state dedicated and appropriated sources.

Trust Land Revenues (Dedicated). The Washington Department of Natural Resources manages 2.7 million acres of trust land in the state. Of that land, 1.7 million acres, or 63% of total trust land, is dedicated to funding the common schools. Revenues generated from the sale of timber, agriculture and commercial leases on common school land go directly to the CSCA, excluding a portion (up to 25% of revenues) used to pay for management of the trust lands. Timber resources are managed under the state's "sustained yield" plan, which provides for "harvesting on a continuing basis without major prolonged curtailment or cessation of harvest."

Common School Permanent Account Investment Income (Dedicated). This account contains the original principal that had been in the Common School Permanent Fund in 1967 when the CSCA was created. Revenues from mineral extraction (generally less than $1 million per year) on common school trust lands or the sale of land are deposited in this account. The investment earnings from this fund are distributed to the CSCA. The State Constitution allows for interest income from this fund to be used to retire bonds for common school construction financing.

Interest Income (Dedicated). Interest earnings from the money in CSCA are deposited into the CSCA account.

Trust Land Transfer Program (Appropriated). The legislatively funded Trust Land Transfer Program provides an opportunity to retain trust lands in public ownership while maintaining and improving economic return to trust beneficiaries.

Through this program, designated properties are appraised and transferred to other public agencies at market value. The value of the land is used to acquire replacement property better suited to generate

future revenue for common schools. Until a new acquisition occurs, the land value is deposited into the Real Property Replacement Account. The value of the timber on the transferred land is deposited into the CSCA to provide immediate revenue for schools. The legislation stipulates that the aggregate timber value of all transfers be at least 80 percent of the total appropriation. Some properties with high land and low timber value are proposed as leases to be managed for public use by the receiving agency. Leasing has the advantage of allowing the entire lease value to be deposited immediately into the CSCA.

Education Savings Account (Appropriated). Since 1997, through guidelines set out in RCW 43.79 and in appropriations bill language, half of all state General Fund savings not related to entitlement or other targeted spending authority are directed to the Education Savings Account. The remainder is credited to state agencies. Monies deposited in the Education Savings Account are distributed as follows:

- 90% is distributed between the CSCA and common school technology improvements
- 10% is distributed between the distinguished professorship trust, the graduate fellowship trust and the college faculty awards trust

Between 1997 and 2007, the Education Savings Account has received $384 million, with $345.6 million going to CSCA and common school technology improvements (OFM, *Report of FY Savings Incentive Account Expenditures*, 2007).

Education Construction Account (Appropriated). Created with the passage of Initiative 601 in 1992 and modified under Initiative 728 in November 2000, a portion of lottery revenue is deposited into the Education Construction Account to fund capital projects for K-12 and higher education.

General Fund (Appropriated). Beginning in 1990, the Legislature added a General Fund appropriation to the CSCA. However, since 2000, the State has not contributed General Fund money to the CSCA.

Other State Revenue Sources

General Obligation Bonds (Appropriated). Revenue for school construction from the sale of state GO bonds is housed in the State Building Construction Account. Bonds include non-reimbursable bonds with interest paid for by the General Fund and non debt-limit reimbursable bonds using a dedicated revenue source.

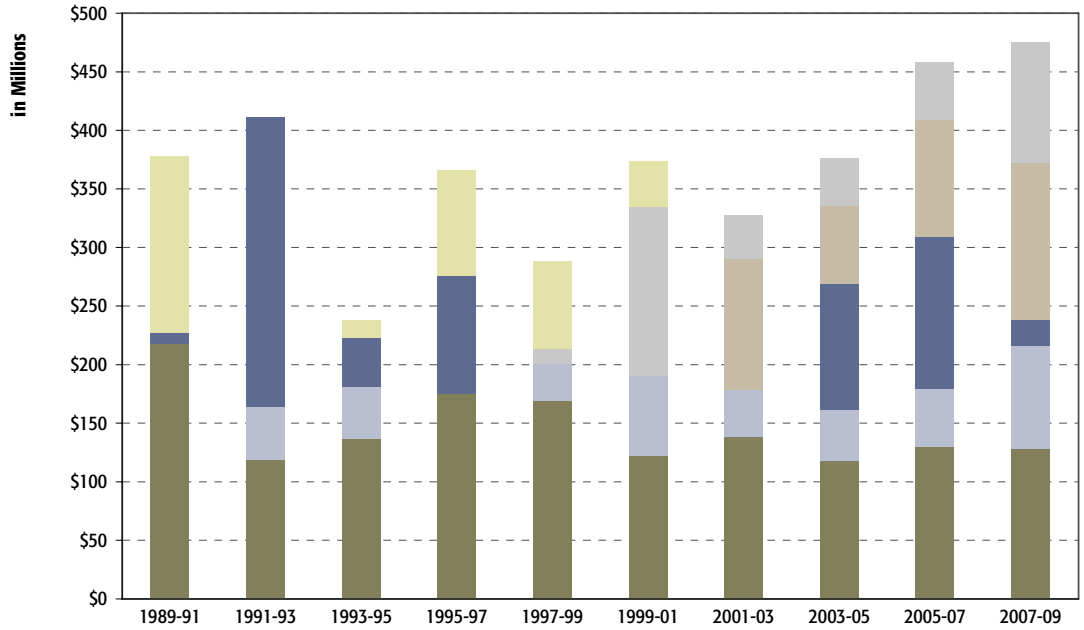
State Property Tax. Initiative 728, approved by voters in November 2000, transfers a portion of the state property tax from the General Fund to the Student Achievement Fund (SAF). The SAF is then distributed to school districts to use for class size reduction, extended learning opportunities for students, professional development, early childhood programs, and necessary building improvements to support class size reductions or extended learning opportunities. The State has a goal of per-student state funding of K-12 education being equal to at least 90% of the national average per-student expenditure from all sources. Excess money in the General Fund emergency reserve is deposited into the SAF, until the 90% threshold is met. Per RCW 28A.505.210, school districts make a plan for how SAF money will be spent. Seldom, if ever, a small portion of SAF money is deposited into CPFs statewide.

State Revenue Sources over Time

The State's overall nominal dollar contribution toward school construction has remained fairly steady over the past twenty years. The type of state revenue sources has shifted over time, as illustrated in **Exhibit 10** and **Exhibit 11**. As total construction costs have increased, the state's contribution has become a smaller share of the overall funding.

It is important to note that **Exhibit 10** and **Exhibit 11** represent biennial budgeted amounts of state funds appropriated for K-12 construction, whereas other Exhibits in this chapter present actual expenditures per fiscal year as recorded in school districts' Capital Projects Funds by source.

Exhibit 10
State Funds Appropriated for K-12 Capital Projects,
1989-91 Biennium to 2007-09 Biennium (Nominal, in Millions of Dollars)

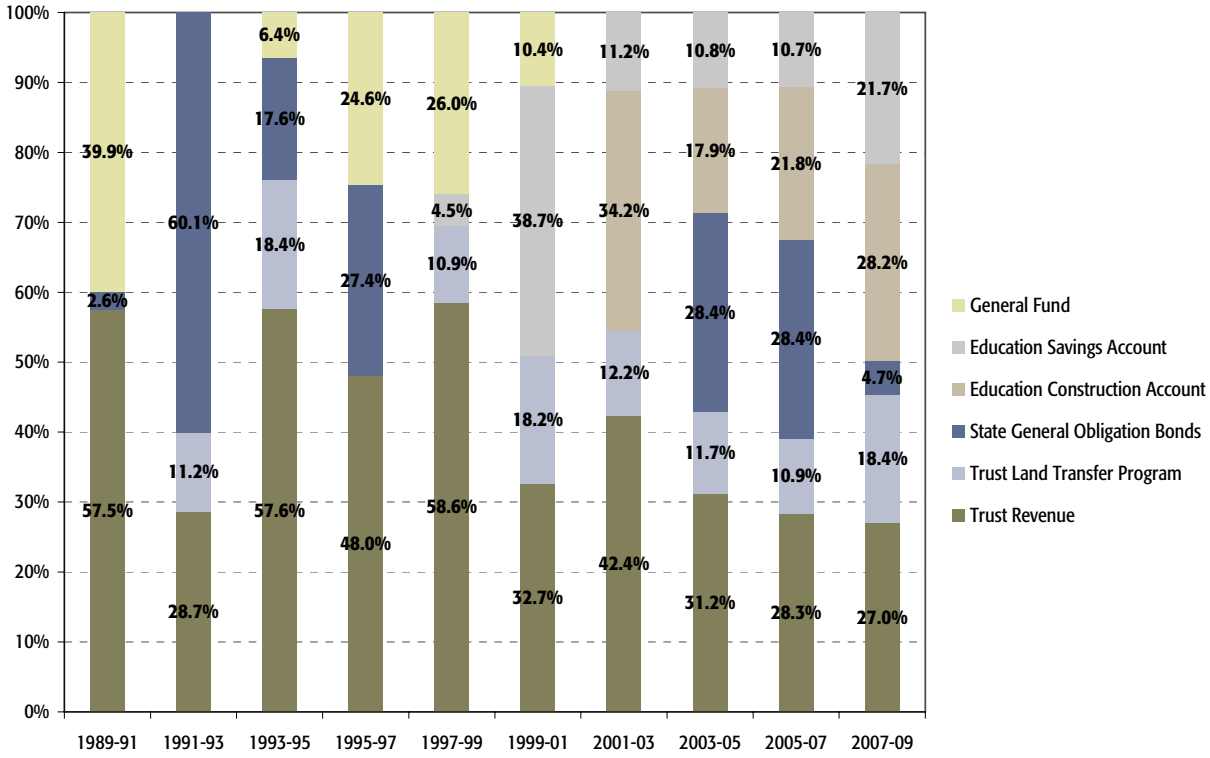


	1989-91	1991-93	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07	2007-09
General Fund	$151.0	$0.0	$15.3	$90.0	$75.0	$39.0	$0.0	$0.0	$0.0	$0.0
Education Savings Account	$0.0	$0.0	$0.0	$0.0	$13.0	$144.6	$36.7	$40.5	$48.8	$103.1
Education Construction Account	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$111.8	$67.4	$99.7	$133.9
State General Obligation Bonds	$10.0	$247.5	$41.8	$100.0	$0.0	$0.0	$0.0	$107.1	$130.2	$22.4
Trust Land Transfer Program	$0.0	$46.2	$43.8	$0.0	$31.5	$68.1	$40.0	$44.0	$49.7	$87.6
Trust Revenue	$217.5	$118.1	$137.1	$175.6	$169.0	$122.2	$138.5	$117.6	$129.5	$128.5

Source: Office of Program Research, 2008

Note: Not reflective of total state appropriations for school capital projects because estimated cash balance is not included. Exhibit 10 and Exhibit 11 do not include Student Achievement Fund, Common School Permanent Fund Investment Income, or cash balance. These excluded sources represent a small amount of total state funding.

Exhibit 11
State Funds Appropriated for K-12 Capital Projects (Percentage by Source), 1989-91 Biennium to 2007-09 Biennium



Source: Office of Program Research, 2008

Key points from the Exhibits above are as follows:

- All revenues except state GO bonds come from the Common School Construction Account.
- Revenue from the State's management of trust land, from both the Common School Trust Land and Trust Land Transfer Program, has comprised the largest percentage of state appropriations, reaching a high of 76% in the 1993-95 biennium and equaling 45.4% in the 2007-2009 biennium.
- Trust revenue from the Common School Trust Land has decreased as a percentage of total state appropriations, reaching a high of 57.5% in the 1989-91 biennium, and a low of 27% in the 2007-09 biennium.
- Since its inception in 2001, the Education Construction Account (lottery) has funded a considerable portion of K-12 construction. In the 2007-09 biennium, $133.9 million (28.2% of total state appropriations) came from the Education Construction Account.
- The portion of state GO bond revenue from the SBCA varies considerably each biennium.

3.6 Local Revenue Sources

Description of Local Revenue Sources

To be eligible for the School Construction Assistance Grant Program, school districts are required to raise local revenues for school construction thereby demonstrating local validation of proposed projects. What follows is a list of major local revenue sources.

Bonds. School districts can issue two types of bonds: voted unlimited tax general obligation (UTGO) bonds and non-voted limited obligation bonds. The statutory limit for school district debt, both voted and non-voted, is 5%, which includes a 0.375% limit without a vote; 2.5% limit with a vote, which includes the 0.375%; and additional 2.5% limit with a vote, if used for capital outlay.

- **UTGO Bonds.** UTGO bonds are the most-widely used source of local revenue. School district issuance of UTGO bonds is authorized under RCW 28A.530.010. The passage of a capital bond in Washington State requires a supermajority (60%) of voters voting "yes" and at least a 40% election turnout, based on the number of votes cast in the most recent state general election.

  The ***UTGO passage rates*** vary significantly over time with no obvious short- or long-term trends. For example, in 1995 only 14% of total bond requests up for voter authorization passed. In contrast, 68% of total bond requests up for voter authorization passed in 1990. (OSPI, *2007-2009 Capital Budget Request*). **Exhibit 12** shows the number and percentage of bonds that passed and failed for three consecutive years, according to OSPI unofficial counts. More bonds failed than passed over the past three years. The percentage of bonds passed equaled a high of 46% in 2006 to a low of 26% thus far in 2008.

Exhibit 12
Bond Passage Rates, 2006-2008

	2006		2007		2008	
Passed	27	46%	20	40%	8	26%
Failed	32	54%	30	60%	23	74%
Total	59	100%	50	100%	31	100%

Source: OSPI Unofficial School Financing Election Results Reports, 2006-2008

- **Non-voted Limited Obligation Bonds.** Under RCW 28A.530.080, school districts can also incur debt without a vote for the modernization of existing school buildings, which include structural additions and energy efficiency enhancements. It is unclear how often school districts opt to use limited obligation bonds. The statutory limit of 2.5%, however, impedes its use as a revenue option.

Excess Capital Levies. Article Seven of the State Constitution and RCW 84.52 grant school districts the authority to levy local property taxes. Limitations on this authority include:

- School districts may run a levy for a particular fund a maximum of two times in a calendar year
- Capital project levies can be levied for a maximum of six years, after which school districts must go back to the voters to reset the levy

A constitutional amendment, approved by voters in November 2007, eased the requirements for the passage of school district levies, which include both capital and maintenance and operation (M&O) levies. Before voter approval of EHJR 4204, capital levies, like capital bonds, required a supermajority (60%) of "yes" votes in an election, with a voter turnout equaling at least 40% of the state's last general election. Now, only a simple majority (50 +1%) is needed to pass a school levy.

It is still unclear what implications this new simple majority provision (constitutional amendment) will have on the passage rates of capital levies. Some believe the simple majority will result in higher passage rates given the lower threshold. However, lower voter turnout due to the lowered threshold may produce a counterbalancing effect.

It is important to note that school districts may go to voters for M&O levies, which go into a school district's General Fund, and capital levies, which go into the Capital Projects Fund. Therefore, M&O and capital levies are sometimes portrayed as "competing" levies. There is no cap on capital levies. However, state law sets a limit on M&O levies that range from 24% to 34% of a school district's levy base, which is the amount of state and federal funding from the previous school year. This range is based on historical levels of levy passage prior to the establishment of a limit in 1977.

Impact and Mitigation Fees. School districts are authorized to use growth impact fees and mitigation fees[1] for the construction of capital projects under WAC 392-343-032. Impact fees are charges assessed on new development projects that attempt to recover the cost incurred by the government in providing public facilities, such as schools, required to serve the new development. Impact fees are authorized under the Growth Management Act (RCW 82.02.050-.100). Environmental mitigation fees are authorized by the State Environmental Policy Act (SEPA) in RCW 43.21C.060. According to OSPI data, in school year 2006-2007, 65 school districts (or about 22% of all 295 school districts) used impact fees, mitigation fees, or both for school construction.

Interest on Investments. A common smaller revenue source for school districts is interest earned from investing building money. After a bond issue, a district often has a period of time before payments are made to contractors. The funds generated from the bond sale may be invested in US government securities. Interest on these investments accrues in the school district's Capital Projects Fund. It is also important to note that interest earned on bond proceeds may be subject to arbitrage.

