



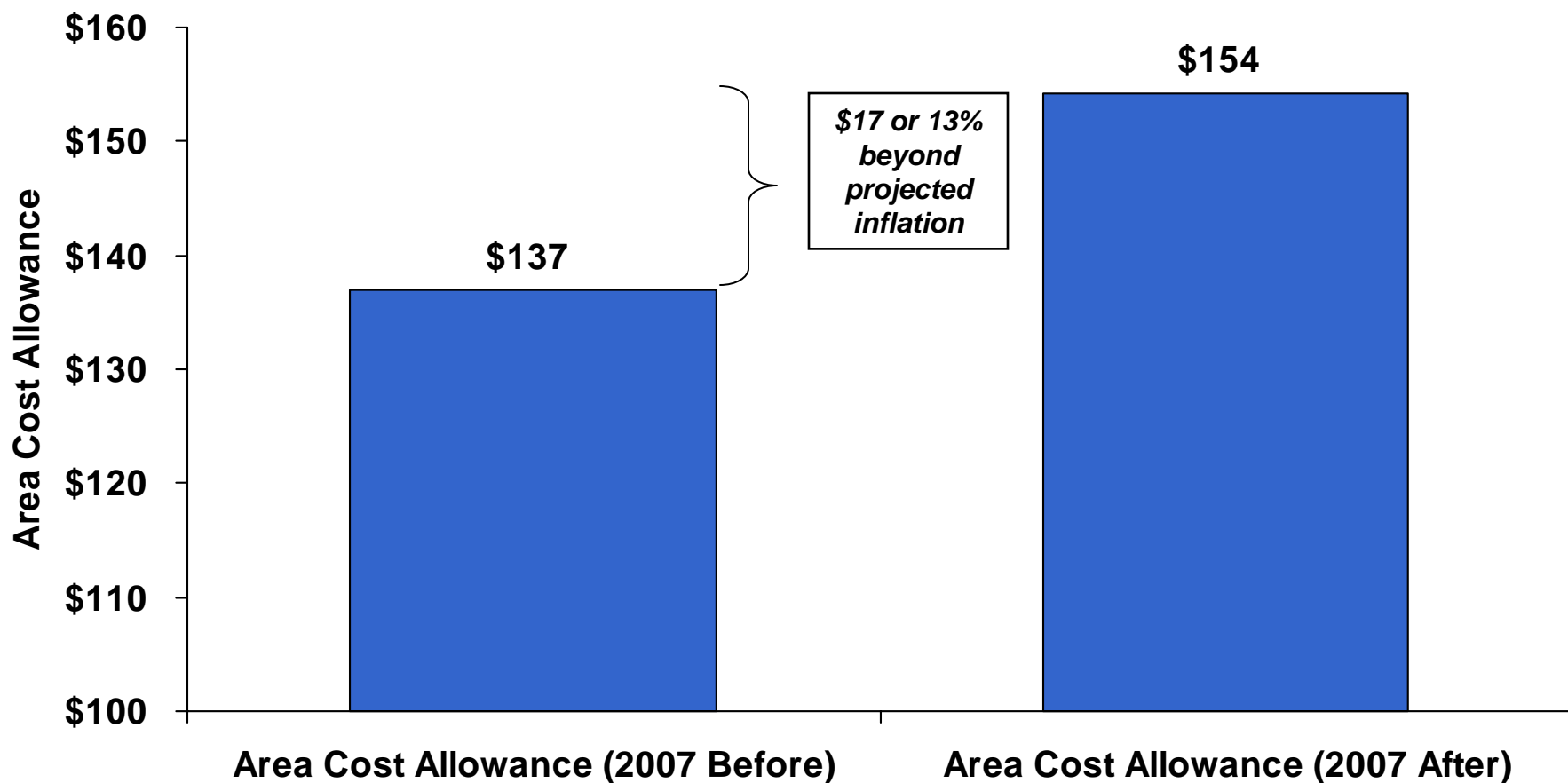
Joint Task Force on School Construction Funding

Legislative Staff Refresher Presentation

June 18, 2008

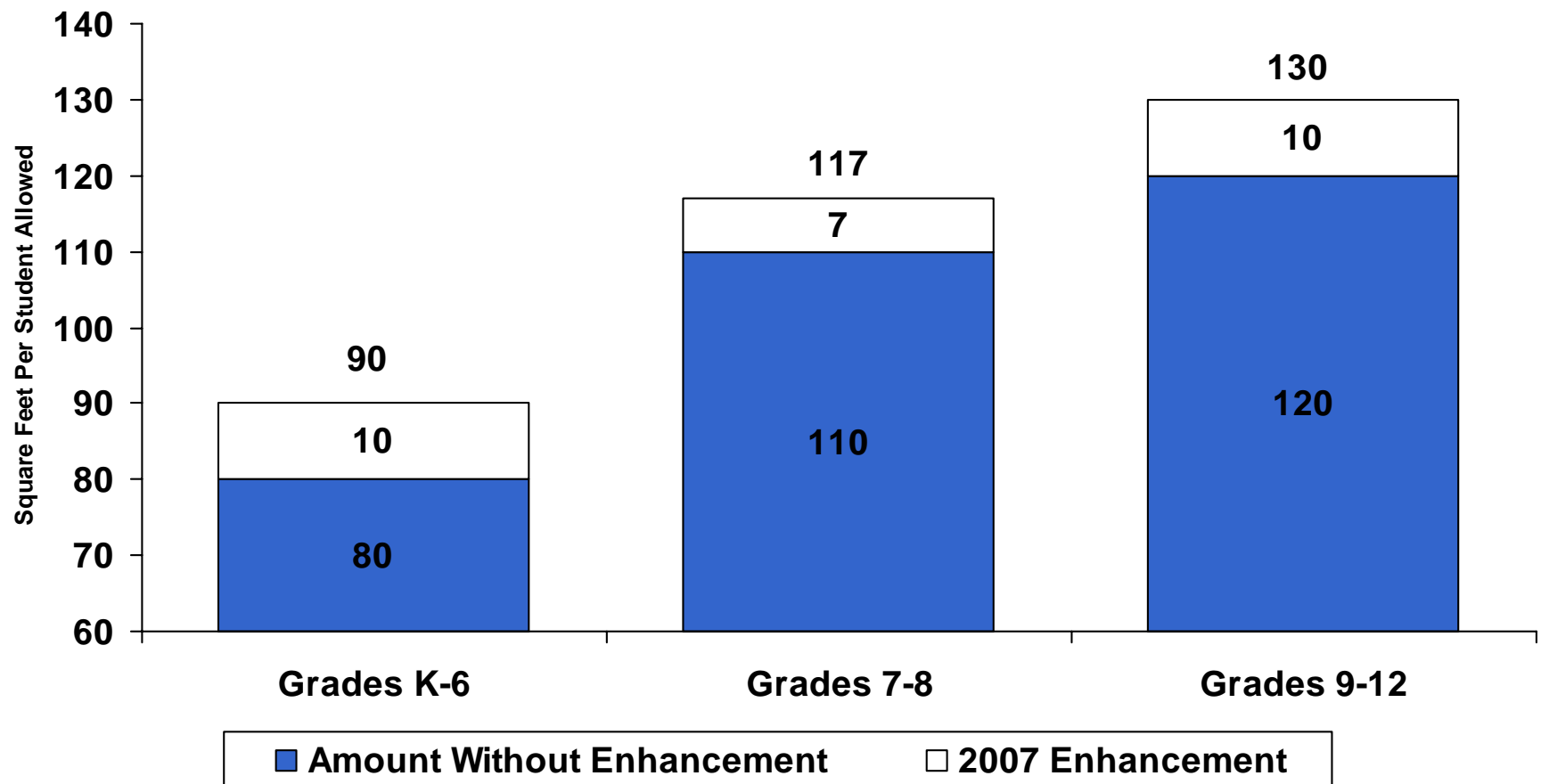
Prepared by Legislative Fiscal Committees

