

Joint Legislative Task Force on School Construction Funding State Funding Assistance Formula

2009 Proviso Excerpt

"...The joint legislative task force on school construction funding, established in the 2007-09 capital budget, is continued to explore the following: (a) **Changing the state funding assistance ratio used in the school construction assistance grant program formula...**"

*2009-11 Capital Budget
ESHB 1216, Chapter 497 Laws of 2009 (pv)
Excerpt Section 5017(1)*

School Construction Assistance Program (SCAP)

The School Construction Assistance Program (SCAP) assists local school districts pay for school plant facilities. Money is appropriated in the capital budget to OSPI and school districts must apply to OSPI for the funding.

The program provides assistance for new construction projects, modernization projects, and new-in-lieu of modernization projects. New construction projects build new schools to accommodate un-housed students in a growing district; modernization renovates and upgrades existing facilities; and new-in-lieu of modernization projects replace existing buildings with new ones. The decision to use new-in-lieu is made by school districts for reasons including situations where replacement is more cost-effective than remodeling, or if an existing building eligible for modernization is in a location that no longer serves the student needs.

To receive state assistance to pay for eligible costs, the school district must demonstrate a need for new space and be able to provide local funding, usually through voter approval of a bond measure. This ensures that projects have been "locally validated." State assistance is calculated by formula and is, in part, based on equalization ratios to account for variations in property wealth among districts.

2008 Funding-Formula Study

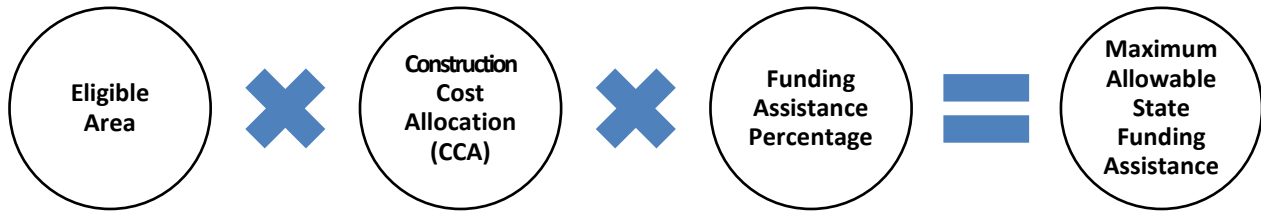
The 2008 Legislature, by proviso, directed the Office of the Superintendent of Public Instruction (OSPI) to undertake a K-12 school-construction-funding formula study to analyze some aspects of the program – particularly, transparency – and to present options for formula and program improvements to the Joint Legislative Task Force on School Construction Funding (Task Force).

The OSPI hired Berk and Associates to conduct the study and facilitate a work group. The 11 members of the work group included representatives from large, medium, and small-sized school districts across the state, as well as other stakeholders knowledgeable about the state's school-construction and funding system. The final report was presented on October 1, 2008 and included a number of recommendations about the school-construction-funding formula. The final report was revised in December.

One of the original recommendations of the work group was to, "Increase formula allowances to reflect reality, and balance funding constraints with a State Affordability Factor" but this recommendation was subsequently eliminated.

Elements of the Funding Formula

The following is the funding formula used to determine state-funding assistance:



The **Eligible Area** for new construction projects is calculated by comparing the current district-wide capacity (in square feet) to the district’s projected enrollment growth and future space needs:



Future Enrollment: the projected number of students in either the next three or five years

Per-Student Space Allocation:

Grades K-6: 90 square feet (sq ft) per student;

Grades 7-8: 117 sq ft per student;

Grades 9-12: 130 sq ft per student;

Students with disabilities: 144 sq ft per student.

Current Capacity: the existing space inventory for the whole district at each grade span. (For modernization projects, instead of Current Capacity, the square footage of “Improved Space” is deducted.)

The **Construction Cost Allocation (CCA)** is a per-square-foot amount set by the state and used to determine the level of state-funding assistance. This was known as the Area Cost Allowance (ACA) prior to the 2009 Legislative session. The CCA used by the state is as follows:

July 1, 2010 \$180.17

July 1, 2009 \$174.26

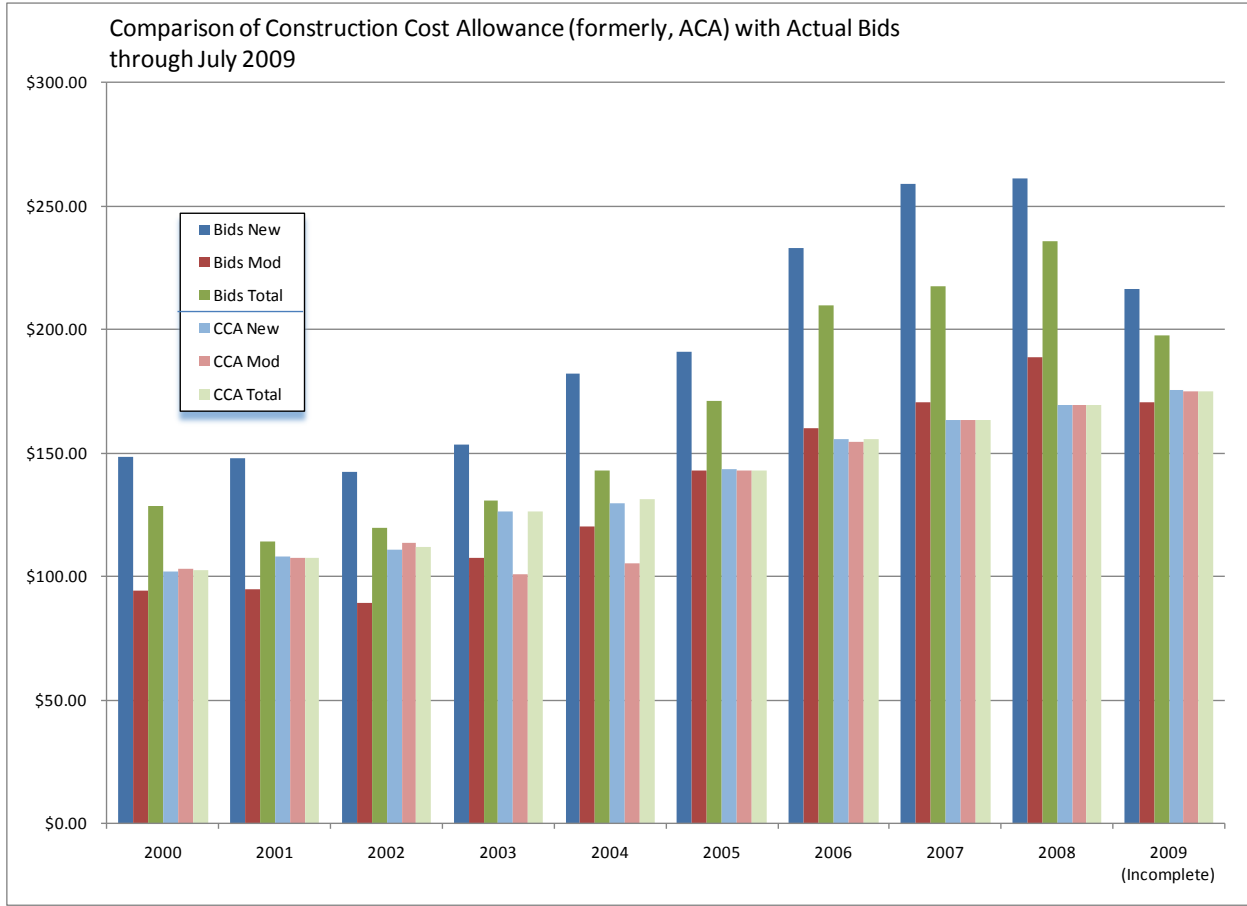
July 1, 2008 \$168.79

The **Funding Assistance Percentage** is applied to equalize state funding. The percentage accounts for differences across school districts in wealth and ability to generate revenues through property taxes. The minimum percentage is 20 percent of recognized project costs, and can be as much as 100 percent of recognized costs, depending on district wealth.

Additional Background & Data

Construction Cost Allocation

The following chart and accompanying table display the history of the CCA and actual bids received for school-construction projects.¹



	Bids			CCA		
	New	Mod	Total	New	Mod	Total
2000	\$148.35	\$94.54	\$128.42	\$102.17	\$102.95	\$102.45
2001	\$148.07	\$94.70	\$114.42	\$107.99	\$107.33	\$107.58
2002	\$142.19	\$89.13	\$119.78	\$110.90	\$113.48	\$111.99
2003	\$153.34	\$107.82	\$130.58	\$126.32	\$100.66	\$126.07
2004	\$182.26	\$120.36	\$143.17	\$129.81	\$105.47	\$131.09
2005	\$190.77	\$143.00	\$171.37	\$143.25	\$142.89	\$143.10
2006	\$232.91	\$159.97	\$209.57	\$155.67	\$154.74	\$155.37
2007	\$259.01	\$170.33	\$217.38	\$163.16	\$163.54	\$163.34
2008	\$260.98	\$188.65	\$235.51	\$169.27	\$169.23	\$169.25
2009 (Incomplete)	\$216.66	\$170.43	\$197.82	\$175.37	\$174.80	\$175.14

¹ The bar graph and table display calendar-year averages for bids received and the construction-cost allowance for both new and modernization projects. This is slightly different than the fiscal-year-based method reported by OSPI.