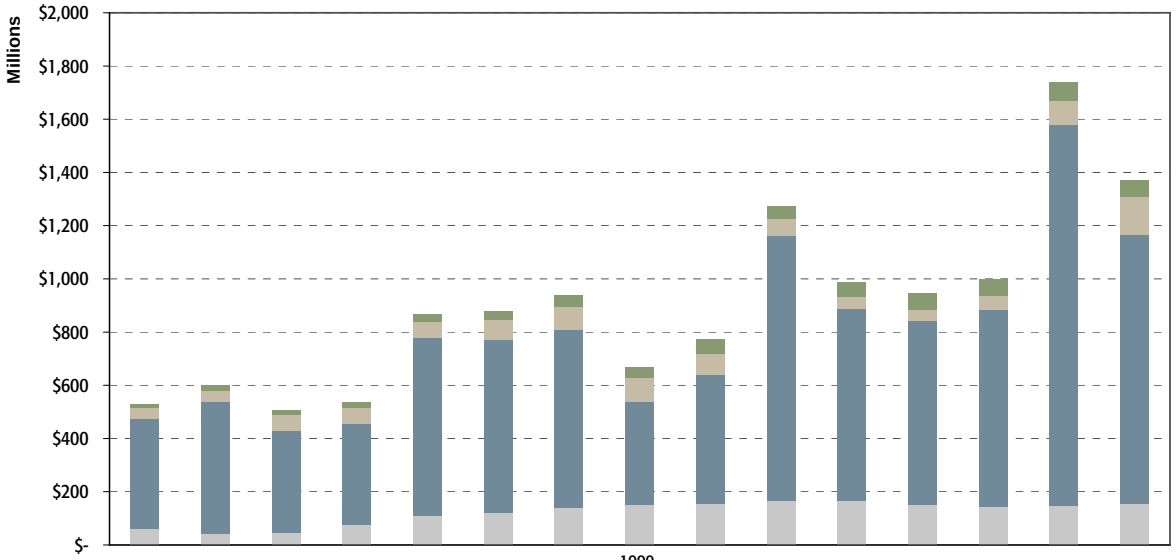
[1] Note: Under WAC 392-343-032 both mitigation and impact fees can be used as local match for states fund, whereas historically, only impact fees could be used for a local match.

Other Local Revenue Sources. There are a variety of other minor local revenue sources that can be deposited in the Capital Projects Fund. These include: the sale of district property or other goods, rental and lease revenues, insurance recoveries, and gifts or donations.

Local Revenue Levels over Time

Exhibit 13 and **Exhibit 14** present Capital Projects Fund actual expenditures by major local revenue source in the time period between FY 1992-1993 and FY 2006-2007.

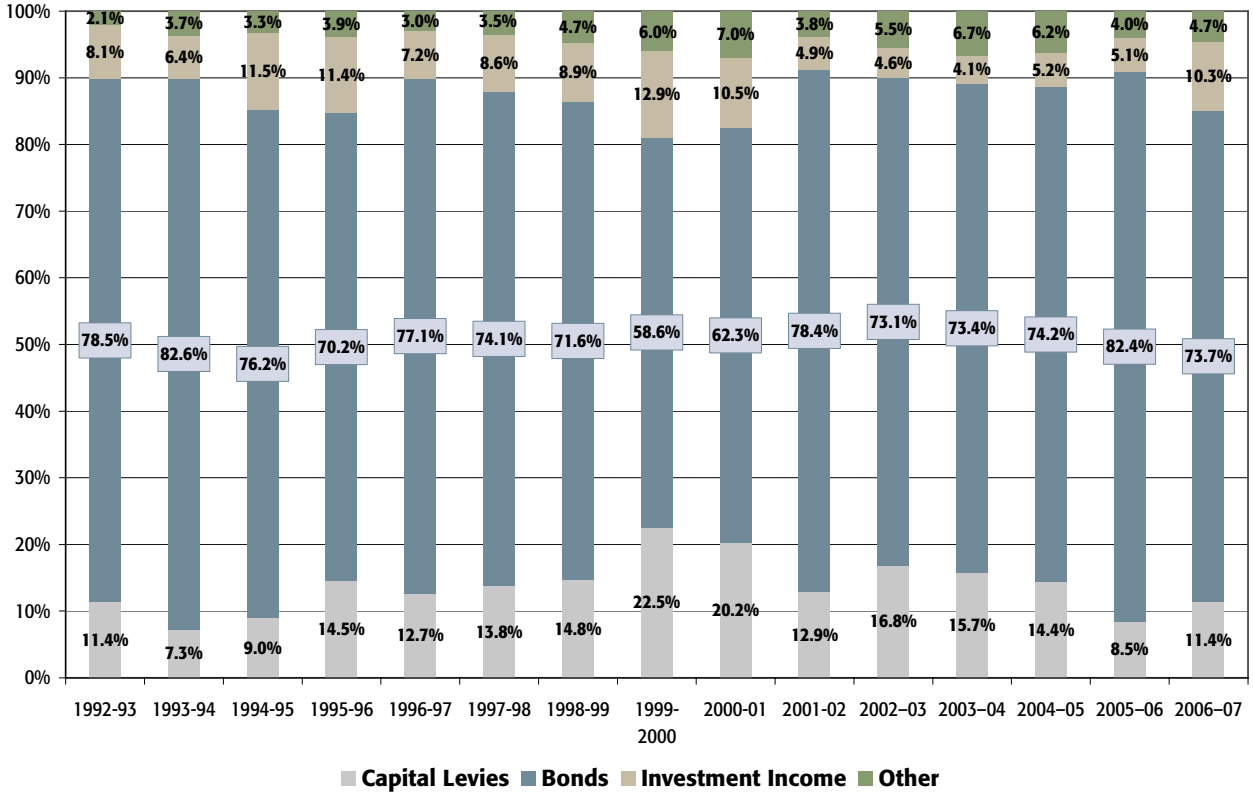
Exhibit 13
Capital Projects Funds: Actual Nominal Expenditures (in Millions) by Local Revenue Source, FY 1992-93 to FY 2006-07



	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002–03	2003–04	2004–05	2005–06	2006–07
Other	$11	$22	$17	$21	$26	$31	$44	$40	$54	$48	$54	$64	$62	$69	$64
Investment Income	$43	$39	$58	$61	$63	$76	$84	$86	$82	$63	$45	$39	$52	$89	$141
Bonds	$415	$495	$386	$378	$668	$652	$671	$391	$482	$1,000	$721	$696	$740	$1,432	$1,011
Capital Levies	$60	$44	$45	$78	$110	$121	$139	$150	$157	$164	$166	$149	$144	$147	$156

Source: OSPI, *School District and ESD Financing Reporting Summary Reports FY1992-1993 to 2006-2007*

Exhibit 14
Capital Projects Funds: Actual Expenditures by Percentage of Local Source, FY 1992-93 to 2006-07



Source: OSPI, *School District and ESD Financing Reporting Summary Reports FY1992-1993 to 2006-2007*

A Note on Impact and Mitigation Fees. Impact and mitigation fees are not separately represented in **Exhibit 13** and **Exhibit 14** because they do not have their own CPF account number. According to RCW 82.02.070, impact fee receipts must be retained in special interest-bearing accounts and expended within six years of receipt. School districts record impact fee revenues in the CPF only once they have been expended and they are included in the "other" revenue source category.

Beginning in school year (SY)[2] 2004-05, OSPI compiled impact and mitigation fee amounts by school districts. Only a limited number of school districts use these fees; 69 districts in SY 2004-05, and 65 districts in SY 2005-06 and 2006-07. Total fee amounts are shown in **Exhibit 15**. Impact fees comprise the majority of revenue generated, equaling approximately 93% in SY 2004-05 and decreasing slightly to approximately 88% in SY 2006-07.

[2] Note: The school (SY) begins September 1 and end August 31.

Exhibit 15
Total Impact and Mitigation Fees (in Nominal Dollars), SY 2004-05 to SY 2007-08

	2004-2005	2005-2006	2006-2007
Impact Fees	$ 46,042,376.84	$ 47,740,733.26	$ 41,689,828.80
Mitigation Fees	$ 3,625,683.73	$ 4,042,583.13	$ 5,768,624.53
Total	$ 49,668,060.57	$ 51,783,316.39	$ 47,458,453.33

Source: OSPI, 2008

Exhibit 13 and **Exhibit 14** show the following:

- The sale of local bonds, UTGO bonds being the most widely used, comprises the majority of local funding for school construction.
- Capital levies are the second major source of local school construction funding; its percentage of total actual expenditures per year has varied considerably from a low of 7.3% in SY 1994-95 to a high of 22.5% in SY 1999-2000.
- Other local sources fund a relatively small portion of total school construction expenditures. These sources, which include impact and mitigation fees, will vary by school district, and thus, may make up a larger percentage for any one school district.

3.7 Conclusions

Key findings of this examination of revenue sources for K-12 capital projects include the following:

- **Total spending on capital projects has fluctuated, with an overall increasing trend.** Expenditures recorded in school districts' Capital Projects Funds and the total costs of SCAGP projects have fluctuated from year to year considerably, as **Exhibit 5**, **Exhibit 7**, and **Exhibit 8** have demonstrated.

  Total expenditures in school districts' Capital Projects Funds equaled $1.7 billion in FY 2006-07, as seen in **Exhibit 5**. Looking at the most recent 10-year time period in which data are available (FY 1996-97 to 2006-07), there was a 56.6% nominal increase in spending, and a 10.3% real increase in spending, calculated using the Engineering News-Record Construction Cost Index.

  For SCAGP projects, total costs equaled $1 billion in FY 2008-09, as seen in **Exhibit 7** and **Exhibit 8**. The percent change in the 10-year time period between FY 1998-99 and FY 2008-09 equaled 123%, 76% of which is not accounted for by inflation.

- **Local sources are increasingly paying a larger portion of capital costs.** In FY 2006-07, local sources funded 81.8% ($1.37 billion) of all capital construction expenditures. When looking only at projects eligible for state assistance through SCAGP, local sources funded 66% ($410 million) of capital project costs in FY 2006-07.

- **The largest percentage of state revenue comes from the management of State trust lands.** Revenues from the Common School Trust Land and Trust Land Transfer Program have been the largest source of state appropriations for common school capital projects. Together, these sources equaled 57.7% of all state appropriations in the 1989-91 biennium and 45.4% in the 2007-2009 biennium.

  Revenue from the Common School Trust Land alone, however, has been decreasing as a share of total state appropriations, equaling 57.5% in the 1989-91 biennium and 27% in the 2007-09 biennium. In comparison, in the 2007-09 biennium, lottery revenue the Education Construction Account accounted for 28.2% of all state appropriations. Revenue from the Trust Land Transfer Program has fluctuated between 10-18% since the1991-93 biennium.

- **Bonds have consistently been the largest source of local revenue.** The percentage of local revenue from bonds has varied between approximately 62% and 83% of total local funding sources. In FY 2006-07, $1 billion generated from the sale of bonds went to capital project expenditures. A school district's ability to use this financing tool is constrained, however, by the statutory debt limit of 5%.

4.0 COMPARATIVE SURVEY OF OTHER STATES' APPROACHES TO SCHOOL FACILITY CONSTRUCTION FUNDING

Introduction

In an effort to gain an understanding of school construction funding approaches and funding formulas in other parts of the country, interviews were conducted with representatives from nine states: Arizona, California, Kentucky, Massachusetts, New Jersey, New Mexico, New York, North Carolina, and Ohio. School Facilities materials, such as Program Handbooks, Design Manuals, websites, and annual reports were also reviewed. In addition to the nine states studied in-depth, a summary level review was conducted for Idaho and Oregon. Given that both states contribute minimal funding (less than 5%) to school construction projects, their programs were not reviewed in detail.

The nine states mentioned above were selected for study based on several factors:

- Recommendations from OSPI staff and stakeholders
- Inclusion in the legislative staff presentation to the Task Force in November 2007, *Other States Funding Options*
- Potential similarity to Washington State with respect to funding allocation methods and level of state oversight

The purpose of this survey and research is to highlight key similarities and differences among states, as well as to identify models of practice or components that could be of interest to Washington State. In particular, practices related to funding formula transparency, communication and outreach, funding eligibility, and allocation of funds were reviewed.

This chapter is organized into two main sections: first, a state-by-state summary of key program and funding characteristics; and second, a summary of major findings and comparative approaches most relevant to Washington State's school construction funding program.

Characteristics of States Surveyed

Exhibit 16 below presents an overview of total population, K-12 enrollment, enrollment as a percentage of population, and the number of school districts for Washington State and the nine states surveyed. The Exhibit is organized by the level of state oversight in the school construction process based on interviews with individuals working at the state agencies.

Exhibit 16
States with Relatively Low Level of State Oversight

State	Total Population (2006)	K-12 Enrollment (Fall 2005)	Enrollment as a Percentage of the Entire Population	Number of School Districts
Washington	6,395,798	1,031,688	16.13%	295
North Carolina	8,856,505	1,388,216	15.67%	115

States with Relatively Moderate Level of State Oversight

State	Total Population (2006)	K-12 Enrollment (Fall 2005)	Enrollment as a Percentage of the Entire Population	Number of School Districts
Arizona	6,166,318	1,004,441	16.29%	218
California	36,457,549	6,255,811	17.16%	1,128
New York	19,306,183	2,787,366	14.44%	730

States with Relatively Strong Level of State Oversight

State	Total Population (2006)	K-12 Enrollment (Fall 2005)	Enrollment as a Percentage of the Entire Population	Number of School Districts
Kentucky	4,206,074	679,621	16.16%	174
Massachusetts	6,437,193	949,951	14.76%	389
New Jersey	8,724,560	1,380,119	15.82%	616
New Mexico	1,954,599	326,761	16.72%	89
Ohio	11,478,006	1,769,274	15.41%	614

Sources: American Community Survey - US Census Bureau; National Center for Education Statistics - US Department of Education; Stakeholder Interviews; Berk & Associates, 2008

The Exhibit reflects the following major observations about the states surveyed:

- Of the nine states interviewed, California was the largest with a K-12 school enrollment population of 6,255,811 and 1,128 districts, and New Mexico was the smallest with just over 325,000 enrolled K-12 students and 89 districts.

- Arizona, with K-12 enrollment of 1 million and 218 school districts, is most similar in size to Washington.
  - New Jersey and North Carolina have similar levels of K-12 enrollment at 1.38 million (compared with 1.03 million in Washington).
  - North Carolina has one third the number of school districts (115) of Washington while New Jersey has more than twice as many districts (616).
- Relative to Washington, most states exercise greater control, authority, and oversight over school district construction projects. Only North Carolina allows for more local control than Washington.
- Seven of the states surveyed, including Washington, use General Obligation bonds to fund school construction projects.

Evolution and Impact of Legal Challenges

School construction funding programs have evolved differently in many of the states surveyed depending on the context of each state's legislative and litigation environment, the age and condition of existing facilities, projected enrollment growth, and available funding sources.

All of the states surveyed have faced a legal challenge to their education funding system at some point. While legal challenges in some states, such as Kentucky and New Jersey, resulted in specific court ordered remedies to address school construction funding issues, in other states, such as Massachusetts and North Carolina, changes were made, but not specifically at the direction of the courts. Whether the result of legal action, legislative action, or an outdated agency structure, most states have implemented changes in their approach to school facilities planning and funding over the past 20 years. In most cases, the consequent reform or restructuring helped the state to redefine the focus and purpose of school facilities funding. In addition, the creation of new agencies and programs coincided with increased funding and an opportunity to redesign the funding system to achieve newly articulated goals.

Mandated Court Changes. Six states have had state Supreme Court cases that mandated specific action. Capital facilities were specifically addressed in the following cases:

- In 1989, the Kentucky Supreme Court declared the State's statutory structure for funding public schools inadequate and inequitable and thus in violation of the constitution. The 1990 Kentucky Education Reform Act overhauled the educational funding system and required all school districts to complete a long range plan to identify capital construction priorities.
- In 1994, the Arizona Supreme Court declared Arizona's system of school capital finance unconstitutional because it failed to conform to the State constitution's "general and uniform" clause. Students FIRST (Fair and Immediate Resources for Students Today) was created by legislation in 1998. It established a new schools facility fund and a building renewal fund to maintain and build new schools to meet state defined minimum adequacy standards.
- In 1997, the Ohio Supreme Court declared the education finance system unconstitutional and ordered significant increases in funding, citing insufficient funding for school construction and a dependence on property taxation. The Ohio School Facilities Commission was created in May 1997 as a separate and distinct state agency to oversee the rebuilding of Ohio's public schools.

- In 1998, the New Jersey Supreme Court ruled in Abbott v. Burke that the State must provide 100% funding for all school renovation and construction projects in 30 (later 31) special needs school districts. According to the Court, aging, unsafe, and overcrowded buildings prevented children from receiving the "thorough and efficient" education required under the New Jersey constitution.
- In 2004, California settled the Williams class action case by agreeing to several facility-specific provisions: provide $800 million over the next several years for school repairs; create a School Facilities Needs Assessment program; and create standards for instructional materials and facilities.
- In 2005, the New York Appellate Court affirmed the state Supreme Court decision in favor of the Campaign for Fiscal Equity, and ordered $9.2 billion in capital funding for facilities to provide students their constitutional right to the opportunity for a sound basic education.

Case Provoked Legislative Action. The courts did not mandate specific recommendations in cases in New Mexico and Massachusetts. However, based on the cases and other circumstances, the states initiated the following improvements:

- A 1998 lawsuit in New Mexico alleged the funding system for capital facilities was unconstitutional. The trial court granted partial summary judgment in favor of the plaintiffs and ordered the state to "establish and implement a uniform funding system for capital improvements…and for correcting existing past inequities" and set a deadline at the end of the 2001 legislative session. In response, the state created the Public School Capital Outlay Council to manage the allocation of state funding to public school facilities in New Mexico. The Public School Facilities Authority was created to manage a permanent funding program; to assist school districts in the planning, construction, and maintenance of their facilities; to assist in training district facility and maintenance staff; and to implement efficient and cost effective systems and processes.
- In 2004, the Massachusetts Legislature initiated the largest scale reform of the rules and regulations governing the state's role in school construction since 1948, creating the School Building Authority. That same year, the courts ruled that the state was not meeting its constitutional duty to provide an adequate education for all students; however, the courts did not mandate any specific facilities-related remedies.