In 2005, the Legislature significantly enhanced the amount paid per square foot, and funded new construction and modernization at the same rate

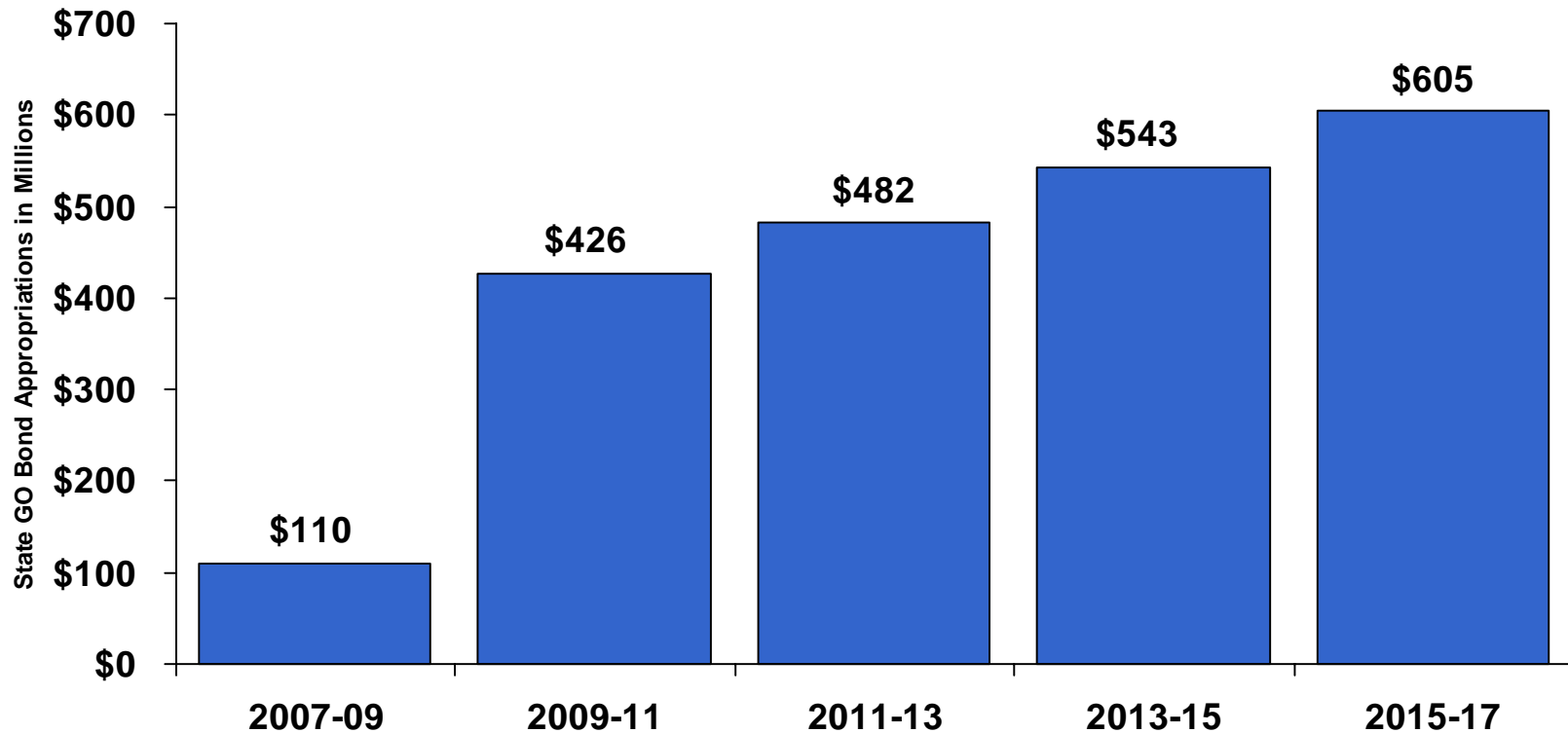


* The area cost allowance has been increased by inflation since this time. In the 2007 session, the Legislature also provided a .8 percent policy enhancement to the area cost allowance.

The Legislature also enhanced the space allowed per student



Based primarily on the “bow-wave” of the 2005 enhancements, the amount of state bonds needed to support K-12 school construction is expected to dramatically increase over the coming years



* The chart depicts State Bonds and Trust Land Transfers. For the 2009-11 and subsequent biennia, approximately \$50 million in Trust Land Transfer Revenue is assumed.



Projected Capital Budget Bond Capacity

(Dollars in Thousands)

	<u>2007-09</u>	<u>2009-11</u>	<u>2011-13</u>
General Obligation Bonds	1,931,779	1,905,000	1,981,200
Gardner-Evans Higher Education Bonds	222,415	0	0
Columbia River Basin Water Bonds	34,500	35,500	40,000
Chehalis River Basin Bonds	50,000	0	0
Total Bond Capacity Subject to Debt Limit	\$ 2,238,694	\$ 1,940,500	\$ 2,021,200
New Skills Center/K-12 Bonds (Outside Debt Limit)	16,000	84,000	0
Total Bond Capacity	\$ 2,254,694	\$ 2,024,500	\$ 2,021,200

Projected debt capacity is based on February 2008 debt model assumptions. Balances to 7% statutory debt limit and 8.5% working constitutional debt limit.