Although the year is not complete, so far calendar year 2009 bid prices are favorable for school construction, given the recent economic picture, and have had the effect of narrowing the gap between actual costs and the CCA. As the state's Economic and Revenue Forecast Council notes in its June 2009 report:

"The hardest hit sector has been and will continue to be construction. Residential construction is nearing a trough, but the downturn in non-residential construction is still far from over."

*Washington State Economic and Revenue Forecast
June 2009, Volume XXXII, No. 2
Executive Summary*

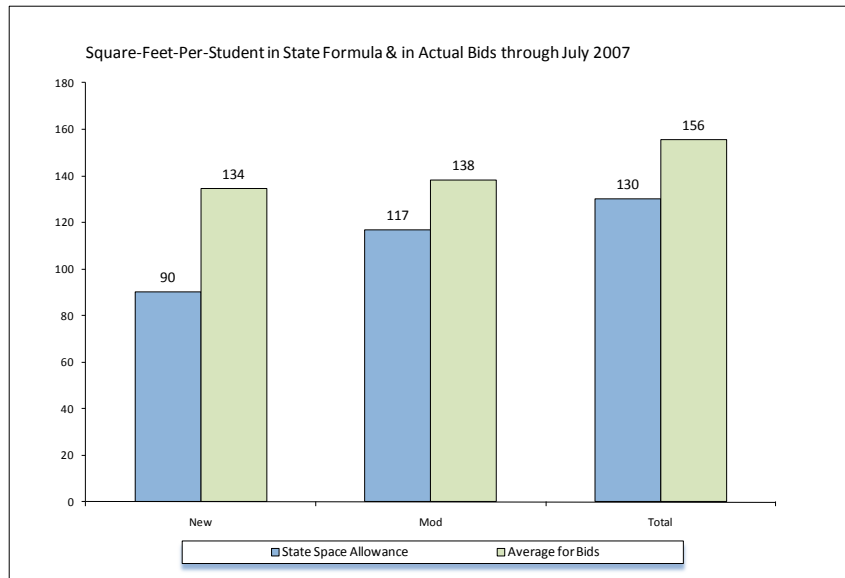
The graphs and table above show that, prior to this year, actual bid prices for both new projects and modernization projects were higher than the CCA, although the difference was greater for new construction projects than for modernization. The recent economic downturn has reversed this picture for modernization projects, with the average cost of projects lower than the state's cost allocation.

We also see that the CCA was most significantly increased in 2005. Since then, it has been raised annually in the capital budget by an inflation factor. (Increasing the CCA does not require separate legislation; this has occurred, historically, in the capital budget.) Prior to this year, the rate of growth in the actual costs outpaced the growth of the total CCA. Again, when taking into account the information to-date for CY2009, the picture is reversed for modernization projects.

5-year annual increase (2003-08)			6-year annual increase (2003-09)		
	<u>Bids</u>	<u>CCA</u>		<u>Bids</u>	<u>CCA</u>
New	14.0%	6.8%	New	6.9%	6.5%
Mod	15.0%	13.6%	Mod	9.7%	12.3%
Total	16.1%	6.9%	Total	8.6%	6.5%

Per-Student-Space Allowance

No new information is available for calendar years 2008 and 2009 regarding actual square-foot-per-student in school construction. However, looking back, it appears school districts build larger buildings than provided for in the state funding formula.



Educational program needs change over time and local school boards set the programs for school districts. Many recent developments push toward larger schools – such as class-size reduction efforts and emphasis on Science, Technology, Engineering and Math (STEM) curricula. However, other developments – such as the increasing use of Alternative Learning, or on-line studies – might have the converse effect.

Funding-Assistance Percentage

The funding-assistance percentage is designed to equalize state fund allocations according to the relative property wealth of school districts. The percentage ranges from a floor of 20 percent to a maximum of 100 percent.

The variation in the funding-assistance percentage helps hold down the total amount a property-poor district needs to ask of its taxpayers, resulting in more equal tax burdens for similar public services across the state. Changes to these percentages would require statutory amendment.

Summary

Although it appears clear that most of the state-formula allocations for construction costs and square-feet-per-student are lower than those experienced by school districts in their actual construction projects, other information should be taken into account. The state funding formula is used as a budget driver and a funding-equalization mechanism rather than as a model educational space standard. It is not clear, at this time, how construction costs will trend in the near future – though economic indicators point to continued downturns in non-residential construction.

The 2009-11 capital budget directed OSPI to study the student-space and construction-cost allocations and make recommendations to the Legislature about appropriate levels. However, the budget provided no additional resources and a very short deadline. OSPI recommends, in their September 2009 report, that it commission studies to allow for more considered analysis.