Summary of Funding Approaches in Use

Exhibit 17 below illustrates the range of approaches and funding levels of the states surveyed.

Exhibit 17
Summary of State School Construction Funding

State	Capital Funding Approach	Most Recent State Appropriation
Washington	• Lottery funds • State trust land revenues • General Obligation bonds	$450.6M (2007/08)
North Carolina	• Corporate income tax revenue • Lottery funds • Periodic bond issues	$238M (2006/07)
Arizona	• General fund	$660M (2008)
California	• Periodic bond issues	$7.3B (Issued in 2006)
Kentucky	• General fund from 5¢ or 10¢ tax levied by all school districts	$359M (2006/07)
New Mexico	• Severance Tax Permanent Fund	$190.3M (2007)
Massachusetts	• 20% of 5¢ sales tax • Periodic bond issues	$634.7M + currently spending a $2.5B bond issue for a 5-year capital pipeline (2008)
Ohio	• Master Tobacco Settlement Agreement • General Obligation bonds	$4.12B (2008-11)
New Jersey	• Periodic bond issues	$3.9B (Issued in 2008)
New York	• General Obligation bonds	$2.6B (2006/07)

Source: Stakeholder Interviews, OSPI, and Berk & Associates, 2008.
Note: Some recent appropriations are annual, some are biennial, and some are over a period of years. Please note the appropriate timeframe in parentheses.

The states surveyed use a variety of funding sources and approaches to fund school construction and modernization projects.

- Similar to Washington, North Carolina dedicates a portion of its lottery funds to school construction.
- Massachusetts dedicates 1 cent of its 5 cent sales tax to school construction.
- States, such as North Carolina, Washington, Arizona, Kentucky, New Mexico, Massachusetts, Ohio, and New York appropriate funding on an annual or biannual basis. California and New Jersey appropriate funding less regularly and consequently the one-time amounts are larger.

4.1 State-by-State Summary

In the section below, agency structure and program highlights are discussed for each of the states surveyed, including practices most notable for this study.

North Carolina

State Funding Formula

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
Not tracked because allocations are made based on average daily student membership	N/A: The state keeps an on-going account for each district based on average daily membership	None	None

As shown above, North Carolina does not use a funding formula; the State allocates a share of the funds to each district on the basis of average daily membership. As a result, a project or district prioritization system is unnecessary.

Key Findings

North Carolina is notable for its relatively low level of state oversight.

- To receive state funding, districts submit a simple application describing the use of the funds to show that they meet statutory requirements.
- Money is allocated into an ongoing school district account on the basis of enrollment. School districts can access the money at any time and know the accrued amount.
- There is no prioritization system for project funding.
- While the state does not track its share of funding on individual projects, it is estimated that school districts contribute a significant share, particularly in high growth districts. By statute, the State is responsible for operational costs while the Local Education Agency (LEA) is responsible for facilities.

The Agency. The School Planning Section serves in an advisory role to LEAs, reviewing and commenting on (but not approving) plans and working with LEAs to provide construction cost estimates and design guidance for proposed projects. With a shift in 1996 that gave LEAs more local control, the School Planning Section serves as an administrator of funds, a project advisor, and as a clearinghouse for school architectural plans.

State Funding and Oversight. The Public School Building Capital Fund, established by the General Assembly in 1987, allocates a portion of corporate income tax revenues to each LEA based on average daily membership (ADM), a measure equivalent to enrollment. As of 2006, a share of lottery sales are dedicated to school construction and allocated to LEAs based on ADM and the local property tax rate. LEAs with a higher than average property tax rate receive a bonus of revenue. The state has also approved periodic bond measures, $1.8 billion in 1996, which are allocated based on ADM, high growth, district wealth as measured by assessed value, and other factors. There is very little state regulation of the design and construction phases. LEAs submit total project cost information to the state, but the state funds used for each project are not tracked or audited. The state requires a long range survey of facilities every five years to estimate the state-wide need.

The Formula. North Carolina allocates funds quarterly based on average daily membership.

Local Funding and Control. Schools can let their allocations accrue until they are ready to start a project. LEAs are entirely responsible for construction management and are required to raise $1 for every $3 they receive from the corporate income tax portion of the Public School Building Capital Fund. No match is required for the lottery portion of the Fund. Bonds are the most common funding method at the local level, although some LEAs may be able to capture some of the proceeds from the county sales tax. Certificates of Participation are also used, although their interest rates are higher. Since 1995, local bonds have totaled $8.26 billion.

Arizona

State Funding Formula

New Construction:

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
100% of eligible new construction costs	Total projected costs	Additional square feet needed * Cost/square foot	None

Building Renewal (Major Renovations and Repair):

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
Pro-rated annually based on state funding of total building renewal needs	State allocation	Age & condition of building * Square feet * Cost/square foot * District share of total renewal needs	None

As shown above, Arizona funds new construction based on the need for additional square feet to house projected student enrollment. The building renewal formula is so complicated that the State uses a special software program to calculate it; the basis of the formula is the size, age, and condition of building.

Key Findings

Arizona is notable because school districts do not require local validation to be eligible for state funding.

- Arizona does not account for the wealth of a district; it funds 100% of all districts' new construction needs within the minimum adequacy guidelines.
- Districts are allowed to build beyond the State's minimum adequacy guidelines if they provide the funding; most school districts do contribute to projects.
- There is no prioritization system for project funding.
- While the state has historically been able to fully fund all new construction projects, there is no money allocated for new school construction projects in 2009.

The Agency. The School Facilities Board is charged with adopting rules establishing minimum school facility guidelines, assessing school buildings against these guidelines, and providing monies to bring the buildings up to the guidelines. The Board administers three capital funds: Building Renewal, Deficiencies Corrections, and New School Facilities.

State Funding and Oversight. The Building Renewal Fund can be used for major renovations and repairs of a building, for upgrades to building systems (e.g. heating, cooling, plumbing, etc.) that will maintain or extend the useful life of a building, and for infrastructure costs. The Board requires all school districts to maintain a building inventory in order to annually calculate the state building renewal need.

The State pays 100% of the eligible costs of a project. The State pays for the construction of hallways, restrooms, libraries, offices, and all other spaces that the Board has determined necessary for an adequate school facility. The minimum adequacy standard varies by type of school; elementary schools are built to 60 square feet per student and secondary schools are built to 80 square feet per student. The minimum adequacy standard and the cost per square foot are regularly adjusted by the Legislature.

The School Facilities Board reviews and approves a district's enrollment projections before a new facilities construction project is approved. Once a district is determined to be eligible for new construction funding, the project design is reviewed to ensure that the State only pays for construction costs up to the minimum adequacy guidelines.

The Formula. Arizona calculates the state-wide school building renewal need annually; once the legislature allocates monies to the fund, the districts receive a pro-rated allocation based on their share of renewal need. For example if the renewal need is $100 million and the Legislature allocates $60 million to the Building Renewal Fund, a school district with 1% of the state-wide need would receive 1% of $60 million or $600,000 for renovations and repairs.

The New School Facilities Fund is much less complicated. The criteria to determine district eligibility are based on an annual evaluation and approval of district enrollment projections and the additional square footage that will be needed to maintain adequacy standards in a district.

Local Funding and Control. School districts can build to standards in excess of the minimum adequacy standards as long as they pay for it with local funds. However, local contributions to new construction projects are very rare.

California

State Funding Formula

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
50% new construction; 60% modernization	$/pupil each district will receive	$/pupil grant amount (based on school type - elementary, secondary) * Number of pupils (based on pupil/classroom standards)	In the order received

As shown above, California contributes 50% towards eligible projected costs on new construction projects and 60% on modernization projects. The funding formula starts with a per pupil grant amount that is based on school type – elementary or secondary and specified in law. The school district must then match the grant funds provided by the State. Some projects with above average costs, such as magnet schools, will have less than 50% paid by the State.

Key Findings

California has clearly defined school construction grant programs.

- As of 1998, the State decreased its project oversight in favor of more local independence and flexibility related to the scope the project and great local responsibility for project outcomes.
- The State exercises oversight with respect to minimum building codes and standards and school siting.
- Local school districts have authority over land use, contracts, project management, and construction materials and finishes.

The Agency. The Office of Public School Construction (OPSC), a state agency within the Department of General Services, is responsible for providing the staff necessary to carry out the policies and implement the various programs of the State Allocation Board (SAB). This includes helping school districts get ready to apply for funding, determining eligibility for projects, and ensuring that state funds are allocated properly. OPSC also provides technical assistance, outreach, and education to school districts. The SAB is responsible for determining the allocation of state resources, both proceeds from General Obligation bonds and other designated state funds, used for the new construction and modernization of local public school facilities. The SAB is also charged with the administration of the School Facility Program, the State Relocatable Classroom Program, and the Deferred Maintenance Program. OPSC's mission is to "enable school districts to build safe and adequate school facilities for their children in an expeditious and cost-effective manner." OPSC has 30 project managers assigned to one or more counties that act as the liaison and subject matter expert to the local districts.

State Funding and Oversight. The State has established minimum standards for school sites and plans, which must be followed by all school districts. When applying for state funds, the State reviews the district's compliance with these standards. The Department of Education School Facilities Planning Division reviews plans for environmental hazards, proximity to airports and freeways, and several education adequacy requirements. In addition, all school plans must be approved by the State Architect to ensure compliance with fire safety, life safety, seismic, and structural requirements. Once a district has received the required approvals, they can submit a funding application to OPSC.

The Formula. New construction grants are based on the number of pupils in the project and consist of a pupil grant and a number of supplemental grants. To be eligible for new construction or modernization funding, a school district must demonstrate that it has or will have unhoused students. New construction grants are designed to cover 50% of project costs, including funding for design, costs related to the approval of the plans and specifications by all required agencies, the construction of the buildings, general site development, educational technology, unconventional energy, change orders, tests, inspections, and furniture and equipment. The new construction grant does not provide for site acquisition, site utilities, off-site, and service site development as these costs vary due to location, size, topography, etc. These costs are covered by additional grants based on actual amounts. **Exhibit 18** below shows the per pupil grant amount and classroom loading standards by school type.

Exhibit 18
New Construction Formula Components

School Type	Basic Per Pupil Grant Amount	Classroom Loading Standard
Elementary	$8,081	25 pupils (includes Grade 6)
Middle School	$8,546	27 pupils (Grades 7 and 8)
High School	$10,873	27 pupils
Special – non-severe	$16,095	13 pupils
Special - severe	$24,066	9 pupils

Source: OPSC School Facility Program Handbook, 2007.

Based on the Exhibit above, a base grant for a 20 classroom elementary school would be:

$8,081 X 20 (classrooms) X 25 (pupils) = $4,040,500

Modernization grants are available to schools with permanent buildings at least 25 years old or portable classrooms at least 20 years old that have not been previously modernized with state funds. The grant amount is increased and funding for specific utility upgrades is allowed if buildings are 50 years old or more. Modernization grants consist of a pupil grant and supplemental grants, when eligible. **Exhibit 19** shows the per pupil grant amounts available for modernization projects.

Exhibit 19
Modernization Per Pupil Grant Amounts by School Type

School Type	Basic Per Pupil Grant Amount	Per Pupil Grant Amount for 50 Year Old Buildings
Elementary	$3,262	$4,530
Middle School	$3,450	$4,792
High School	$4,516	$6,274
Special – non-severe	$6,953	$9,656
Special - severe	$10,391	$14,440

Source: OPSC School Facility Program Handbook, 2007.

The new construction and modernization pupil grant amounts are adjusted by the SAB each January based on the change in the Class B Construction Cost Index.

Supplemental grants are added to the basic new construction or modernization grant amount. For example, an elementary school project would receive an additional $10 per pupil for automatic fire detection and alarm systems under the Fire Code Requirements grant program.

The following supplemental grants are available for both new construction and modernization projects unless noted:

- Elevators (modernization only)
- High Performance Incentive (new construction only)
- Fire Code Requirements
- Geographic Location
- Handicap Access and Fire Code Compliance (modernization only)
- Labor Compliance Program
- Multi-level Construction (new construction only)
- New School Allowance (new construction only)
- Project Assistance
- Rehabilitation (modernization only)
- Replacement with Multi-Story Construction (new construction only)
- Site Acquisition (new construction only)
- Site Development
- Small High School Program
- Small Size Projects
- Special Education – Therapy Area (new construction only)
- Urban Locations, Impacted Sites, Security Requirements

Local Funding and Control. Passed in 1998, Proposition 1A (also known as SB 50) increased local school district control over projects. Districts still need to meet timelines and eligibility requirements and undergo an audit of all project expenses, but they are now entirely responsible for project management and maintain a broad range of authority over land use and contracts. Districts can build to whatever quality they can fund, provided it meets minimum code and safety requirements; the State will not intervene or dictate school facility types and finishes. Districts typically raise money through General Obligation bonds. Development or impact fees have been used significantly over the years, although this waxes and wanes with the economic cycles. Proposition 1A's main impact in land use was to restrict districts' abilities to condition development projects to require school mitigation, and to limit the level of fees that could be imposed by districts.

Equalization and Prioritization. There is no adjustment made based on the wealth of the district or students; eligibility is structured around unmet need based on enrollment projections and existing capacity. The State processes applications in the order received until the funding runs out (the current bond issue is estimated to be spent by 2009). A **financial hardship program**, where the State may contribute up to 100% of the eligible costs, is available to districts that have made reasonable efforts but have failed to raise local funding. Districts must provide evidence of at least one of the following to qualify: debt level at 60% of bonding capacity; total district bonding capacity less than $5 million; district had a successful registered voter bond election for at least the maximum allowed within the previous two years; and other evidence demonstrating that all reasonable local efforts have been made as approved by the SAB.

New York

State Funding Formula

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
0%-98% of eligible costs	Total state dollar contribution for eligible project costs	State Funding = Maximum Cost Allowance x District Aid Ratio	In the order received

As shown above, New York calculates a state match using cost allowance and a district aid ratio and processes applications in the order received. Depending on the district aid ratio some districts are ineligible for state funding while others may receive a significant contribution.

Key Findings

New York has a funding approach and formula that is similar to Washington State.

- New York is in the process of revising their funding formula because it is seen as overly complicated and difficult to understand.
- The State requires each district to complete a Building Condition Survey and Five Year Capital Facilities Plans.
- There is no prioritization system for project funding; the State funds all eligible projects.

The Agency. The Facilities Planning Department of the New York State Education Department oversees public school construction through the review of all capital projects, including floor plans and enrollment projections. As part of the review process, the Facilities Department provides school districts with an estimate of state aid.

State Funding and Oversight. The State's Department of Education receives an annual appropriation in the state budget, with separate appropriations for facilities. The Facilities Department determines eligibility through review of a Letter of Interest, the district's Building Condition Survey and Five Year Capital Facilities Plan (both required by the state), enrollment projections, an instructional space review form, and floor plans. The state is required to fund all eligible projects. The Facilities Department issues permits according to a state-wide building code for public school and does final cost reconciliation at the end of a project to audit costs and reconcile state payments.

The Formula. The Facilities department has convened a work group made up of architects and engineers and others to streamline the funding formula and make it easier to understand. The formula was created about 50 years ago and has been adjusted repeatedly, producing a complex and complicated formula:

State Funding = Maximum Cost Allowance x District Aid Ratio

District Aid Ratio is a fixed percentage determined annually for each district based on the full value of property and the number of students in the district. It varies from zero to 90%.

Maximum Cost Allowance = Building Aid Units x Construction Cost Index x Regional Cost Factor

Building Aid Units are assigned to a project using established space standards, square foot per pupil allowances, and current and projected enrollment.

Construction Cost Index is the New York State Labor Department Index for costs of labor and materials. For computing actual Building Aid, the construction project cost index used is the one that is in effect the month the district signs the major (or general construction) contract for the work proposed under each particular project.

Regional Cost Factor is used to compensate for higher costs in some areas of the state. A regional cost factor greater than 1.0 will increase the maximum cost allowance.

Local Funding and Control. A school district must have voter approval of bond funding before plans and specifications can be completed. Upon voter approval, the Facilities Department reviews and approves the plans and issues a building permit. The Facilities Department provides direct oversight throughout the process, but there is a great deal of local control with respect to design. Districts can fully fund ineligible project components to any standard they wish.

Equalization and Prioritization. Aid ratios range from zero (for a wealthy district) to 98% of eligible costs. District wealth is determined annually based on the full value of district property divided by the number of students in the district. Projects are reviewed on a first in, first reviewed basis, although priority may be given to projects with urgent needs.

Kentucky

State Funding Formula

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
On average about 66% of eligible costs: some districts receive zero while others receive more than 66%	$/square foot each district will receive	Funds allocated based on share of facility unmet need + Equalization funds allocated based on district property value wealth	• Largely based on unmet need • Facilities Planning Manual lists the priorities for each biennium

As shown above, Kentucky calculates an amount per square foot that each project will receive. Calculations are based on classroom and space size and loading standards. The State prioritizes projects based primarily on unmet need in terms of facility condition and enrollment growth, when applicable.

Key Findings

Kentucky's facilities program was created as part of the 1990 Kentucky Education Reform Act.