Six-Year Plan Comparison

State Bonds Only

2007-09 Enacted Capital Budget Plus Bowwave Scenario

	Enacted 2007-09 (with 2008)	2009-11	2011-13
Higher Education	796	928	606
K-12 Construction Assistance Grants	110	426	482
Skills Centers	79	114	66
Prisons	151	149	103
Housing Assistance	187	130	130
WWRP	100	100	100
Chehalis River Basin	50	0	0
All Other	911	619	479
Total	2,255	2,352	1,900
Projected Debt Capacity	2,255	2,025	2,021
Difference	0	(327)	121

“All Other” includes construction funding for all other functional areas of state government that receive capital appropriations. “Projected Debt Capacity” is based on 02-08 debt model assumptions.



In 2009-11, this state bond bowwave scenario does not include construction funding for:

- Reauthorization of Higher Education Bonds**
- New Branch Campus in North Puget Sound**
- New Local Government Infrastructure or Economic Development Initiatives**
- Community Projects**
- Any Other New Initiatives**
- Additional K-12 Enhancements***



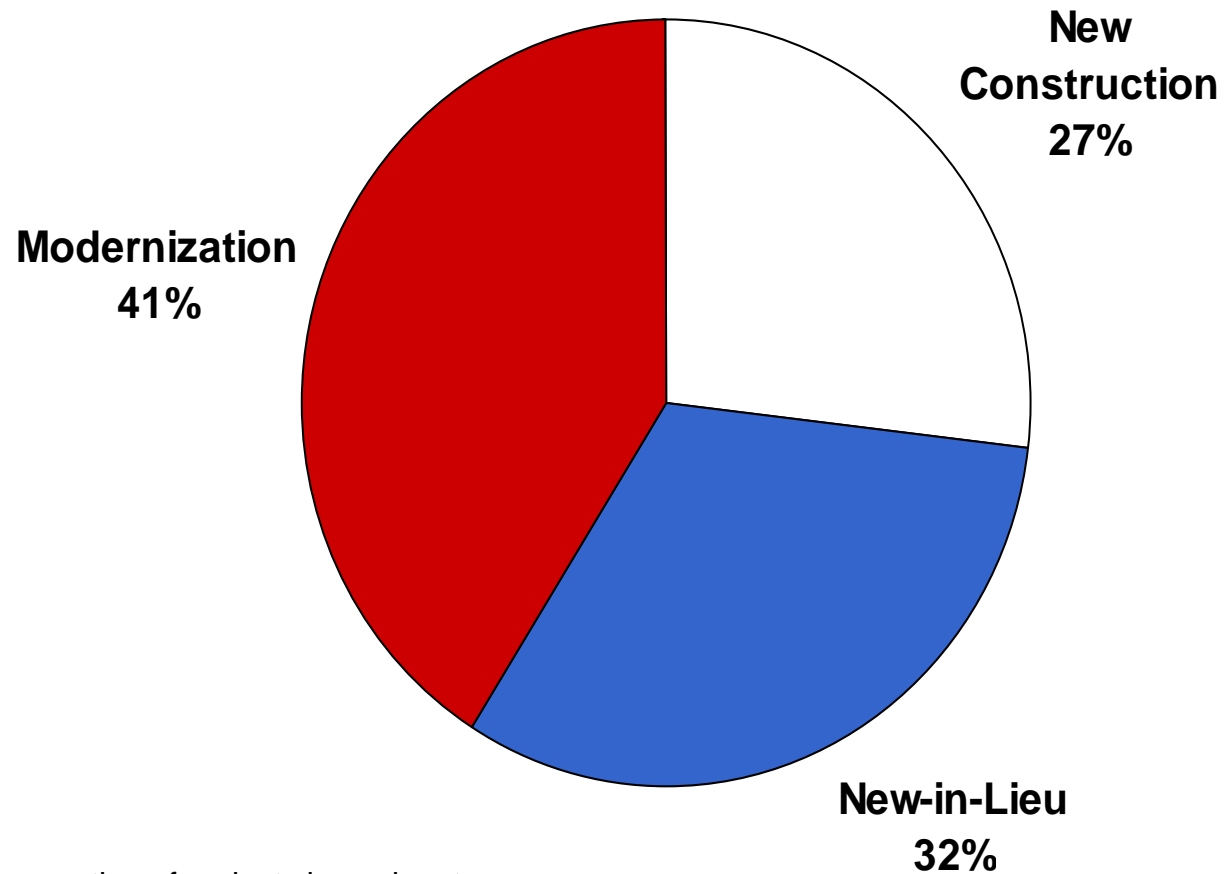
Priority Global Issues Identified By Task Force

- ***Addressing The Recent Escalation in School Construction Inflation***
- ***Adjusting Formula to Account for Regional Costs of School Construction Inflation***
- ***Increasing the Overall Square Footage Allowed, Particularly for Specialized Space***



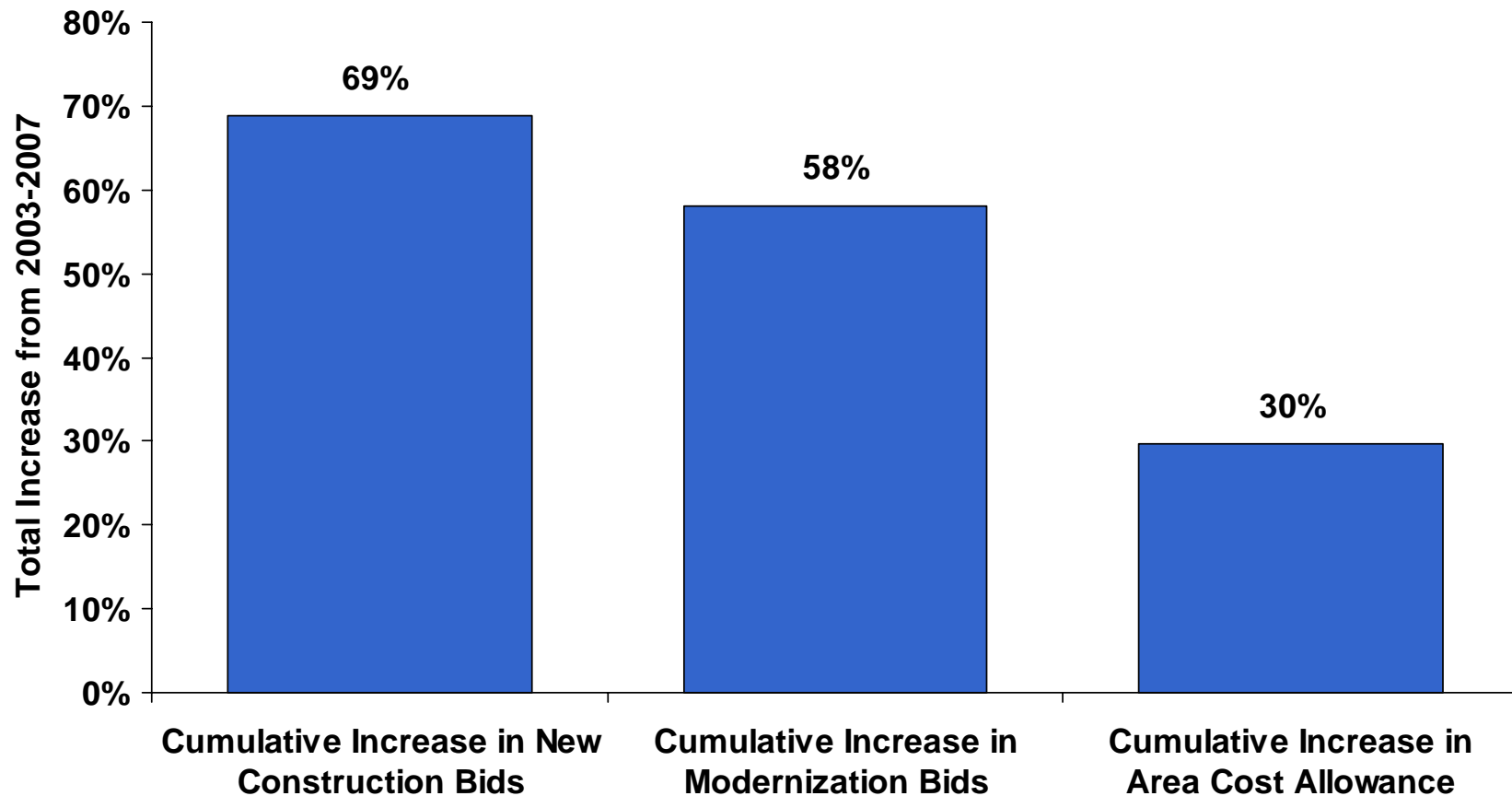
Inflation

Modernization projects currently make up about 40 percent of the state eligible projects released each year



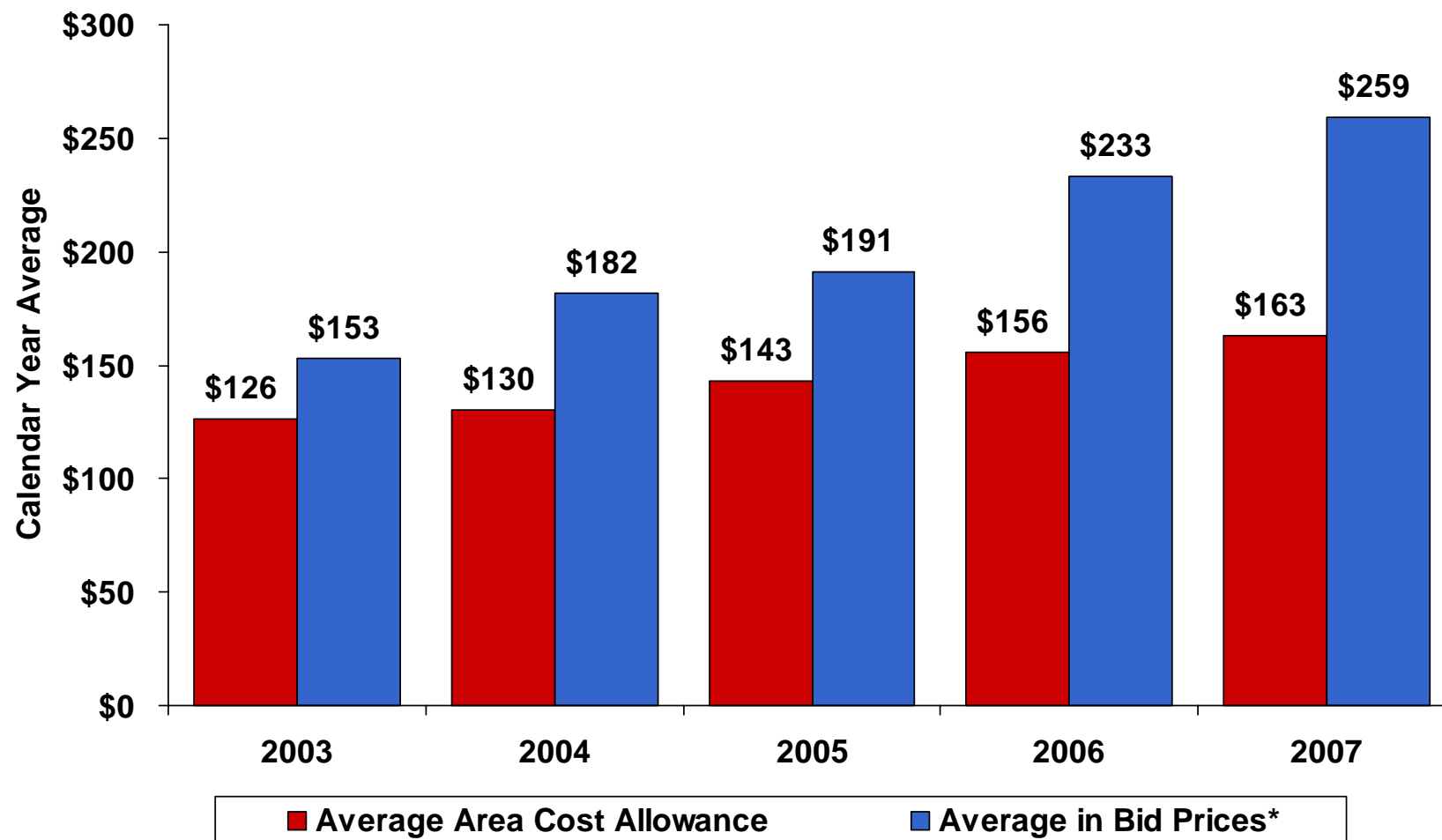
* Reflects proportion of projects in each category with potential release in July 2008.