- Each district levies a local tax that is used for debt service.
- The share of funding that the school district gets depends on it percentage share of facility unmet need and an equalization factor based on the district property value.

The Agency. The Division of Facilities Management is responsible for ensuring sanitary, safe, and accessible construction of public school buildings and grounds. The Division provides assistance to school districts by reviewing and approving all sites, new buildings, additions, alterations of existing buildings, energy savings projects, and hazardous material abatement from initial construction project application through final completion. The facilities program aims to bring all schools up to a minimum quality standard and ensure adequate and equitable facilities for students across the state. The Division has eight employees.

State Funding and Oversight. Funding for school construction is approved by the Legislature each biennium and is a line item in the budget. The Division monitors and approves the planning and construction phases and approves all plans, contracts, and change orders. Standardized contracts are used by all school districts and the Planning Manual outlines everything from minimum and maximum class sizes to architectural standards and model sizes for classrooms. All school districts are required to complete a long range plan to identify capital construction priorities. Each long range planning effort requires at least three public forums and one additional meeting after the plan has been established.

The Formula. Kentucky has three primary construction funding sources:

- Capital Outlay funds, a flat grant of $100 per student.
- School Facilities Construction Commission funds (SFCC), which are allocated based on facility unmet need (measured by the long range plans). If a district has 12% of the unmet need it would be eligible for 12% of the funds, appropriated by the General Assembly. SFCC funds can only be used on top priority projects.
- Facilities Support Program of Kentucky (FSPK) funds, which come from a local nickel tax and are equalized based on district property values. School districts are equalized at 150% of the state-wide average of assessed value per pupil. Thus, wealthy districts may receive zero while a poorer district could receive a match of 3:1.

Local Funding and Control. The 1990 Facilities Support Program of Kentucky enabled all school districts to levy a 5¢ tax (some have since levied a 10¢ tax) in support of school capital projects. Local districts manage their own projects with oversight and technical assistance from the Division.

Equalization. Property values are divided by the number of total students to determine state-wide average wealth per pupil. Individual school districts are equalized at 150% of the state-wide average. Thus wealthy districts may receive zero while a poor district could receive a match of 3:1.

Massachusetts

State Funding Formula

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
40-80% of eligible costs	state contribution as % of total eligible costs	Base of 31% of eligible project costs + Community Income Factor + Community Property Wealth Factor + Community Poverty Factor + % points for Incentives	Eight criteria are used to determine need and urgency

Massachusetts uses eight criteria to evaluate projects to receive state funding. The formula accounts for community wealth using three factors and also includes incentive points for types of buildings, energy efficiency, and other considerations such as community use or private fundraising.

Key Findings

Massachusetts' school building grant program is focused on project eligibility and the distribution of state funds to projects with the greatest need.

- Construction and renovation grants are awarded based on the greatest and most urgent need according to eight statutory criteria.
- Massachusetts dedicates 20% of the state sales tax to school construction funding and operations.
- Owner's project managers are required on all projects over $1.5 million and are subject to a qualifications-based selection and approval process.

The Agency. The Massachusetts School Building Authority (MSBA) was established in 2004 to reform the management of the distribution of state school building grant funds and to create a framework for a new, financially sustainable school building grant program. The grant program began on July 1, 2007. The MSBA focuses on project eligibility and the creation of a fair process to distribute state funds to projects with the greatest need.

State Funding and Oversight. The State has pledged 20% of the 5¢ sales tax to fund the new grant program, pay off prior grant programs and debt services, and fund the operations of the MSBA. The State also uses periodic bond issues to provide additional funds. The State requires that an owner have a state-approved project manager for projects over $1.5 million. The MSBA provides oversight from the time the district submits a Statement of Interest throughout project feasibility, designer selection, and construction. The MSBA reimburses project expenses each month based on submitted invoices. They also audit invoices on a monthly basis.

The Formula. The MSBA begins with a base percentage as defined by statute and increases or decreases the share based on four factors:

State Share of Funding = Base Percentage (A) + Community Income Factor (B1) + Community Property Wealth Factor (B2) + Community Poverty Factor (B3) + Incentive Percentage (C), where:

- A = 31%
- B1 = per capita income for a municipality as a share of state-wide average
- B2 = equalized property valuation per capita for a municipality as a share of state-wide average
- B3 = proportion of low income students as a share of state-wide average (determined by federal eligibility for free or reduced lunch)
- C = incentive points assessed by the authority. These include: Innovative Community Use (3%); Energy Efficiency (2%); Maintenance of Other Buildings (0-8%); Construction alternatives, such as Construction Management at Risk (4%); Renovations (0-5%); Major reconstruction (4%); and 0.5% match for every 1% privately raised.

Local Funding and Control. Local districts typically use tax revenue or bond issues to pay for their share of costs. Districts that cannot raise local funds for approved projects are not eligible for any state assistance.

Equalization and Prioritization. The funding formula includes per capita income for a municipality as a percent of state-wide average, equalized property valuation per capita for a municipality as percent of state-wide average, and the proportion of low income students as a percent of state-wide average.

The MSBA awards construction and renovation grants based on the greatest and most urgent need according to eight statutory criteria: fixing facilities that are structurally unsound or otherwise endangering the health and safety of children, reducing severe overcrowding, preventing severe overcrowding expected from future enrollments, increasing energy conservation and reducing costs, replacing obsolete buildings, preventing loss of accreditation, easing the burden of short term enrollment growth, and transitioning from court-ordered, authority-approved racial balance school districts to "walk-to," so-called, or other school districts.

New Jersey

Key Findings

New Jersey is financially responsible for providing adequate facilities with priority given to health and safety projects, creation of preschool facilities, and reduction in overcrowding in 31 special needs districts.

- Each school district is required to prepare a five year Long Range Facilities Plan.

- Project charters that establish the project budget, scope, and schedule must be approved by the New Jersey Schools Development Authority's Board before land is acquired and construction begins.
- All school districts follow New Jersey public schools contracts law, and there are other requirements in place to ensure compliance with educational facilities requirements.

The Agency. The New Jersey Schools Development Authority (SDA) was created in 2007 and is responsible for managing the school construction program established pursuant to the 2000 Educational Facilities Construction and Financing Act, which authorized $8.6 billion in bond financing to fully fund 30 (later 31) special needs districts (formerly known as Abbott Districts) and provide grant funding for the remaining districts (typically at 40%), subject to meeting eligibility requirements. New Jersey had a series of Supreme Court decisions beginning with litigation filed in 1981, (Abbott was the first named plaintiff), on behalf of 30 (later 31) economically disadvantaged communities.

The goal of the SDA is to effectively and efficiently manage the development of modern, educationally appropriate schools from planning, land acquisition, and design to completion. SDA's Board provides strong oversight and consists of 4 ex-officio and 11 public members with expertise in real estate development, construction management, finance, and building design and architecture. In 1998, the New Jersey Supreme Court ruled in the Abbott vs. Burke case that the State must provide 100% funding for all school renovation and construction projects in special needs districts. According to the Court, aging, unsafe, and overcrowded buildings prevented children from receiving the "thorough and efficient" education required under the New Jersey Constitution.

State Funding and Oversight. The state share for approved non-special needs districts is 40% in most cases. In the event that a local district fails twice at a referendum to raise money for schools, they can petition the Department of Education (DoE) Commissioner to go ahead with the project. The SDA is responsible for the management of design, pre-construction, and construction activity for special needs districts' projects. All other districts procure and manage their own projects. However, the SDA disburses percentages of the state share funds at milestones and reviews the level of completion and quality of the work. For example, all districts managing their own projects have to follow New Jersey public school contracts law and there are requirements, such as space standards, to ensure compliance with DOE facilities standards..

The DoE approves each district's five-year Long Range Facilities Plan (LRFP) as well as individual school facilities projects. The DoE is charged with ensuring that the planned facilities will deliver a "thorough and efficient" education. Project Charters that establish the project budget, scope, and schedule must be approved by the SDA Board before land is acquired and construction gets underway. Project capital is allocated following Board approval.

Prioritization. A 2006 Task Force committee composed of superintendents, architects, academics, advocates, and DoE and SDA staff developed a prioritization system, which is being used to develop a state-wide plan to address the need. **Exhibit 20** shows the three step methodology the New Jersey Schools Development Authority and New Jersey DoE use to prioritize and select new projects for special needs districts.

Exhibit 20
Methodology for Project Prioritization and Selection

Educational Assessment	State Investment	Equity and Specific Adjustments
Inter-District Prioritization Rating Criteria • District size • Overcrowding based on existing enrollment • Preschool accommodations • Temporary and leased facilities • Annexes and remote buildings • Building age • Program delivery • Facility efficiency standards compliance • Long Range Facility Plan percentage complete	Alignment of State financial investment with DoE/District educational priority alignment • Maximize educational benefit of prior funding investment • Complete projects with investments exceeding $3M each for previously performed preconstruction activities	Equity Adjustments • All districts to have at least one project funded through this authorization • No district to have more than four projects funded through this authorization, except if fifth project has sunk costs exceeding $3M District Specific Adjustments • Address Higher Educational Priority • Result in Net Reduction of Costs

Source: NJ Schools Development Authority, 2008

New Mexico

State Funding Formula

State Share of School Construction Funding	Funding Type	Formula	Funding Prioritization
10-90%; on average it is about 50%	state contribution as % of total eligible costs	State match is determined on the basis of district wealth	New Mexico Conditions Index ranks all facilities in the state

As shown above, New Mexico funds projects based on a facilities conditions index that ranks all the school buildings in the state.

Key Findings

New Mexico uses a state-wide database to rank and fund facilities in terms of relative need.

- New Mexico attempts to fund the top 100 greatest need projects each year, but this number may vary based on available revenues.
- School districts are required to create facilities master plans and maintenance plans.
- Regional managers provide on-site technical assistance and training to school districts on construction, operations, and maintenance.

The Agency. The Public School Capital Outlay Council (PSCOC) is directed by the Legislature to manage the allocation of state funding to public school facilities in New Mexico's 89 school districts. The Public School Facilities Authority (PSFA) operates as staff for the PSCOC to manage a permanent funding program; to assist school districts in the planning, construction, and maintenance of their facilities; to assist in training district facility and maintenance staff; and to implement efficient and cost effective systems and processes. The PSFA's mission is to ensure adequate public school facilities throughout New Mexico via efficient and prudent use of funds and a decision-making process that is equitable, systematic, and needs-based.

State Funding and Oversight. The Severance Tax Permanent Fund is the primary revenue source. Districts are required to create facilities master plans and maintenance plans and the state monitors expenditures closely. The PSFC has regional managers out in the field to provide training and technical assistance related to construction and operations. The PSFC administers a web-based maintenance management system for use by the school districts. Data is used by state policy makers to determine maintenance funding levels.

The Formula. New Mexico attempts to provide financial assistance for 100 projects per year, determined using a state-wide database to rank facilities in terms of relative need. More or fewer than 100 projects may be funded in a particular year based on available revenues. Even if a project is one of the top 100, the district that owns the project must meet a variety of criteria and apply for a capital outlay award in order to be considered during each annual funding cycle. The New Mexico Facilities Assessment database includes building specific data for all 89 school districts. Over 95,000 separate and distinct systems are fed into the nine weighted categories to rank each facility in terms of relative need from greatest to least. For the estimated 100 projects that are eligible for state funding, a district wealth ratio is used to calculate the amount of state contribution.

Local Funding and Control. Local funding is through voter-approved general obligation bonds. If a district fails to pass a bond measure or they have reached their bonding capacity limit, they can request a waiver from the state.

Equalization. District wealth is included in the database and state matches range from 10% to 90% with a net state-wide match average of 50%.

Ohio

State Funding Formula

State Share of School Construction Funding	Formula Calculates	Formula	Funding Prioritization
5-97% based on district ranking	Total projected costs	Square feet/student * Project building enrollment * Standardized cost/square foot	Districts are ranked 1 through 614 by wealth; the state started with the poorest districts and is working down the list

As shown above, Ohio is addressing its school facilities needs in the order of district wealth, from poorest to wealthiest. The funding formula determines the total projected costs and the district wealth determines the amount of the state match.

Key Findings

Ohio prioritizes school districts for construction funding based on need determined by the assessed value of real and personal property divided by the number of students in the district.

- Each school is required to complete a master plan and a maintenance plan.
- School districts must establish long term funding for maintenance in order to participate in state funded construction programs.
- An Exceptional Needs program is available to school districts whose buildings pose a health and safety risk to their students regardless of where the district is on the list.

The Agency. The Ohio School Facilities Commission (OSFC) was created in May 1997 as a distinct state agency to oversee the rebuilding of Ohio's public schools. The combination of litigation (De Rolph v. State) and a federal survey of the condition of school facilities that ranked Ohio 47 out of 50 states led to the creation of the OSFC and increased state funding to address "adequacy and equity." To meet the education needs of students, the OSFC mission is to renovate or entirely rebuild deteriorating, overcrowded, and inefficient school facilities in partnership with local school districts.

State Funding and Oversight. A long-term funding plan incorporates three state revenue sources: General Revenue funds, cash secured from the Master Tobacco Settlement Agreement, and State of Ohio General Obligation bonds. The Classroom Facilities Assistance Program began in 1997 with the state's lowest wealth districts providing funding for the entire facilities needs within a district. A master plan and a maintenance plan are required for all schools. In addition, long-term funding for maintenance must be established by the school districts to participate in OSFC funded programs. The OSFC conducts a financial close-out process to audit revenue and expenditures and a quality control process in which an independent third party engineering professional monitors, tests, and verifies that the facility design intent has been realized, and that the facility is fully operational at the end of the construction process.

The Formula. Ohio uses a square foot per child standard and standard costs per square foot in its formula.

Total Projected Cost = square foot per student x project building enrollment x standardized cost per square foot

The actual square foot allocation depends on a number of factors, including the grade level and the number of students in a building.

Local Funding and Control. Local jurisdictions typically use bond funding to pay for school construction and maintenance costs. The school selects its own designer and OSFC selects the construction manager. The designer has a range of options outlined in the School Design manual. All projects are required to meet the standards included in the Design manual; school districts can raise additional funds to build to higher standards than outlined in the manual. The Exceptional Needs Program is a building replacement program for school districts whose buildings pose a health and safety risk to their students regardless of where the district is on the list.

Equalization and Prioritization. School districts are ranked annually (1 through 614) on the basis of need determined by the assessed value of real and personal property divided by the number of students in the district. OSFC is addressing all schools in each district starting with the poorest districts and providing state funds accordingly. For example, a district in the 35th percentile will usually pay 35% of the cost. The Urban Initiative Program accelerates facilities funding for the six largest urban school districts due to the size and complexity of urban facilities.

4.2 Key Findings

Of the nine states surveyed, there were similarities with respect to certain practices, but each state had its own approach resulting from its history of past practices, litigation, agency reform or creation, or legislative intervention. Each state had notable program features, from well designed and clearly written program handbooks, to websites, to prioritization methods, to inventory and master plan requirements, to communication practices.

While none of the states surveyed have a school construction funding model that is directly comparable to Washington, all of the states have some program components or features that are similar. Most states use some type of formula to allocate state funding, attempt to account for the wealth of the district when determining the amount of funding to individual districts, and rely on enrollment projections to measure unmet need and prioritize projects.

High Level Findings

There are many different models and no one model that is completely applicable. School construction funding programs have evolved differently in the states surveyed depending on the context of each state's legislative and litigation environment, the age and condition of existing facilities, projected enrollment growth, and available funding sources. It is quite possible that if another 40 states had been interviewed, 40 varying programs would have been identified.

Relatively high state share of funding generally means relatively strong state oversight. While most states discussed the importance of balancing local and state decision-making and control, with the exception of North Carolina, the states surveyed exercise a greater degree of state control with respect to school district facility construction than currently exists in Washington. The states that provide the largest share of state funding tend to have stronger oversight of the process, particularly related to expenditure auditing, construction management, contracts, and space standards.

For example, Kentucky, New Jersey, and New Mexico use standardized contracts, Massachusetts requires an Owner's Project Manager, and Ohio's construction process allows the district to select the design consultants while the state selects the construction manager. The Ohio School Design Manual sets construction standards for all projects to ensure statewide equity and a core level of quality for all school facilities. Kentucky's Planning Manual outlines minimum and maximum class sizes, square foot standards, architectural standards, and model sizes for classrooms. All states surveyed view their role as an advisor to the school districts, providing technical assistance throughout the process.

Clear program mission is key to transparency. States that clearly define their mission with regard to school construction funding, whether related to district wealth or consistent facilities standards, are able to communicate their priorities to the public, elected officials, and districts. While this does not

guarantee that all school districts are satisfied with the system, in most cases they understand it and know what to expect in the way of state support. Systems that are easily explained tied to a broad mission allow state agencies to consistently articulate their priorities and goals. Kentucky, Massachusetts, New Jersey, New Mexico, and Ohio stand out as states with clear priorities for funding and successful methods for communicating those priorities to their districts.