Over the last four years, the increase in average bid prices has outpaced the increases in the area cost allowance



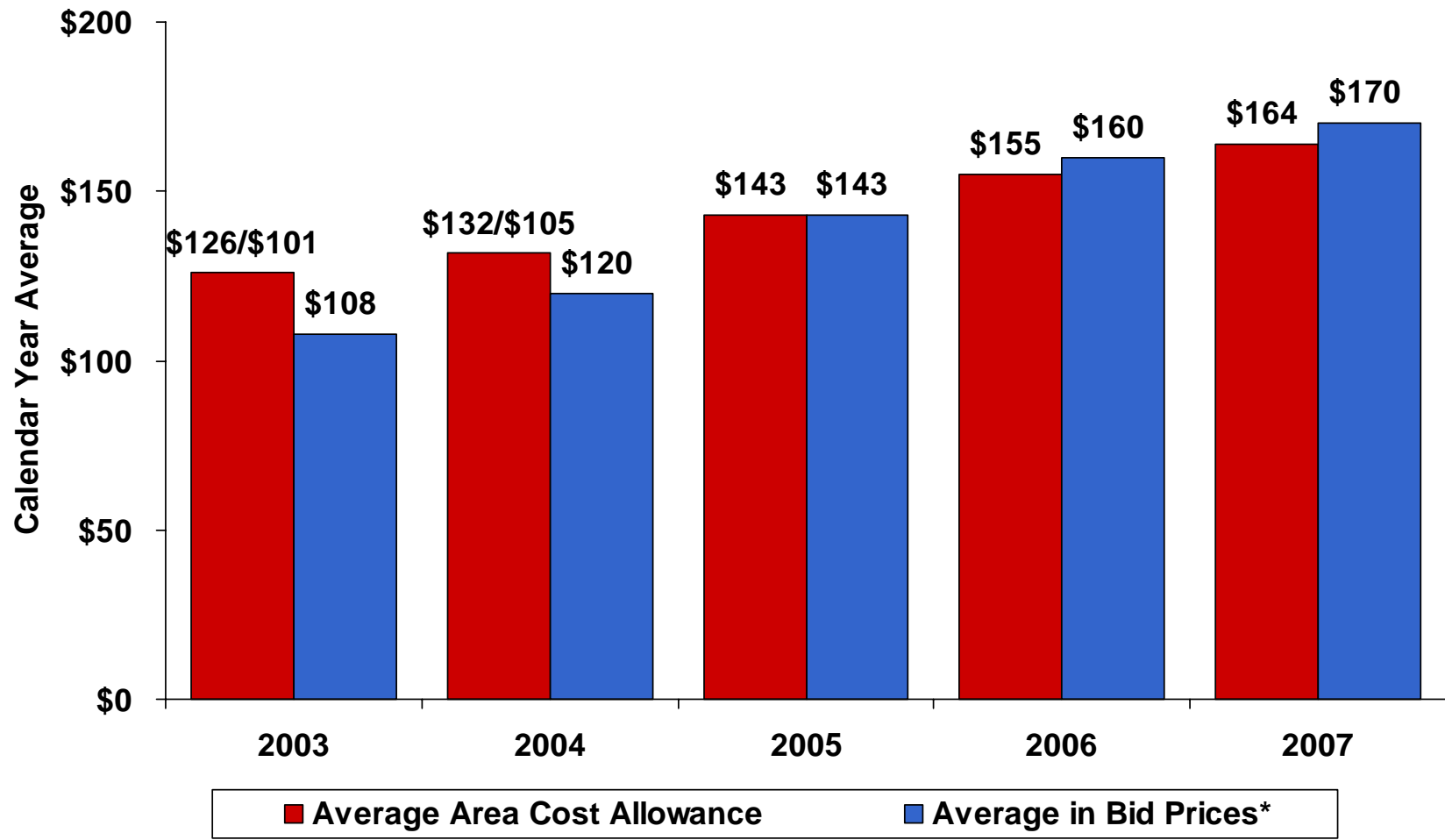
** The increase in average bids may include items not part of state funding formulas and may not represent actual school construction inflation.*

For new construction, this means that the difference in amount provided in state funding formula and the average reflected in bid prices has grown larger



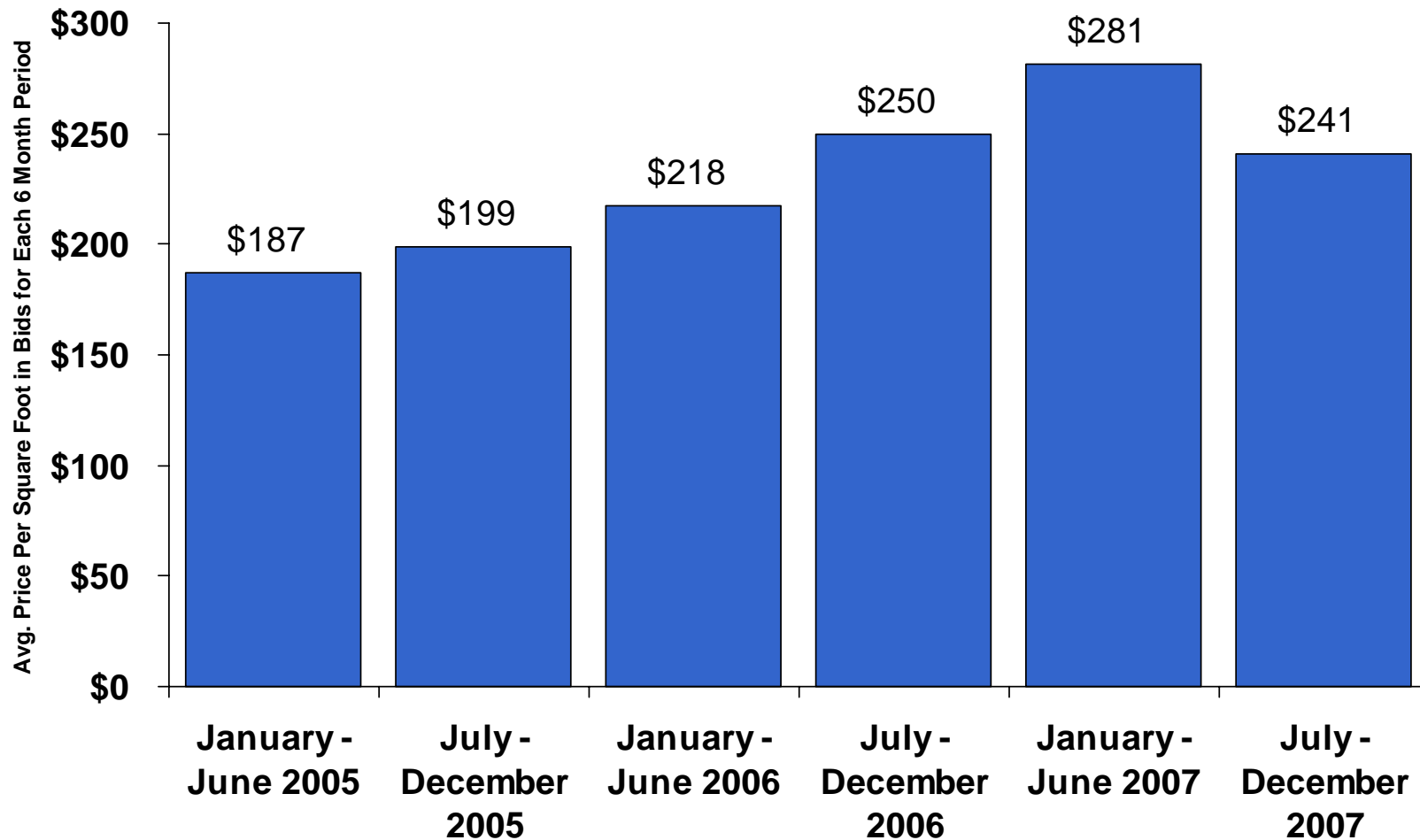
* The increase in average bids may include items not part of state funding formulas and may not represent actual school construction inflation. The ACA includes assumed policy enhancements.

Because of the 2005 enhancements and slightly lower bid price increases, the current bids for modernization projects only slightly exceed the amount provided in state funding formula



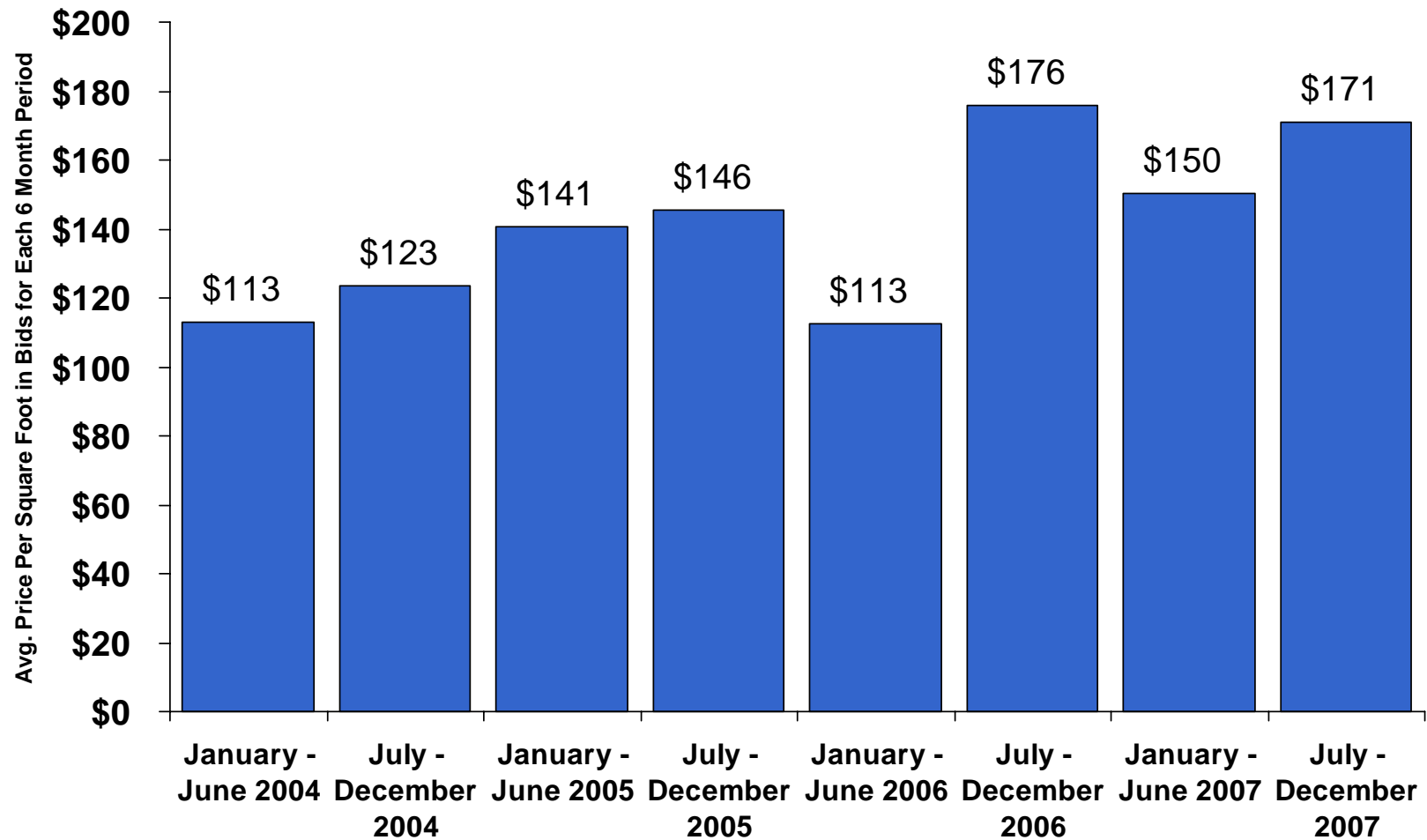
* The increase in average bids may include items not part of state funding formulas and may not represent actual school construction inflation. For 2003 & 2004, the modernization ACA was funded at 80%.

For new construction, recent bids indicate that price increases might be abating, but it is too early to tell if this is a longer term trend



** The average bid price may include items not part of state funding formulas. This is the average reported for new construction bids from January 2005 until December 2007.*

Modernization bids show a slightly different trend, but still suggest a slowing in the rate of growth