With the exception of Arizona, local validation is required to some extent by all of the states surveyed. California, Kentucky, Massachusetts, New Mexico, New York, North Carolina, and Ohio require local validation from all their school districts. Thirty one of New Jersey's 616 districts do not have to contribute a local match for school construction projects; however, the other 585 must match at 60%. New Jersey, California, and New Mexico have financial hardship programs that allow a district to apply for state aid if they fail to pass a bond or reach a bonding capacity limit. While North Carolina does not require local validation to receive the state allocation funds, most, if not all, districts need to raise additional funds in order to complete a project.

Objective needs-based prioritization systems increase transparency. Massachusetts, New Mexico, and Ohio have evolved towards systems that focus on addressing the most urgent need. Massachusetts requires school districts to submit a Statement of Interest explaining the need, which is evaluated by the state using eight criteria. Both New Mexico and Ohio have implemented ranking systems that clearly demonstrate a particular school's or district's place on the funding list. New Mexico designed its scoring system to be an objective ranking system that scores every school facility in the state, ranks the buildings in order of need, and then funds them accordingly.

Inventories help policy makers determine the goal and appropriate dollar amount for state funding. Kentucky, New Jersey, New Mexico, New York, North Carolina, and Ohio require school districts to prepare a long range facilities plan or master plan that inventories existing facilities, discusses projected needs, and prioritizes capital projects. Six of the states, Kentucky, Massachusetts, New Jersey, New Mexico, New York, and Ohio, have conducted state-wide facilities conditions assessments. Kentucky had a goal of bringing the state's worst facilities up to a minimum standard. To do this, the state conducted an inventory of all its schools and ranked them 1 to 5 (best to worst). There were 125 buildings ranked "5" in 1998 and the state provided special funding over three budget cycles to upgrade the facilities. By 2003, there were 62 "5" buildings and the state has continued to upgrade these buildings. Arizona calculates and funds the school building repair and renovation needs for the state based on school district maintained building inventories that are updated annually.

Construction best practices can reduce costs and increase efficiency. Many states have introduced construction and cost management practices to help school districts manage their projects and increase efficiencies. California and North Carolina have established school design libraries for districts that wish to use a prototype design and/or an experienced school building architect to save time and money. New Jersey recently switched to using construction managers instead of project management firms and has found the cost savings to be significant (4.6% of project costs v. 9.5%). Massachusetts requires an owner's project manager on all projects over $1.5 million selected through a qualifications-based approval process. New Mexico's regional managers are out in the field providing districts with assistance on construction management software, procurement, and other best practices.

Funding Formula Findings

Approaches to funding school construction range from Washington's model, which calculates state participation percentage based on school district wealth, to New Mexico's model, which assesses need on a building-by-building basis, to Ohio's approach, which is addressing all the schools in the poorest districts first and moving down the list. With the exception of North Carolina, which allocates money on the basis of student enrollment, the states surveyed use a funding formula to calculate state funding. New York is similar to Washington in that the formula has been in existence for about 50 years and has been repeatedly refined but never reviewed or improved systematically. New York is currently working to simplify its formula because it is viewed as overly complex.

Funding Formula Elements

All of the formulas reviewed were different, though several included identical elements such as number of classrooms or number of pupils.

- California uses a base grant per pupil which is multiplied by the number of students and the number of classrooms. The funding formula does not account for differences in the wealth of the districts.
- New York accounts for construction costs using a labor and materials index and also uses an index to adjust for regional costs differences.
- Massachusetts calculates the state match by starting with a base percentage of 31% and making adjustments based on community income, community property, and community poverty.
- Kentucky uses RS Means national data to establish construction costs per square foot and then multiplies the amount by the number of students and the number of classrooms and applies an equalization formula.
- Ohio multiplies project building enrollment by square foot per standard by standardized cost per square foot to estimate total projected costs.

Equalization

Six of the nine states surveyed have decided or been ordered to account for district wealth in a way that dedicates significantly more resources to poorer districts.

- The percent equalization programs used by Kentucky is similar to that of Washington and addresses district wealth using a funding ratio that divides the district average per pupil wealth by that of the state.
- New York uses a fixed percentage determined annually for each school district that is based on the full value of property in the district and the number of students in the district.
- Ohio uses its prioritization system to determine a percent match for a district, with wealthier districts further down the list receiving less state money.
- As a result of the Abbott lawsuits, New Jersey currently has 31 districts that receive 100% of their funding for school construction projects from the state.

- In New Mexico, the Department of Education reevaluates district wealth annually using the total value of residential and non-residential real estate. Wealthier districts, such as Santa Fe, qualify for a 10% state match.
- Massachusetts funding formula has three components to account for district wealth: per capita income, equalized property valuation per capita, and proportion of low income students (determined by federal eligibility for free or reduced lunch).

Transparency, Outreach, and Communication Findings

All of the states surveyed invest resources in communicating their role and programs and promoting the projects they fund. Below are some notable examples:

Handbooks and manuals

- California's Office of Public School Construction produces two excellent documents that summarize their programs: *An Overview of the State School Facility Programs* and the *School Facility Program Handbook*.
- The Ohio School Design Manual was authored by school planning and construction experts, educational planners, and architects and is updated annually with input from the school district community and stakeholder organizations.
- The New Jersey SDA will publish a Real Estate Practice Manual in late 2008 to assist stakeholders in understanding SDA practices.

Online materials

- School districts in California can estimate their state share of funding using OPSC's online grant calculator for construction and modernization projects.
- North Carolina's Prototype School Clearinghouse has detailed information on past school projects including photos, site plans, floor plans, construction costs, and building area.
- The Massachusetts School Buildings Authority website includes comprehensive Frequently Asked Questions, a photo gallery, press releases, and program and agency information as well as an online database with enrollment projections and statements of interest for school districts.

Voter Materials

- New Mexico is collaborating with a law firm and an investment bank to write a manual outlining best practices for successful local bond measures.
- Massachusetts requires the use of a specific form and language for local votes. For example, a vote must be project specific and include descriptions of the project site, scope and total costs, including the local share and the MSBA grant.

Surveys

- New Mexico conducted a customer satisfaction survey of school districts related to the public school construction processes. They also surveyed all 28,000 construction contracting companies about the challenges of the public works bidding and project execution process in order to create informed solutions.

Annual reports

- New Jersey, New Mexico, and Ohio publish annual reports that include photos of recent projects, summarize financial and operational data, and highlight school construction accomplishments. New Mexico's annual report includes *The Standards-Based Funding Process – In Plain English*, a one page summary of the state's funding approach.
- California publishes a *Capital Outlay Report* that summarizes the apportionments from past Propositions and discusses applications awaiting funding.

News coverage

- The Ohio Schools Facilities Commission publishes a list of dedications and works to ensure local elected officials and media attend school openings.
- The Massachusetts Schools Building Authority initially held six public hearings across the state to educate the public about the Authority's mission and to provide a forum for the public to provide input and ask questions. They continue to issue regular press releases, give exclusives to local papers, and invite legislators to every school related event.

5.0 SCAGP FORMULA DESCRIPTION AND KEY DRIVERS

5.1 SCAGP Program Overview

OSPI's School Construction Assistance Grant Program (SCAGP) is responsible for administering state grants to construct new school facilities or modernize existing school facilities. New construction projects aim to accommodate "unhoused students", while modernization or new-in-lieu projects are designed to renovate or replace existing facilities.

The following are categories of work that are eligible for state assistance:

- Construction of school facilities
- District-wide study and survey activities
- Developing educational specifications
- Architectural and engineering design services fees
- Value engineering
- Energy conservation reports
- Certain inspections and testing
- Furniture and equipment
- Constructability reviews
- Building commissioning
- Construction management
- Art (funds provided for art in public places)

The State provides assistance for "instructional space", which, according to WAC 392-343-019, means the gross square footage of a school facility utilized for the purpose of instructing students, calculated in accordance with the *American Institute of Architects, Document D101, The Architectural Area and Volume of Buildings*.

In addition, the following costs are ineligible for state funding and must be financed by school districts (per WAC 392-343-120**)**:

- Area in excess of the space allocations
- Site acquisition cost
- Maintenance and operations
- Alterations, repair, and demolitions (except alterations necessary to connect new construction to an existing building)
- Central administration buildings
- Stadia and grandstands
- Costs for advertising for bids, site surveys, soil testing for site purchase, and costs other than those directly connected with construction of facilities
- Bus garages, except interdistrict cooperatives
- Sales and/or use taxes levied by local governments other than those sales and/or use taxes generally levied throughout the state
- All costs associated with the purchase, installation, and relocation of portable classrooms

- Hazardous material abatement, unless associated with a modernization
- Architectural and Engineering (A/E) fees that exceed the fee schedule outlined in the School Facilities Manual
- Off-site costs related to construction (utilities, etc.)
- Agency review fees
- Change orders

Qualifying for state construction assistance is a multi-step process. School districts must first complete a Study and Survey, a detailed report on existing and proposed facilities. Districts may apply for a Study and Survey grant, the amount of which is determined by OSPI according to a formula. This grant may not cover the total cost of conducting the study and survey, depending upon the complexity of the district's needs and goals.

OSPI releases funding commitments for qualifying projects once a year – after July 1st (concurrent with the start of the State's fiscal year). To be eligible for funds released for a given year, a school district must perform the following actions:

- Before January 31 – secure local funding (usually by passing a voter-approved bond measure)
- Before January 31 – secure OSPI project approval
- Before June 30 – submit to OSPI a request to open construction bids for the project to be funded
- After June 30 – receive permission from OSPI to open construction bids

Timing of State Funding

Projects may be either "front funded" or "non-front funded".

For non-front funded projects, school districts start construction after the state announcement that the district has secured funding.

Many school districts use a "front funding" method to request state assistance on their projects. These school districts use their own money to fund the local and state share until the next official release. These districts must certify to OSPI that they have adequate funding to pay for the whole project (including the state contribution amount) up front, in which case they take on the financial risk for the period of time that they are not covered within an official release by OSPI. This method allows districts to move the project according to their own schedule. Moreover, once the districts receive the state's funding share for a front funded project, they frequently apply the funds to another major capital project.

Prioritization System

If state funding is insufficient to meet all school districts' requests, OSPI can impose a priority system to rank both growth-related projects (new buildings and additions) and condition-related projects (modernization and new-in-lieu) using a points system. The system favors growth-related projects: the maximum points that can be received by a new construction project are 90, and 75 for a condition-related project.

All projects may receive up to 25 points based on common factors, including the type of space, local priority, joint funding in cooperation with other entities, and modified calendar (to encourage higher use of school buildings). In addition, projects can receive points based on unique factors, as follows:

- **Growth-Related School Projects.** Eligible projects that aim to accommodate unhoused students can receive up to 65 points, based on factors such as the projected percentage of unhoused students in a district and the number of years that the district has had unhoused students.
- **Modernization or Replacement of Existing School Facilities.** Projects that are eligible to be repaired or replaced can receive up to 50 points, based on safety and health factors, building condition, and cost-benefit factors.

Since 1999, the State has been able to provide construction assistance for all eligible projects that have been submitted for funding. For this reason, while OSPI calculates points and ranks all projects annually before the July release date, the prioritization system has not been formally used to screen projects to receive assistance. Prior to 1999, there were several biennia where the State was unable to fund all eligible projects.

5.2 SCAGP Formula Components

Basic Formula

Exhibit 21 shows the basic school construction formula schematic for new construction projects and **Exhibit 22** shows a similar schematic for modernization/replacement projects. For both types of projects, the basic premise of the formula is to calculate the state-recognized construction cost (by multiplying allowed square feet [sf] by an approved cost allowance) and contribute funds based on a calculated percentage:

State Assistance = **(A)** Eligible Area x **(B)** Area Cost Allowance x **(C)** Match Ratio

District-by-district construction assistance varies because of an equalization policy (operationalized through the "match ratio") that provides a higher percentage of assistance to less wealthy school districts, with a general range between 20% and 100%. Match ratio changes from year to year based on assessed valuation for each district. To obtain state funding assistance, the school district must demonstrate local validation (pass a bond measure in most cases) and meet the eligibility requirements.

Exhibits and report chapters below describe the major formula components in more detail.

Exhibit 21:
SCAGP Formula Schematic for New Construction Projects

Maximum Allowable State Share of School Construction Cost for NEW CONSTRUCTION is determined by the following formula:

A — Eligible Area
(Square Footage eligible for State Assistance)

	Future Enrollment (3- or 5-yr) [Number of students projected by K-12 linear cohort survival method]		Space Allocation [Square feet per student as designated by OSPI]		Current Capacity [Inventory: square feet of facilities]
K - 6	Future Enrollment	x	90 sf	less	Existing facilities sf
7 - 8	Future Enrollment	x	117 sf	less	Existing facilities sf
9 - 12	Future Enrollment	x	130 sf	less	Existing facilities sf
Disabled	Future Enrollment	x	144 sf		

Total K-8 SF of Eligible Area for New Construction =

Total 9-12 SF of Eligible Area for New Construction =

- School District may receive State assistance for one or more projects up to the determined Total Square Feet of Eligible Area

x

B — Area Cost Allowance
($ Amount per Square Foot)

2008: $168.79

- The State's recognized maximum cost per square foot for new construction
- **The actual amount is determined by the Legislature through the Capital Budget Request process**

x

C — Match Ratio
(Between 20% and 100%)

Basic Match Ratio

- Purpose: equalization of the State's contribution based upon the "relative wealth" of school districts, as measured by assessed valuation
- Minimum match ratio is 20%, maximum 100%
- The intent is to provide, on average, a 50% match ratio statewide
- Match ratio will be the highest of:
  - Date of bond issue passage
  - Date of project approval
  - Authorization to open bids

$$\frac{3 - \left(\frac{\text{District adjusted AV per pupil}}{\text{Total state adjusted AV per pupil}}\right)}{3 + \left(\frac{\text{District adjusted AV per pupil}}{\text{Total state adjusted AV per pupil}}\right)}$$

Plus

Growth Points

Average percent of student growth for the past three years (maximum of 20%)

Exhibit 22:
SCAGP Formula Schematic for Modernization and Replacement Projects

Maximum Allowable State Share of School Construction Cost for MODERNIZATION/REPLACEMENT is determined by the following formula:

A — Eligible Area
(Square Footage eligible for State Assistance)

x

B — Actual Bid Cost per Square Foot

- The State will provide assistance up to the bid amount per square foot, if less than ACA, or at ACA if the bid is higher (but not more then 100% of ACA)
- ACA = **$168.79** in 2008

x

C — Match Ratio
(Between 20% and 100%)

	Future Enrollment (3- or 5-yr) [Number of students projected by K-12 linear cohort survival method]		Space Allocation [Square feet per student as designated by OSPI]		Improved Space [Square feet of "improved" facilities*]
K - 6	Future Enrollment	x	90 sf	less	Improved facilities sf
7 - 8	Future Enrollment	x	117 sf	less	Improved facilities sf
9 - 12	Future Enrollment	x	130 sf	less	Improved facilities sf
Disabled	Future Enrollment	x	144 sf		

Total K-8 SF of Eligible Area for Modernization/Replacement =

Total 9-12 SF of Eligible Area for Modernization/Replacement =

Basic Match Ratio

- Purpose: equalization of the State's contribution based upon the "relative wealth" of school districts, as measured by assessed valuation
- Minimum match ratio is 20%, maximum 100%
- The intent is to provide, on average, a 50% match ratio statewide
- Match ratio will be the highest of:
  - Date of bond issue passage
  - Date of project approval
  - Authorization to open bids

$$\frac{3 - \left(\frac{\text{District adjusted AV per pupil}}{\text{Total state adjusted AV per pupil}}\right)}{3 + \left(\frac{\text{District adjusted AV per pupil}}{\text{Total state adjusted AV per pupil}}\right)}$$

Plus

Growth Points

Average percent of student growth for the past three years (maximum of 20%)

*** Improved Space**

- These facilities count as "improved space":
  - Facilities built before 1993 that are (1) less than 20 years old or (2) received state assistance within last 20 years
  - Facilities built after 1993 that are (1) less than 30 years old or (2) received state assistance within last 30 years
- State-assisted modernization counts as improved space, while non-state assisted modernization does not
- All new construction is considered "improved space"

(**Note:** There are additional criteria used for modernization eligibility)

A. Eligible Area

New Construction Projects

The first step in determining state assistance for new construction projects is to calculate the *district-wide eligible area in square feet*. The eligible square footage is determined by deducting the existing space inventory from "needed space." The space that the school district will need in the next five years is determined by multiplying the number of students projected in the next five years by the square foot allowance per student.

Eligible Area = [Needed space: **(i)** Future Enrollment **x (ii)** Square Foot Allowance per Student] **– (iii)** Existing Capacity

(i) Future Enrollment. OSPI uses the "K Linear Cohort Projection" model to forecast the number of expected students in the next five years. This methodology is based on the following elements:

- A three or five-year cohort survival enrollment projection for growth districts, whichever is greater
- A three or five-year cohort survival enrollment projection for declining districts, whichever is lesser
- Actual enrollment of preschool students with disabilities

The State's methodology for forecasting enrollment will be discussed in full detail in a forthcoming report (OSPI Enrollment Projection Methodology Study).