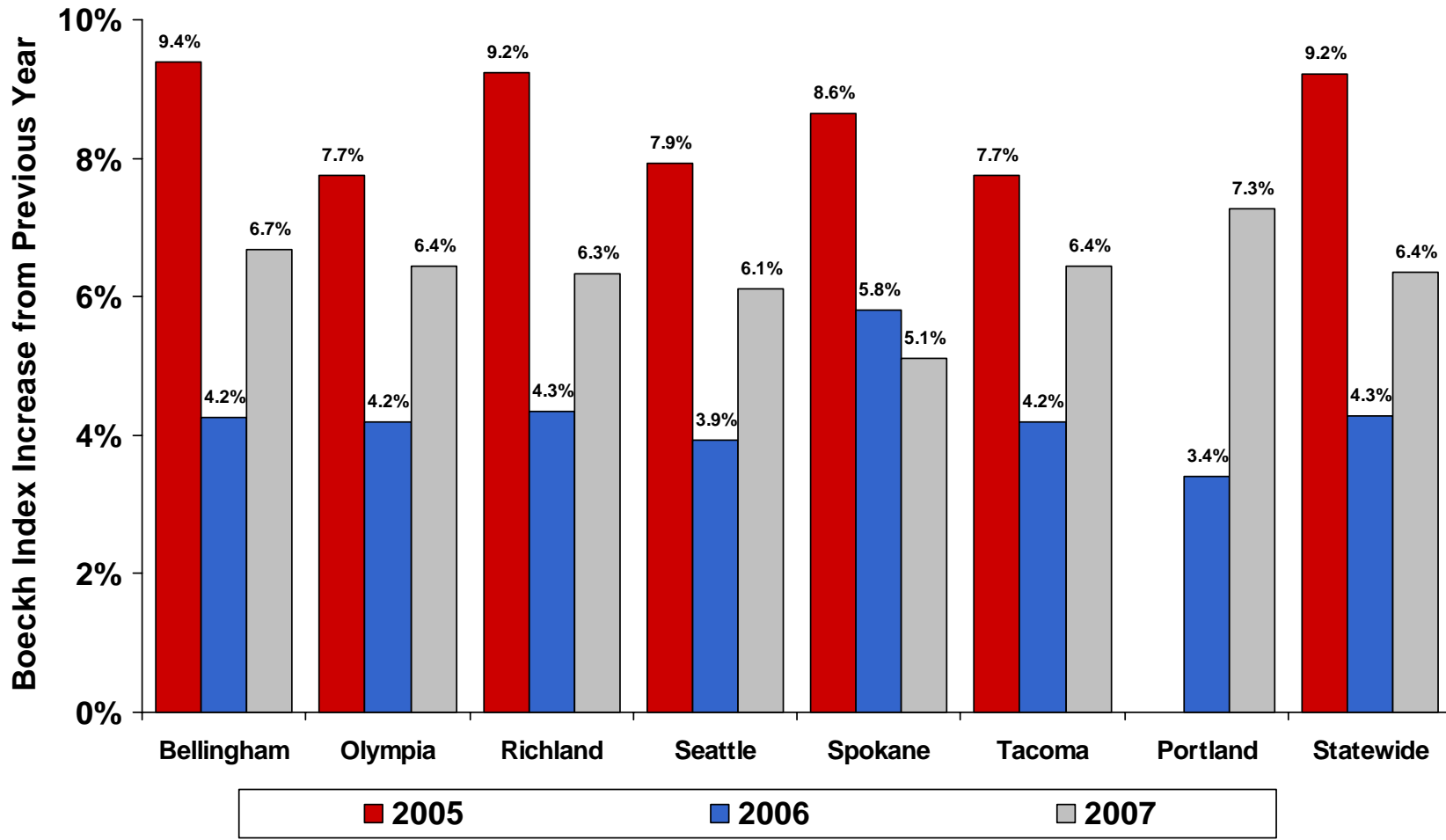


* The average bid price may include items not part of state funding formulas. This is the average reported for modernization bids from January 2005 until December 2007.



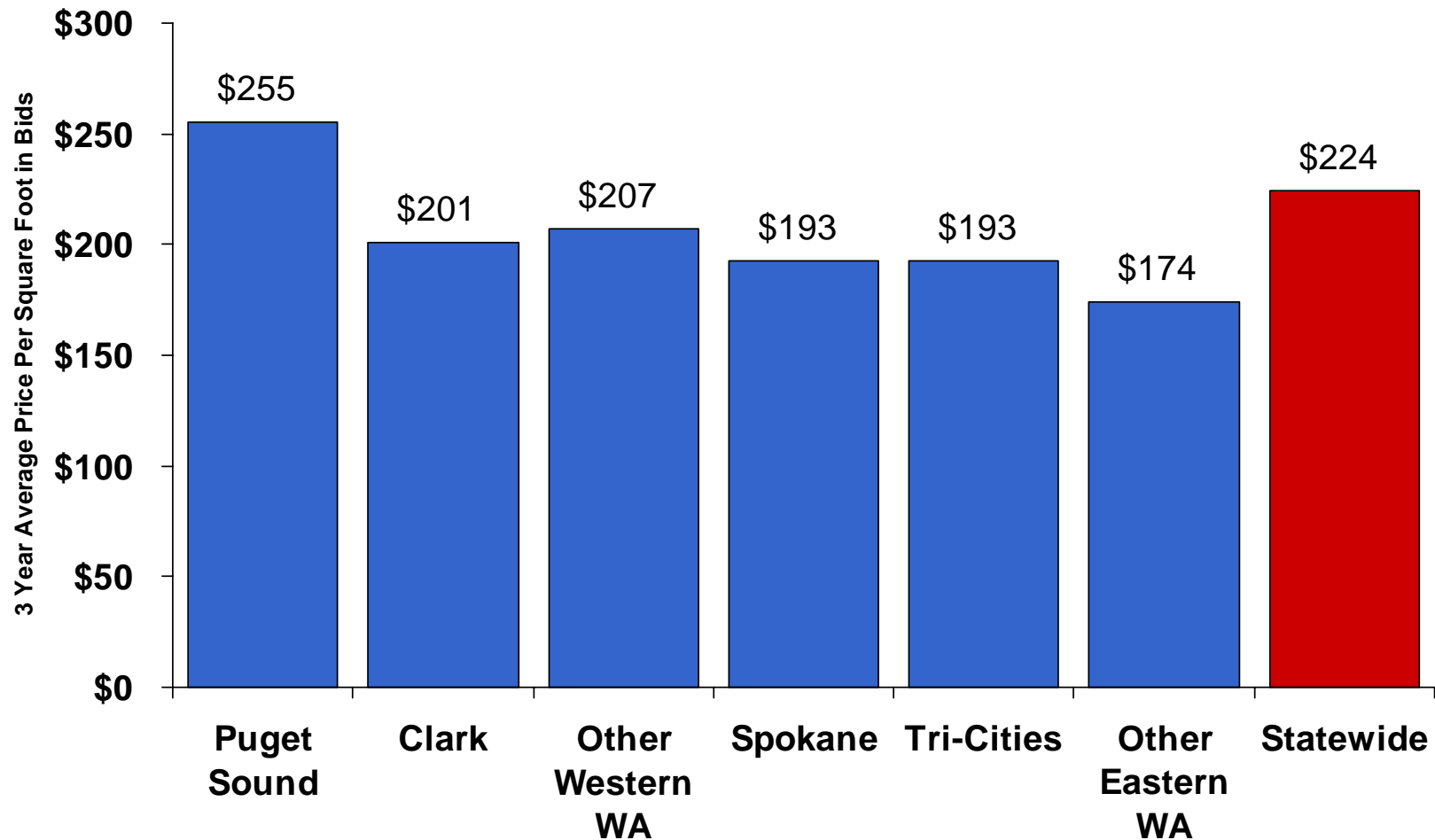
Regional Variation

While we do not have enough actual bid data, more general measures seem to indicate that all regions of the state experience similar construction inflation



* The Boeckh index has costs for 115 elements in each location—19 building trades, 89 materials and seven tax and insurance elements. Boeckh researches both union and merit shop wage rates, and the indexes utilize the prevailing wage for a specific location.

It appears that school construction costs might be higher in certain parts of the state, but we can't say for sure because of data limitations

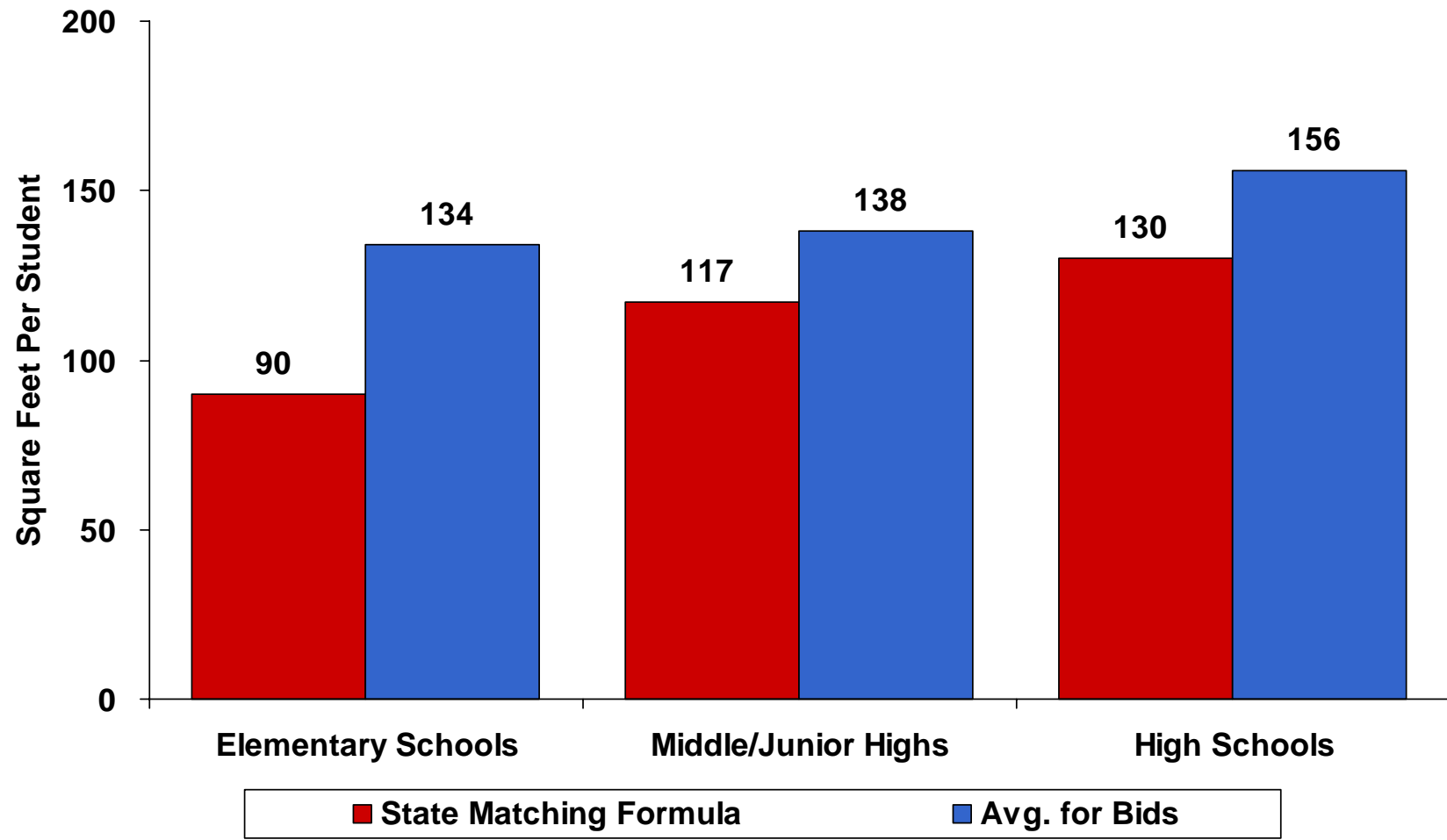


** The average bid price may include items not part of state funding formulas. This is the average reported new construction bids from January 2005 until December 2007.*



Square Feet Per Student

School districts appear to be building larger buildings than provided for in the state funding formula



* The average bid may include space that is not part of state funding formulas. This is the average for reported bids from January 2002 until July 2007.



What Did We Tell You?

- *Because of recent K-12 enhancements, the amount of state bonds needed for school construction (even without new enhancements) will constrain the overall capital budget.*
- *The cost reflected in bids for new school construction are higher than the cost provided in the state funding formula. However, the bid costs for modernization are only slightly higher than the amounts provided for in the state funding formula.*
- *Over the last four years, there have been significant increases in school construction bids prices and these increases have outpaced the inflation measure used in the state formula.*
- *Recent information suggests that school construction price increases may be slowing.*
- *School construction costs appear to be higher in the Puget Sound region.*
- *School districts appear to be building larger buildings than provided for in the state funding formula, but because of data limitations we can't say much about why, the potential need for more specialized space, or building conditions.*

Appendix



State Allocation Factors and Rules for State Assistance (FY 2008)

1. New Construction – Square Feet Based on Enrollment

K-6	90 sq. ft/student
Grades 7-8	117 sq. ft/student
Grades 9-12	130 sq. ft/student
Students with disabilities	144 sq. ft/student

* *Must have unhoused students calculated based on these space standards.*

2. Modernization

- A school must be at least 20 years old (30 years if built after 1991)
- The cost of the project must also exceed 40 percent of the replacement cost.

3. Area Cost Allowance

- **New Construction** - \$162.43 per square foot
- **Modernization** - \$162.43 per square foot (previously was 80 percent of new construction rate)

4. Additional State Support Items

- Architectural and Engineering Fees
- Furniture and Equipment
- Study & Survey, Value Engineering, Construction Management, Constructability Reviews, Energy Conservation Study, Special Inspections and Testing, Art in Public Places

The state school construction formula is designed to equalize the burden (based on property values) among school districts