(ii) Per Student Space Allowance. The square foot allowance is established in OSPI administrative rules (WAC 392-343-035) and is currently at the following levels:

- Kindergarten through grade six (K - 6): 90 sf
- Grades seven and eight (7 - 8): 117 sf
- Grades nine through twelve (9 -12): 130 sf
- Students with disabilities: 144 sf

The space allowance is used for purposes of determining eligibility for state assistance and does not necessarily reflect the true need for educational space as determined by school districts. This is discussed further in the *Evaluation of Formula Allowances* (Chapter 5.3) of this report.

In some instances, school districts have different grade spans, for instance, grades 6 - 8 (instead of the more typical 7 - 8). In this case, the average space allowance is calculated. For instance, 90 sf for grade 6 is added to 117 sf for grade 7 and 117 sf for grade 8, divided by 3 – results in an average 108 sf for grades 6 - 8.

OSPI also uses different space allowances for vocational skill centers, and for districts that have senior or four-year high schools with fewer than 400 students.

(iii) Existing Inventory. Finally, school districts must provide a current inventory of district-wide school facilities to OSPI, which is deducted from "needed space" to result in a total calculated Eligible Area for state construction funding assistance.

Calculations for determining the Eligible Area are performed for the following grade spans: K - 6, 7 - 8, and 9 - 12. The results of the calculations are combined into **two** categories of eligible area:

- K - 8 (elementary and middle schools)
- 9 - 12 (high schools)

A school district may apply for state assistance for one or more projects up to the determined total square feet of Eligible Area in one of these two categories. **Exhibit 23** presents a hypothetical example of one school district applying for state assistance to construct two new elementary schools and one middle school, encompassing 150,000 sf (50,000 sf for each school). If, for instance, the calculations demonstrated that this school district has 90,000 sf of eligible area for K-8, the school district will receive assistance for all of the elementary school #1 project and most of the elementary school #2 project, and no assistance for the middle school project. The project square feet that exceed the calculated Eligible Area are considered ineligible for state construction assistance.

Exhibit 23
Hypothetical Example of Eligible Area Application

New Construction Projects	Total Project SF as Determined by School District	SF Eligible for State Assistance per Formula	SF Not Eligible for State Assistance
Elementary School #1	50,000	50,000	0
Elementary School #2	50,000	40,000	10,000
Middle School	50,000	0	50,000
Total	**150,000**	**90,000**	**60,000**

This same school district may also be eligible in the high school category, but have no planned projects at this time. However, this eligibility would not transfer from the high school category to the K-8 category.

Modernization/Replacement Projects

The State provides contributions to projects where the principal purpose of modernization is to comply with health and building codes, to change grade span groupings, or to reduce the number of facilities.

Calculation of the Eligible Area for modernization or replacement projects is similar to new construction. The "needed space" element is calculated in the same fashion: **(i)** Future Enrollment **x (ii)** Square Foot Allowance per Student.

However, instead of existing inventory, the "improved area" is deducted from "needed space" to determine total square feet eligible for state assistance for modernization or replacement projects. The following square footage is deducted:

- Facilities built before 1993 that are (1) less than 20 years old or (2) received state assistance for modernization within the last 20 years
- Facilities built after 1993 that are (1) less than 30 years old or (2) received state assistance for modernization within the last 30 years

state-assisted modernization counts as improved space, while non-state assisted modernization does not; all new construction is considered "improved space."

Similar to new construction the level of state assistance for modernization projects is predicated on calculation of the Eligible Area. Therefore, if a school district is qualified for 100,000 sf of modernization, but really has 200,000 sf that need major repairs, it will have to pay for the remaining 100,000 sf with local funds. A district must perform a complete modernization of the facility in order to qualify for state assistance, even if it does not have enough Eligible Area to modernize the entire building.

B. Area Cost Allowance

The area cost allowance (ACA) is the maximum construction cost per square foot used to calculate the costs of the project that are eligible for state funding assistance. The ACA represents the cost per square foot that the state *recognizes* as the official component in determining the amount of school construction assistance. It does not necessarily reflect the true cost of construction.

Every biennium, OSPI recommends an appropriate increase in the ACA through submittal of the capital budget request to the Governor and the Legislature, who, in turn, determine the level of permissible ACA.

Exhibit 24 shows recent ACA funding levels.

Exhibit 24
Area Cost Allowance

Fiscal Year	Area Cost Allowance (per square foot)
FY 2005-06	$141.95
FY 2006-07	$154.22
FY 2007-08	$162.43
FY 2008-09	$168.79

Source: OSPI

Modernization

State assistance in modernization of school facilities is limited to projects for which the estimated cost of construction is 40% or more of the estimated cost of replacement, represented by the ACA. Districts need to provide actual construction bids to receive funding. The State will provide assistance up to the bid amount per square foot, if less than ACA, or at ACA if the bid is higher (but not more then 100% of ACA).

In 2005, the Legislature provided an increase in the amount paid for modernization projects from 80% to 100% of the ACA. This increase served to put modernization projects on equal footing with new construction projects, at least in this regard.

C. Match Ratio

The amount of the state funding contribution to the eligible project cost is determined by applying the "match ratio." The intent of the formula is to equalize funding by providing a higher percentage of assistance to less wealthy school districts, as demonstrated by a district's ability to raise funds measured in terms of assessed value (AV) per student. Wealthier districts receive a 20% match ratio while poorer districts may receive a ratio approaching 100% - but the goal is to provide, on average, a 50% match ratio statewide. The ratio, illustrated in **Exhibit 25**, is determined in accordance with the formula set forth in RCW 28A.525.166:

Exhibit 25
Match Ratio Formula

$$\frac{3 - \left(\frac{\text{District adjusted AV per pupil}}{\text{Total state adjusted AV per pupil}}\right)}{3 + \left(\frac{\text{District adjusted AV per pupil}}{\text{Total state adjusted AV per pupil}}\right)}$$

A district's match ratio is calculated each calendar year. To calculate the state contribution, OSPI uses the highest ratio determined at the following three points during the development process (which may be over several years):

- At the time of securing local funding (normally through passage of school bond issue)
- At the time of OSPI project approval
- On the date of secured state funding status or authorization to open bids

For school districts with higher assessed values, the formula may produce match ratios that are less than 20% or even negative. In this case, the school districts receive a "floor" match ratio of 20%. Thus, all districts approved for state funding receive a match ratio allocation of at least 20%.

Growth Points. In addition to the basic match ratio formula, points are added for growing districts, based on average student growth (expressed as a percent) for the past three years (up to a maximum of 20%).

Formulas for Other Construction Costs

The total project cost is comprised of several components, including construction costs of the project (so-called "hard costs") and other project expenditures, such as architectural fees and construction management costs ("soft costs"). The true percent of total state assistance can only be computed by considering the state contribution against the comprehensive project cost.

The basic formula described above applies to eligible instructional *construction costs* of the project (hard costs), while its elements serve as components in calculating the state contribution for the rest of the project costs (soft costs). **Exhibit 26** below presents the formulas for these additional grants:

Exhibit 26
Additional Construction-Related Costs and Formulas for State Assistance

Architectural and Engineering Fees	Match ratio x fee schedule percentage x eligible sf x ACA Modernization projects receive 1.5x the amount calculated for new construction
Educational Specifications	Greater of: • Match ratio x eligible sf x ACA x ¼ of 1% • Match ratio x $10,000
Construction Management	Match ratio x 2.5% x ACA x total sf
Value Engineering Study; Constructability Review; Building Commissioning	Greater of: • Match ratio x eligible sf x ACA x 2/5 of 1% • Match ratio x $20,000
Energy Conservation Report	Report Preparation - Match ratio x $10,000 GA Review - Match ratio x $2,000
Furniture and Equipment	Match ratio x eligible sf x ACA x School Percent (based on school grade level: Elementary 2%, Middle School 3%, High School 4%)
Inspection and Testing	Match ratio x actual costs

Source: OSPI School Facilities Manual, 2008

Because the state's contribution is a function of the basic formula plus contributions from the additional grant program options described above, calculation of the state's share of total costs is a complex undertaking.

5.3 Evaluation of Formula Allowances

Two components of the basic school construction formula are constants, set by OSPI and the Legislature: per student space allowance and area cost allowance (ACA). As mentioned above, these formula elements are established by the State, and do not align with actual student space needs and construction costs. School districts report having a higher cost per square foot than the state formula provides for, and typically use more than the eligible square foot allocation in the state formula.

While the State completely funded its matching obligation based on current formulas during the past ten years, the actual level of state assistance for 2008 was about one-third or 34% of total state-recognized costs. This level represents a marked decline from the 61% state funding level in 1985.

The primary reason the actual contribution is presently 34% is that the ACA and Eligible Area allowances have not kept pace with modern school requirements and construction costs. The state's ACA is considerably lower than the actual cost and the eligible square feet per student are less than what is typically used by school districts.

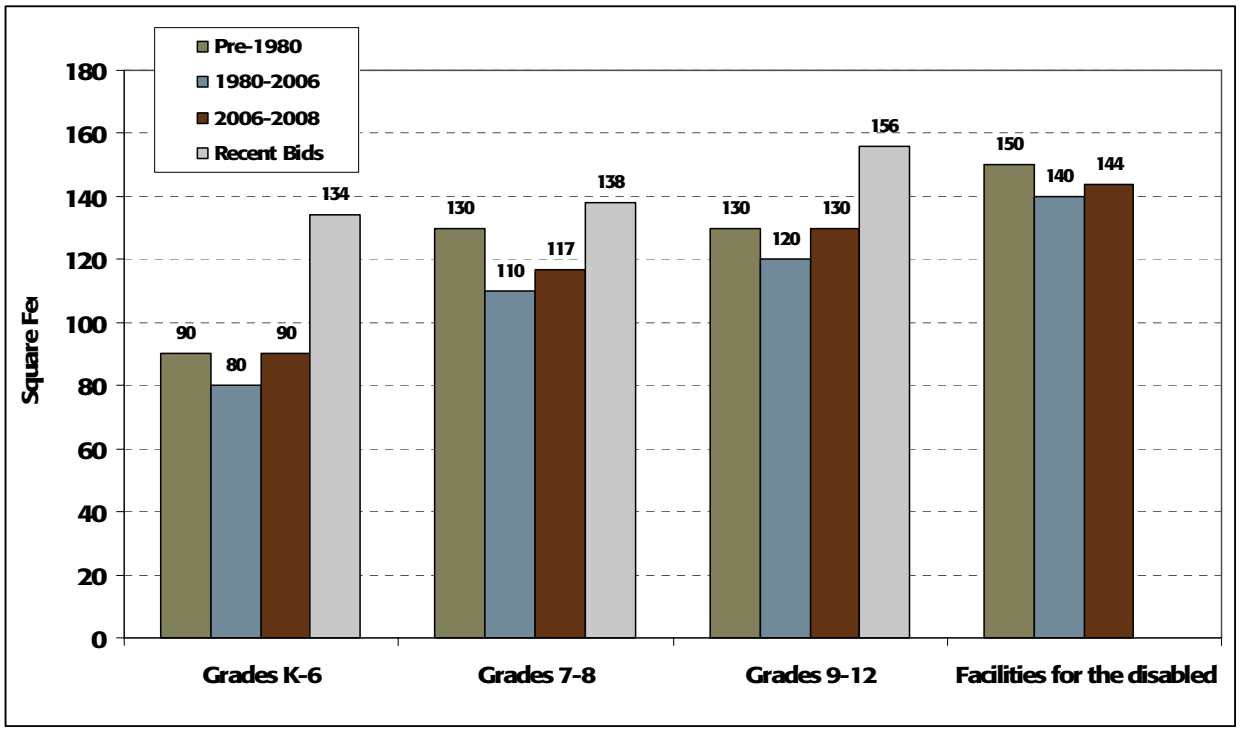
State Space Allowance per Square Foot

In 1983, funding shortfalls led to the policy decision to spread available state funding to as many districts as possible. The Legislature reduced the eligible square footage allowance to accomplish this goal and has only partially reversed the allowances back to 1980s levels in 2005.

Exhibit 27 shows per student space allowances for each grade span pre-1980s, in the low period between 1980 and 2006, and currently. The recent increase is still less than recent bids received by school districts.

Exhibit 27
State Space Allowance per Square Foot, prior to 1980 through 2008

	Prior to 1980	1980-2006	2006-2008	Recent Bids	% Difference 2008 to Recent Bids
Grades K-6	90	80	**90**	134	33%
Grades 7-8	130	110	**117**	138	15%
Grades 9-12	130	120	**130**	156	17%
Facilities for the disabled	150	140	**144**	-	



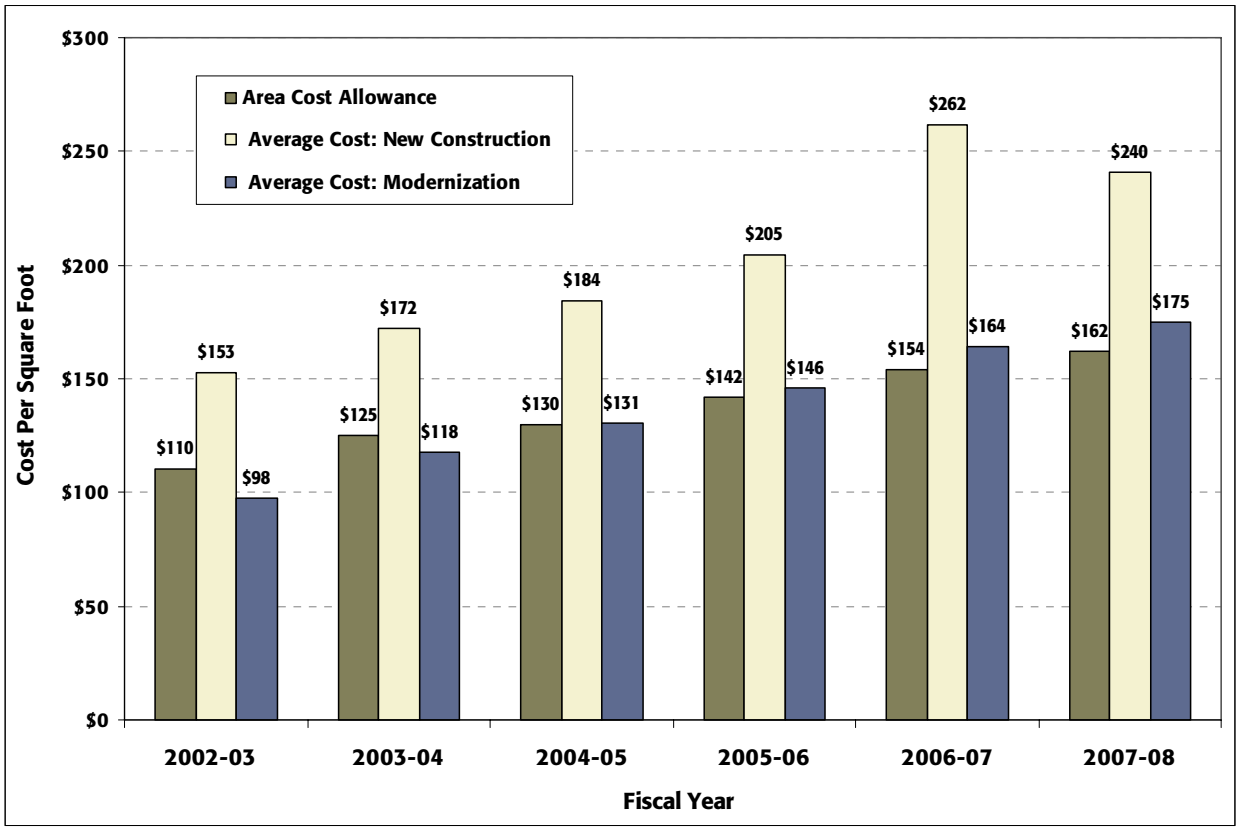
Source: OSPI, 2008

Area Cost Allowance

According to OSPI, about twenty years ago, the ACA was close to the average cost of new construction. However, since then the ACA has not kept pace with actual construction costs, widening the gap considerably (in 2008, the ACA was at about two-thirds or 68% of actual costs). Modernization projects are generally less costly and, as **Exhibit 28** shows, have been able to keep better pace with the ACA, being about 93% of the allowance in 2008.

Exhibit 28
Area Cost Allowance and Actual Costs for New Construction and Modernization, 2002-2008

Fiscal Year	Area Cost Allowance	Average Cost: New Construction	Average Cost: Modernization
2002-03	$110	$153	$98
2003-04	$125	$172	$118
2004-05	$130	$184	$131
2005-06	$142	$205	$146
2006-07	$154	$262	$164
2007-08	**$162**	**$240**	**$175**



Source: OSPI

Exhibit 28 shows the ACA and actual average costs for new construction and modernization from 2002 through 2008. As the Exhibit shows, average costs for new construction have steadily increased from $153 per square foot in 2002-03, to $240 per square foot in 2007-08, a 57% increase in the five-year period. Modernization costs have increased from $98 per square foot to $175 per square foot over the same period, a 79% increase. In contrast, the ACA has been increased from $110 to $162, a 47% increase.

5.4 Statutory and Administrative Rules

Article IX, Section I of the Washington State Constitution states that "it is the paramount duty of the state to make ample provision for the education of all children residing within its borders, without distinction or preference on account of race, color, caste, or sex." The Constitution does not make a specific reference to school facilities. The rules governing the state school construction assistance grant program are established in the RCW and WAC.

RCW: State laws. The Revised Code of Washington is the compilation of all permanent laws now in force in Washington State. It is a collection of Session Laws enacted by the Legislature, and signed by the Governor, or enacted via the initiative process.

WAC: Agency Rules and Regulations. The Washington Administrative Code presents regulations of executive branch agencies, issued by authority of statutes. Like legislation and the Constitution, regulations are a source of primary law in Washington State.

The RCW can only be changed through the lengthy legislative process, while the WAC can be amended by the agency rulemaking process.

Exhibit 29 below graphically presents laws and administrative rules that apply to the State's school construction assistance formula. This Exhibit is not intended to be inclusive of all WACs and RCWs governing school construction; instead it is designed to show the origin of the relevant key formula components at a glance. More details can be found in **Attachment D**.

Exhibit 29:
Statutory and Administrative Rules Relating to SCAGP Formula

GENERAL AUTHORITY

New Construction

WAC 392-343-020	Related factors and formula for determining amount of state assistance

Modernization/Replacement

WAC 392-347-020	Formula for determining the amount of state assistance for modernization projects
WAC 392-347-042	Replacement option

FORMULA COMPONENTS

Eligible Area (Square Footage eligible for State Assistance) **x** **Area Cost Allowance** ($ Amount per Square Foot) **x** **Match Ratio** (Between 20% and 100%)

New Construction

WAC 392-343-035	Space allocations
WAC 392-343-045	Space allocations – Enrollment projection provisions
WAC 392-343-050	Space allocations – Computing building capacity

Modernization/Replacement

WAC 392-347-025	Space eligible for state financial assistance in modernization

Note: WACs for new construction are also applicable to modernization/replacement.

WAC 392-343-060	Determining the area cost allowance

Note: An annual ACA is determined through the biennium budget as approved by the legislature.

RCW 28A.525.162	Computing state matching percentage
RCW 28A.525.166	Computation of state aid for school plant project
RCW 28A.525.168	Taxable valuation and percentage of state assistance to be used in determining eligibility
WAC 392-343-025	State matching percentage – General
WAC 392-343-030	Applicable state matching percentage for project

PROJECT PRIORITIZATION

RCW 28A.525.190	Prioritizing construction of common school facilities
WAC 392-343-500 through WAC 392-343-520	State assistance – Priorities

6.0 ASSESSMENT OF SCHOOL CONSTRUCTION INFORMATION PROVIDED TO VOTERS

6.1 Review of Voter Materials

Introduction

In order to make recommendations about how to achieve transparency of the State's school construction assistance formula, a review of voter materials related to local school construction bonds was conducted. The purpose of the review was to inventory the various types of materials and the level of detail provided to voters, to assess the clarity and accuracy of information presented, particularly related to the state matching funds, and to evaluate the need for drafting standardized language available to school districts through the creation of a voter materials template.

Methodology and School Districts Studied

The Sample. The review was designed to include materials from a range of school districts in terms of enrollment, geographic location, and match ratio. Thirty districts in 22 counties were selected for assessment, producing a sample of approximately 10% of the State's 295 districts and 24% of the total student population. All selected districts have issued bond measures in the last six years and there is a mix of bond successes and failures. For the purposes of this analysis, small districts are considered to be those with fewer than 1,000 enrolled students, medium sized districts to be between 1,000 and 5,000 students, and large districts are over 5,000 students. A small matching ratio is considered to be less than 50%.

Collecting Voter Materials. Once the districts were identified, research was conducted to obtain voter materials distributed regarding each bond measure. Sample materials were assembled using school district websites, bond measure campaign websites, and the League of Education Voters' Levy Library. Of the 30 districts selected, 21 still had voter information available regarding the most recent bond measure, although it is possible that these districts produced additional voter materials that are no longer available. The remaining nine districts had already removed the bond information from their websites or the campaign website had been dismantled, and the voter materials had not been uploaded to the League of Education Voter's Levy Library. Because much of the information and material in the Levy Library was used in successful bond campaigns, the review sample contains slightly more districts that passed their bonds than the state average. The approval rate for the sample was 50% compared to 31% for the 13 districts that had bond measures in the 2008 elections.

Exhibit 30 is sorted by the state match ratio for the bond year and shows enrollment, 2008 state matching ratios, the year of the bond measure and whether it was approved or rejected, and whether the state match was mentioned in the voter materials for each of the 21 districts with current voter information available. Voter materials from both 2002 and 2008 were examined for the Evergreen school district.

It is important to note that some of the districts shown in **Exhibit 30** that did not reference state match may have had projects ineligible for state assistance. For example, Lopez Island School District was raising $1.6 million for capital improvements that were not eligible for a state contribution.

Exhibit 30
Summary of the 21 School Districts with Current Information Available

County	School District	Enrollment 2008	Matching Ratio 2008	Bond year	Matching Ratio Bond Year	Approved/ Rejected	State Matching Mentioned
Franklin	Pasco	13,236	86.93%	2006	84.64%	Approved	Yes
Grant	Moses Lake	7,446	76.82%	2007	76.96%	Approved	Yes
Spokane	Freeman	973	72.60%	2008	72.60%	Approved	Yes
Clark	Evergreen	25,397	68.52%	2002	70.15%	Approved	Yes
Spokane	Central Valley	12,398	69.95%	2006	69.45%	*Rejected*	Yes
Yakima	West Valley	4,923	72.92%	2006	68.66%	Approved	Yes
Clark	Evergreen	25,396	68.52%	2008	68.52%	*Rejected*	Yes
Pierce	Franklin Pierce	7,653	66.89%	2008	66.89%	*Rejected*	No
Walla Walla	Walla Walla	6,143	67.15%	2006	66.81%	*Rejected*	Yes
Lewis	Adna	590	68.08%	2007	64.88%	*Rejected*	Yes
Chelan	Wenatchee	7,671	67.32%	2007	63.67%	*Rejected*	Yes
Cowlitz	Woodland	2,261	63.63%	2008	63.63%	*Rejected*	No
Whatcom	Meridian	1,667	58.40%	2008	58.40%	*Rejected*	No
Kitsap	South Kitsap	10,479	56.79%	2007	57.12%	*Rejected*	Yes
Snohomish	Snohomish	9,572	54.78%	2008	54.78%	Approved	Yes
Chelan	Lake Chelan	1,356	40.40%	2008	40.40%	Approved	No
Lewis	White Pass	499	36.52%	2008	36.52%	Approved	Yes
Jefferson	Port Townsend	1,508	31.60%	2007	26.33%	*Rejected*	No
King	Seattle	45,581	20.00%	2008	20.00%	Approved	No
King	Bellevue	16,772	20.00%	2008	20.00%	Approved	No
Skagit	Anacortes	2,977	20.00%	2008	20.00%	*Rejected*	Yes
San Juan	Lopez Island	242	20.00%	2008	20.00%	Approved	No

Source: OSPI; The League of Education Voters' Levy Library; and individual districts' websites

Exhibit 30 shows that 50% of the 22 bond measures in 21 districts were approved. **Exhibit 31** is sorted by bond year matching ratio and shows enrollment, 2008 state matching ratios, and the year of the bond measure and whether it was approved or rejected for the nine districts for which voter materials were no longer available.

Exhibit 31
School Districts Surveyed without Currently Available Voter Materials

County	School District	Enrollment 2008	Matching Ratio 2008	Bond year	Matching Ratio Bond Year	Approved/ Rejected
Stevens	Valley	570	100%	2005	98.09%	Approved
Douglas	Bridgeport	711	91.40%	2007	96.24%	*Rejected*
Clark	Battleground	13,295	66.14%	2005	71.38%	Approved
Spokane	Mead	9,276	70.30%	2004	70.94%	Approved
Benton	Richland	10,281	70.90%	2003	65.94%	Approved
Grays Harbor	Lake Quinault	251	57.22%	2006	49.50%	*Rejected*
Klickitat	White Salmon	1,181	55.37%	2007	48.87%	Approved
Kittitas	Cle Elum-Roslyn	978	20.00%	2007	20.00%	*Rejected*
Mason	Hood Canal	298	20.00%	2004	20.00%	Approved

Source: OSPI

Exhibit 31 shows that two-thirds of the nine districts without voter materials available had successful bond measures. However, without the voter materials, it is impossible to know whether voters were aware of the state matching funds.

6.2 Observations on Materials Presented to Voters

The voter information prepared by school districts and independent campaigns was assessed based on the type of materials, the content and level of detail provided, whether there was any mention of state matching funds, the accuracy of the information provided, and the focus of the campaign. The review is not intended to be a definitive assessment of voter materials statewide, but rather an attempt to characterize the range of material types and content and evaluate the need for technical assistance in this area.

Voter material requirements. According to the League of Education Voters, a school district is allowed to provide neutral information regarding an upcoming bond measure while independent campaigns are allowed to distribute persuasive materials on behalf of the school districts.

Wide range of voter materials with respect to format and content. School districts and independent campaigns communicate information on bond measures to voters through websites, post cards, pamphlets and flyers of one or more pages, newsletters, Frequently Asked Questions (FAQ) and fact sheets.

At a minimum, voter materials discussed the projects to be covered by bond funding. A newsletter from the Lopez Island School District addressed how projects were selected. Seattle produced eight pages of information with detailed project information and a design and construction timeline. Chelan included site plans in their information, Adna provided cost breakdowns of each project, and West Valley included an aerial photograph of the available land for new construction.

Most of the voter materials address the cost of the bond to taxpayers. The impact is often expressed as a dollar amount per $1000 of assessed value with hypothetical annual property tax bills for three different property assessments. The Pasco materials went further and assigned the dollar amount per $1000 of assessed value to each project covered by the bond. Materials from Bellevue, Central Valley, Moses Lake, and Seattle materials compared their district's tax rates to other districts using tables or bar charts. Chelan and Snohomish emphasized that the bond would replace an expiring business levy and thus tax rates would remain unchanged.

Not all voter materials addressed the need for the bond in terms of educational outcomes or facility conditions. Franklin, Snohomish, Pasco and Woodland focused on overcrowding due to older buildings and growing enrollment. Adna noted that additional facilities will enhance student learning. Woodland included a video message on their website from the superintendent discussing the need for the bond issue resulting from development and enrollment growth and a school built in 1955 that now includes 22 portable classrooms. South Kitsap stressed the need to meet the academic needs of the students and the educational challenges of the 21st century. Materials from the Citizens for Wenatchee Schools discussed the benefits to the community that good schools provide while the School District materials focused only on the projects to be funded and the impacts to taxpayers. Freeman's FAQ emphasized safety, the need to bring buildings up to code, and the energy efficiencies to be gained from modernization as well as the effect bond projects could have on educational outcomes.

Some of the Frequently Asked Questions materials address objections to bond measures. With questions such as "Why does it cost so much to build schools?," "Why not bus kids instead of building a new school?," and "Why are schools so extravagant?," Central Valley and Wenatchee used the FAQs to counter commonly held objections or misperceptions.

6.3 Findings

Only a handful of district materials addressed the impact of bond failure or noted that local validation was required. Central Valley emphasized that without the bond, they would begin double shifting schools and adding portables. Freeman noted that they would try again but that costs would go up in the intervening time and money would need to be diverted from the general fund. Pasco materials covered both a bond and levy request. The bond information noted that local approval was necessary to receive state funds and the levy information "If the levy fails, Pasco students lose both the local and state funding."

Mention of State Matching Funds in Voter Materials. Of the 21 districts for which voter materials were analyzed, ten made no mention of the state matching funds or any state assistance for capital projects. Ten districts referred to the state matching funds explicitly and one district discussed general state assistance.

Prominence and detail of State matching information. Information regarding the state matching funds was often found in the Frequently Asked Questions sections of district websites or in more detailed community presentations, rather than in the widely distributed mailers. Community organizations allowed to actively campaign on behalf of a school bond also made little mention of state matching funds. Only five of the 11 materials excerpted below mentioned that state funding is contingent upon local passage of the bond. In all cases, the match was presented as a dollar amount rather than the ratio.

The following excerpts are taken directly from the voter materials distributed by both school districts and independent campaigns on behalf of school districts. A wide variety of detail and approaches can be seen in the discussion of state assistance.

Voter Materials Prepared by School Districts

Adna School District

The State will be contributing approximately $1,700,000 toward the project costs.

Central Valley School District Website

Q. Has the District maximized State financial assistance for school facilities?

A. Yes. Washington State is an important source of funding for many of Central Valley's construction projects. Throughout the facilities planning process, the District works closely with the State to determine which proposed projects are eligible for state financial help and what the amount of assistance is likely to be. Preliminary work with the State allows the District to develop funding plans for needed facilities improvements. For the work envisioned in the November 7 bond proposal, the state is able to help fund the modernization of two elementary schools. This funding will then be applied to the modernization of a third elementary school, which in turn will receive additional state financial assistance. However, Central Valley is not currently eligible for state financial help to build new schools in response to growing enrollment.

Evergreen School District Top Ten Bond Facts, 2002

Passage of the bond will qualify the school district to receive $65.2 million in state matching funds. No state matching funds will be provided if the bond fails. Impact fees provide only 5% of total revenues required to fund the district's capital needs for the next six years.

Freeman School District FAQ

Q: How much will the state pay Freeman for these construction projects?

A: The state contribution is expected to be about $10.5 million. This would cover about 35% of the total project costs. The district will not receive state construction funds unless voters approve the bond.

Moses Lake School District Brochure

Passing the bond will result in the allocation of more than $14 million in state matching funds.

Pasco School District Brochure

If approved by Pasco voters, the state would provide about $35 million in matching funds.

South Kitsap School District Flyer

In addition to the individual projects, the bond resolution includes a provision to apply the receipt of any state matching funds, estimated at $11.6 million, to cover unanticipated increased project costs, and, after all project bids are awarded, to be applied to bond debt, thus reducing the property tax rate. The estimated tax rate is $1.33 per $1,000 assessed value. If all $11.6 million of the estimated state match is applied to reducing the debt, the estimated tax rate would be reduced to $1.26.

Walla Walla School District Newsletter

…Carter stressed the district's facilities needs were well researched over a long period of time and that the bond would help the city's economic development efforts by brining in nearly $34 million in state matching funds to support the $88 million dollars in projects.

Wenatchee School District FAQ

Q. Will the District Receive matching money form the State of Washington for the Projects?

A. Yes. The District anticipates that it will receive approximately $3,000,000 for the projects. The District expects the state match first to complete all of the projects and second, if any state match remains, to complete the classroom, safety, security, and athletic improvements dropped by the Facilities Committee.

West Valley School District Website

Q: How much matching money will we receive?

- *$8-$14 million dependent upon a formula used by the State*
- *Matching money will be used to ensure that the high school is thoroughly completed*
- *Remaining state matching money will be used to address remaining critical needs with district facilities*

Q: Why does it seem that Yakima School District receives so much more matching money?

- *State's matching formula is different for each school district (based on economic factors)*
- *Yakima School District anticipates receiving 50% of the total project cost in matching funds*
- *West Valley anticipates receiving 31% of the total project cost in matching funds*

White Pass School District Bond Fact Sheet

The total project will cost $23,480,500 with the state matching amount to be $4,980,500

Voter Materials Prepared by Independent Campaigns

Anacortes School District, Anacortes School Bond Committee Website

Q: How do schools in Washington State pay for capital improvements?

A: Capital improvements (like new roofs and construction) are paid for by local taxpayers through a voter-approved school bond. Based on demographic data, Anacortes is considered an affluent area which means very little state matching funding is available to us.

Evergreen School District, For Kids for Schools Vote YES!, 2002

The impact fees will come to the district, regardless of whether the bond passes—but the $65.2 million from the State are "matching" funds. This means if the bond does NOT pass, the district will NOT receive that $65. 2million. Every dollar invested in local construction generates an additional 88 cents of economic activity. That means the total impact of the bond and State matching funds will provide nearly a half billion dollars of economic boost to our community.

Evergreen School District, YES for Evergreen Schools Website, 2008

Q: How is school construction financed in the state of Washington?

A: Three revenue sources exist to fund the cost of school construction: local bonds, state matching funds, and school impact fees. State matching funds are only provided if a school district passes a bond. The state match amount is a fixed-dollar figure, with local bonds and school impact fees filling the remaining gap in funding. The amount of state dollars allocated to a district is based on eligibility and priority. A complicated formula is applied to every request submitted; the list of state request is continually reprioritized with each new request that is submitted. In the past, our requests have not been ranked high enough to receive funds when needed. The problem here is twofold: 1) the priority system used by the state does not favor larger, faster-growing districts like ours; and 2) there is not enough state school construction money to fund all projects. Receipt of state matching funds is contingent on passage of a local bond and the availability of state dollars.

6.4 Conclusions

There is a wide range of information and level of detail in the voter materials reviewed. Overall, state matching funds are not well communicated in voter information. Mention of state funds is typically relegated to the Frequently Asked Questions section of a pamphlet or website, mentioned in some but not many voter materials, or not mentioned at all. The fact that state funding is contingent upon local validation through approval of the bond measure is frequently omitted. Most materials place very little emphasis on the contribution of state funds to school construction and modernization projects.

The formula is complex, as is the SCAGP program. Individual school districts use various approaches to explain it to voters and some communicate better than others. Providing information and materials that succinctly communicate the state's funding formula and program would help increase understanding and transparency and allow the school districts to highlight the potential for a state contribution in their voter materials.

7.0 WORK GROUP RECOMMENDATIONS

7.1 Improvements to Increase Formula Transparency

More Accurately Name Formula Components

The naming of some formula components is confusing and hinders transparency. The terms "state match" and "match ratio" create a disconnect – districts say "we are a 60% (equalization) district, but we actually get 16% (in State funding)." Districts also struggle to explain that discrepancy to voters.

Recommendations:

- "State match" could be called "state contribution," "state funding assistance," or "state share"
- "Match ratio" could be called the "equalization ratio"

Increase Formula Allowances to Reflect Reality, and Balance Funding Constraints with a State Affordability Factor

The formula could be made more transparent if allocation levels kept pace with true facility sizes and actual costs. Both the area cost allowance (ACA) and the allowable square footage per student are now held artificially low, in order to cap the state's contribution. The fact that allowances are set at artificially and unrealistically low levels is a major contributor to the transparency problem.

The establishment of true cost and space allowances would more accurately communicate project requirements.

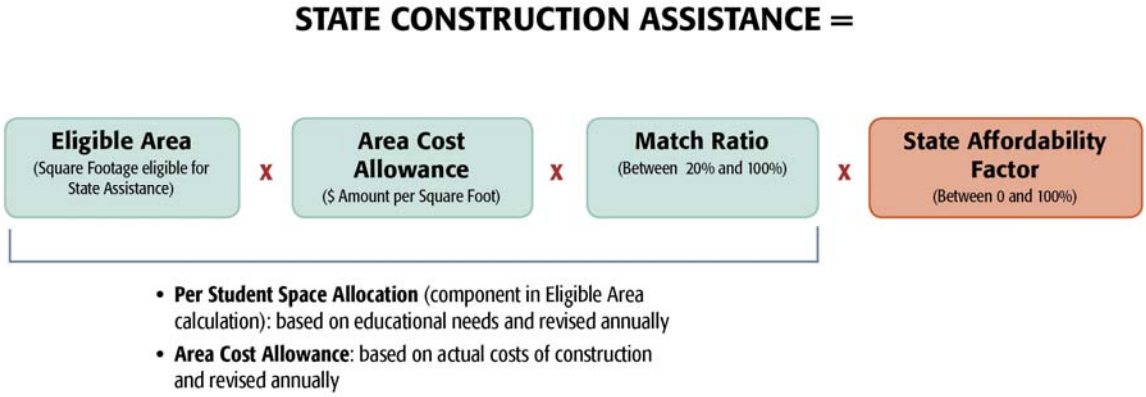
Development of a "State Affordability Factor" that is applied to the true allocation levels would show the state's contribution more directly. Institution of an affordability factor that could change from biennium to biennium would serve to balance increases in the allocation levels for the area cost allowance and allowable square footage. Identification and application of such a factor would also demonstrate more clearly that the State cannot fully fund all projects.

Recommendations:

- Increase the ACA to be based on the true costs of construction, and the allowable square footage per student to be based on actual educational needs. Ensure that these numbers are revised annually to keep pace with reality.
- To keep the level of funding for school construction consistent, introduce a "State Affordability Factor" as an adjustment factor for the funding formula. This factor could be calculated based on available funding and adjusted every biennium.

These concepts are shown graphically in **Exhibit 32** below:

Exhibit 32
Funding Formula with Proposed New State Affordability Factor



Combine Multiple Funding Formulas

Total construction and modernization project cost is comprised of several components, including construction costs and expenditures, such as architectural fees and construction management costs. The State provides assistance for many construction components; there are more than ten separate grants, each with their own formulas and limits, and approval processes.

Recommendations:

- Combine many of the component formulas together to simplify the process and improve transparency of the program.

Develop New Communication Protocols, Tools and Materials

The funding formula and the SCAGP program are complex. Individual school districts are each trying to explain it to Board members, voters and others in their own way. Providing standardized information and materials that succinctly communicate the formula and program would help generate understanding and transparency. Ongoing communication about the state funding level for school construction, new school openings, and modernized schools is also important.

Recommendations:

F. Develop standard terms and language to describe the program and its funding levels

- Statements that refer to "fully funding" applications for school construction projects obscure the true situation and can be misleading. New standardized language could more accurately describe the situation, and be provided to all stakeholders for use.

G. Develop clear informational materials for school district use

- Succinct, summary-level communication materials that describe the program and funding formula would help generate understanding and transparency, and ensure that consistent and accurate messages are conveyed to the public.
- Design and develop a folio or one-page program description, and a simplified program handbook.

H. Provide tools that will help school districts replicate the formula calculations

- Some districts reportedly have difficulty replicating how the state calculates their share of funding, using the formula.
- Implement an online grant calculator to help school districts better estimate state funding.

I. Provide information about the outcomes of state funding

- Communication that makes the State's funding program more visible would help increase transparency. This information could include funding levels and releases for school construction, new school openings, and lists of modernized schools.
- Including photos of new and improved schools in communication materials would also demonstrate the impact of the program.

J. Improve OSPI's website to provide readily accessible, summary-level information

- The website provides an opportunity to make descriptive and informational materials, such as Frequently Asked Questions, available both to the school districts and to the public.
- OSPI should undertake a website improvement project, from both content and a usability perspective.

7.2 Recommendations for Other School Construction Program Approaches

The Work Group would like to discuss and recommend potential options for revamping the current school construction assistance program and formula.

OFFICE OF SUPERINTENDENT
OF PUBLIC INSTRUCTION

K-12 SCHOOL CONSTRUCTION FUNDING FORMULA TRANSPARENCY STUDY

ATTACHMENTS

BERK & ASSOCIATES

Final: October 1, 2008

ATTACHMENT A:
WORK GROUP MEETING PLAN AND ROSTER

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
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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
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Carrie Hert, Administrative Assistant

Consultants

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

ATTACHMENT B:
PRELIMINARY WORK GROUP FINDINGS PRESENTED AT LEGISLATIVE TASK FORCE MEETING ON AUGUST 13, 2008

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 conf using.

   - **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.

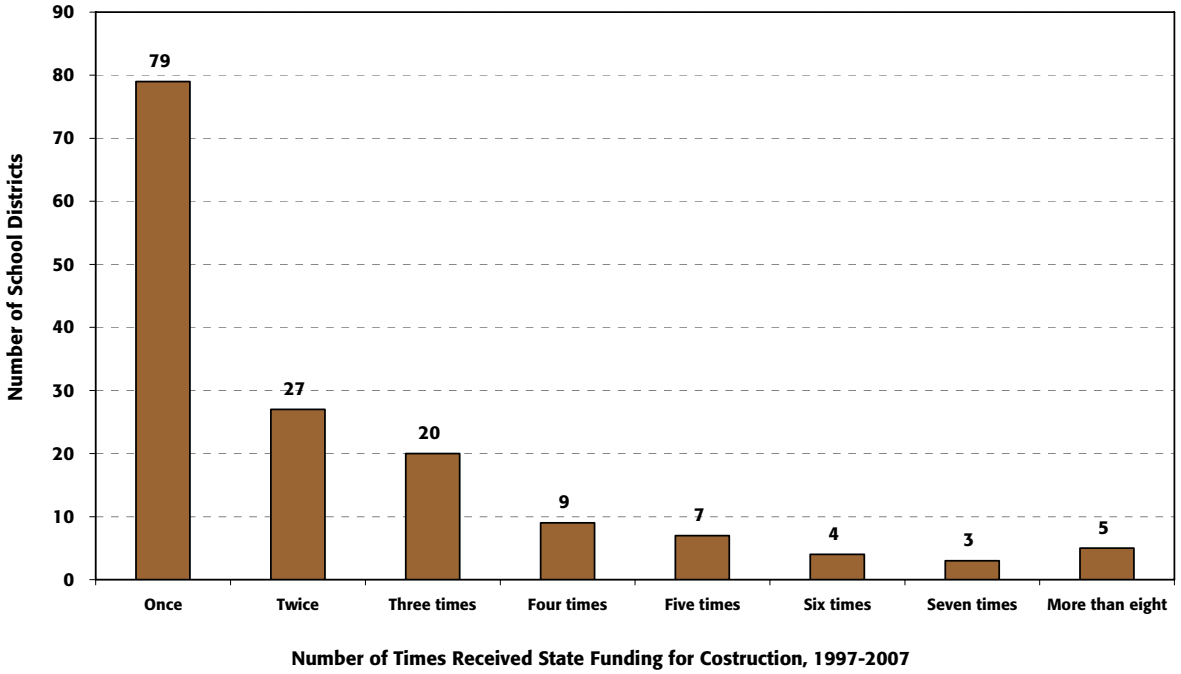
Exhibit 1
SUMMARY OF STATE VS. LOCAL % OF SCHOOL CONSTRUCTION PROJECTS FUNDED BY YEAR 1985 - 2008

		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 85-08		$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

ATTACHMENT C:
LIST OF STAKEHOLDERS INTERVIEWED

LIST OF STAKEHOLDERS INTERVIEWED

Joint Legislative Task Force on School Construction Funding

Senator Dale Brandland
Senator Karen Fraser
Senator Eric Oemig
Representative Bill Fromhold
Representative Sharon Tomiko Santos
Doug Quinn, Clark Public Utilities

Legislative Staff

Susan Howson, Staff Coordinator, House Capital Budget Committee
Steve Masse, Fiscal Analyst, House Capital Budget Committee
Nona Snell, Fiscal Analyst, House Capital Budget Committee

Task Force Consultant

Mike Roberts

Office of Financial Management (OFM) Staff

Sandi Triggs, Capital Budget Assistant

Other Stakeholders

Kathleen Anderson, School Facilities Citizen Advisory Panel
Patty Page, Superintendent, Coupeville School District
Daniel P. Steele, Assistant Executive Director, Washington State School Directors' Association
Doug Nichols, Director, ESD 112 Construction Services

ATTACHMENT D:
STATUTORY AUTHORITY AND ADMINISTRATIVE RULES

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

Statutory Authority and Administrative Rules

The following RCWs and WACs were chosen because they most closely relate to the School Construction Assistance Grant Program; however, there are other RCWs and WACs that govern school construction.

Formula Overall

The following statutes and agency regulations apply to the SCAGP funding formula:

RCW 28A.525.055 **Eligibility for state assistance for new construction – Inventory assessment exclusion – Rules.**	The rules adopted by OSPI for determining eligibility for state assistance for new construction have to exclude from the inventory of available educational space those spaces that have been constructed for educational and community activities from grants received from other public or private entities.
RCW 28A.525.090 **Construction management techniques – Rules – Use – Information and training.**	This section prescribes OSPI to adopt rules for use of the following construction management techniques: value engineering, constructability review, building commissioning, and construction management. OSPI is to include in funding for each project, at the state matching percentage, the cost of each of the construction management techniques.
RCW 28A.525.162 **Local school district participation**	The districts have to provide local funds for school construction projects.
RCW 28A.525.166 **Computation of state aid for school plant project**	The boards of directors of the districts shall determine the total cost of the proposed project, provided that the total cost of the project shall be subject to review and approval by the superintendent.
WAC 392-341-045 **Approval criteria for state assistance**	OSPI has to conditionally agree to provide state assistance for a school district that demonstrates (1) existence of unhoused students, and (2) the ability to provide any necessary capital funds by local effort (unless the projects is interdistrict cooperative center, interdistrict transportation cooperative, or modernization).
WAC 392-343-019 **Definition – Instructional space**	Provides the definition of "instructional space", and which areas are not included in this definition.

WAC 392-343-020 **Related factors and formula for determining amount of state assistance**	Establishes a number of factors upon which the amount of state assistance is to be determined: the number of unhoused students; space allocations; reduction of the number of operating schools; area cost allowance for the fiscal year funded; allowances for furniture and equipment purchases; the amount of insurance, federal, or other nontax source local moneys applied to a school facilities project; certain specified costs which must be financed directly by the school district; and the amount of fees for professional services. State assistance for an approved project is to be derived by multiplying the percentage of state assistance by the multiple cost components.
WAC 392-343-120 **Costs to be financed entirely with school district funds**	Establishes which costs will not be eligible for the state matching purposes.

Modernization/Replacement Projects. The following OSPI regulations apply to modernization and replacement projects:

WAC 392-347-015 **Eligibility for state financial assistance.**	Determines when a modernization project may be eligible for state financial assistance. The project must extend the life of the facility by at least 20 years. This section also lists conditions for buildings built prior to 1993, and post 1993 (facility will be ineligible if constructed and occupied within the previous 30 years).
WAC 392-347-020 **Formula for determining the amount of state assistance**	State assistance in an approved **modernization project** is to be derived by applying the percentage of state assistance to the eligible cost. Eligible cost is calculated by multiplying the approved square foot area of the modernization project by the area cost allowance for the fiscal year funded, less any deductions outlined in WAC 392-347-023, if applicable.
WAC 392-347-023 **State assistance in post 1993 facilities**	Limits state assistance for modernization of school facilities post 1993 by considering expenditures for maintenance for that facility during 15 years prior to the project application.
WAC 392-347-035 **Minimum project – Forty percent of replacement costs**	State assistance in modernizing of school facilities is limited to projects for which the estimated cost of construction is not less than 40% of the estimated cost of replacement.

WAC 392-347-040 **Maximum costs eligible for state matching purposes**	State assistance for modernization projects shall not exceed 100% of the cost of new construction of a comparable school facility.
WAC 392-347-042 **Replacement option**	District with space eligible for modernization may elect to replace such space through new construction in lieu of modernization by applying in accordance with rules and regulations pertaining to new facilities. If additional space is going to be constructed, in order to be eligible for funding, the space has to meet the eligibility requirements for new space.

Eligible Area

New Construction. The following OSPI regulations apply to Eligible Area component of the formula for new construction projects:

WAC 392-343-035 **Space allocations**	Establishes space allowances for enrolled students for state matching purposes (K-6: 90sf, 7-8: 117sf, 9-12: 130 sf, students with disabilities: 140 sf). The section also sets space allowance for vocational skill centers and for districts with senior or four-year high schools with fewer than four hundred students.
WAC 392-343-045 **Space allocations – Enrollment projection provisions**	A school district shall estimate capacity needs on the basis of three- or five-year cohort survival enrollment projection, actual enrollment of preschool students with disabilities, and supplemental information regarding district growth factors.
WAC 392-343-050 **Space allocations – Computing building capacity**	Establishes the formula for calculating the net total area of a school facility eligible for state matching purposes.

Modernization and Replacement. The following OSPI regulations apply to Eligible Area component of the formula modernization and replacement projects:

WAC 392-347-025 **Space eligible for state financial assistance in modernization**	Provides that a school district is to estimate capacity needs on the basis of a cohort survival enrollment, and any space above a school district's estimated capacity needs is not eligible for state financial assistance in modernization.

Area Cost Allowance

WAC 392-343-060 **Determining the area cost allowance**	Provides that: (1) the area cost allowance shall apply to the cost of construction of the total facility and grounds, including state sales and use taxes and excluding local option sales and use taxes; (2) the area cost allowance shall be determined by OSPI using the prior year's area cost allowance, plus a construction inflation factor; and (3) OSPI shall work with appropriate parties to develop a method for determining the annual construction inflation factor.

Match Ratio

RCW 28A.525.162 **Computing state matching percentage**	For the purpose of computing the state matching percentage adjusted valuation per pupil shall be calculated using headcount student enrollments from the most recent October enrollment reports.
RCW 28A.525.166 **Computation of state aid for school plant project**	Establishes formula to compute the **state matching percentage**; provides for superintendent to establish percentage assistance for school districts with calculated percentage less than 20% (no more than 20%); establishes **growth points** and formula to calculate them.
RCW 28A.525.168 **Taxable valuation and percentage of state assistance to be used in determining eligibility**	The adjusted assessed valuation used to calculate percentage of state assistance is to be determined at the highest amount prevailing at the time of (1) passage of bonds and/or levies, (2) OSPI project approval, or (3) OSPI approval to bid.
WAC 392-343-025 **State matching percentage – General**	Provides that percentage of state assistance is to be determined in accordance with the matching formula set forth in **RCW 28A.525.166**. Establishes the floor of 20% of the matchable cost of the project in case the percentage of state assistance to any school district is less than 20%. Pursuant to RCW 28A.525.166, establishes **growth points** and formula to calculate them.
WAC 392-343-030 **Applicable state matching percentage for project**	Pursuant to RCW 28A.525.168, provides that the percentage of state assistance is to be the highest amount prevailing at the time of (1) passage of bonds and/or levies, (2) OSPI project approval, or (3) OSPI approval to bid.

Prioritization

RCW 28A.525.190 **Prioritizing construction of common school facilities**	Establishes that OSPI will prioritize the construction of common school facilities only from funds appropriated and available in the common school construction fund.
WAC 392-343-500 through WAC 392-343-520 **State assistance – Priorities**	These sections establish the priority system for the funding of school construction projects, including common priority elements to all projects, new construction for growth priority factors, modernization or new-in-lieu of modernization priority elements, and existing building condition evaluation.