



STATE OF VERMONT
OFFICE OF LEGISLATIVE COUNCIL

MEMORANDUM

To: Special Committee on School Construction
From: Becky Wasserman
Date: January 31, 2014
Subject: State Aid for School Construction

Introduction

In 2007, the General Assembly suspended the school construction aid program in response to receiving demands that significantly exceeded available capital funds. The suspension was put into place in order to enable the State to begin to repay its obligations. At the time of the suspension, the forecasted amount of total State obligations for school construction was \$153 million.

The suspension on State aid for school construction remains in place until the State's obligations are repaid and the Secretary of Education and the Commissioner of Finance and Management recommend a sustainable plan for the program. Under the terms of the suspension, the program is limited to eligible emergency projects and cost-effective projects needed to accommodate approved consolidations that received preliminary approval by June 30, 2013.

Although the moratorium on State aid for school construction is currently in place, schools are permitted to carry out construction projects using other funding. In such cases there is no oversight of the school construction projects by the Agency of Education.

Overview of School Construction Aid Program

16 V.S.A. Chapter 123 governs the school construction aid program. Under 16 V.S.A. § 3448, a district or independent school intending to construct or purchase a new school or make extensive additions or alterations to its existing school can submit an application to the Secretary of Education for construction aid.

The award amounts under the school construction aid program are as follows:

- For the majority of projects, the amount of an award under the program is 30 percent of the approved cost of the project.
- For the incremental costs associated with the installation of a space heating, water heating, cooling, or refrigeration system that uses biomass, a geothermal/ground

source, wind, or solar energy as the primary heating or cooling source the amount of the award is 75 percent of the approved cost of those elements of the project specifically related to the renewable fuel source being used.

- For a project or applicable portion of a project which results in consolidation of two or more school buildings and which will serve the educational needs of students in a more cost effective and educationally appropriate manner as compared to individual projects constructed separately, the amount of an award shall be 50 percent of the approved cost of a project or applicable portion of a project. Projects falling under this category were required to receive preliminary approval by June 30, 2013.

The awards granted under the school construction aid program are funded from the Capital Bill following a funding request submitted to the House and Senate Institutions Committees each year. The remainder of the project is usually paid for through a local bond that is carried in the school's operating budget. Typically, capital funds pay for 30 percent of a project, and the remaining 70 percent becomes a part of the school budget and therefore is an expense in the Education Fund. Some projects are financed in a school's budget over a few years using short-term borrowing, and major projects are typically financed through the issuance of bonds of up to twenty years.

The award is limited in use to eligible project costs set forth in 16 V.S.A. § 3448¹, and is generally paid to the school in two parts. The Commissioner of Finance and Management issues a warrant for one-half of the award upon satisfactory evidence that an approved project is under construction or has been constructed, and upon appropriation of funds sufficient to finance the State aid. The second half of the award is paid upon completion of the project according to approved plans and specifications, and after the Agency of Education has audited the cost of the project.

Suspension of the School Construction Aid Program

In 2007 Acts and Resolves No. 52, Sec. 36, the General Assembly suspended State aid for school construction. No State aid was authorized for school construction except for those projects which are first priority (emergency projects in excess of \$100,000.00 which address threats to the safety and health of students or employees created by unanticipated circumstances or events), necessary to ensure the health and safety of students and employees, or school consolidation projects eligible for 50 percent aid. During the suspension period, it was the intent of the General Assembly to use the time to develop a plan for State aid to school construction based on the recommendations put forth by the Secretary of Education and the Commissioner of Finance and Management.

The suspension was extended in 2008 and additional terms for school construction projects were outlined. In 2008 Acts and Resolves, No. 200, Sec. 45, notwithstanding the

¹ Eligible costs include are limited to space and cost parameters and eligible construction costs. Space and cost parameters refer only to those portions of a project which meet space and cost parameters adopted by the state board. Construction costs eligible for State aid may include the cost of a preliminary land test on an approved project as required under 10 V.S.A. chapter 151, and any expenditures of federal funds for retrofitting to conserve energy or for asbestos abatement. Expenditures of federal funds for any other purpose shall not be eligible for state aid.

moratorium, if a school district declared its intent to pay for the cost of a school construction project without State aid then the Commissioner of Education was directed to review the project as a preliminary application upon the district's request. Preliminary approval was to be used solely for purposes of calculating whether the district had exceeded the spending threshold and neither preliminary approval nor the provision of technical assistance indicated that the district would receive State aid for school construction (or preliminary approval for that aid when school construction aid is again available).

Under the 2009 Acts and Resolves No. 54, Sec. 22, the suspension was extended again, and the General Assembly clarified that the preliminary approval process could also be used for the purposes of enabling the district to proceed with projects using other funds besides State aid.

Under the 2011 Acts and Resolves No. 40, Sec. 43, the Department of Education was required to provide a report on the costs of lifting the moratorium on state aid for school construction, including the moratorium on biomass, to the House Committee on Corrections and Institutions and the Senate Committee on Institutions. In preparing its report, the Department was directed to consider the demand for new projects, how other states fund school construction, and new funding formulas, including formulas that do not utilize capital funding. The report also included a recommendation about when the moratorium should be lifted.

The General Assembly declared its intent to maintain the suspension on State aid for school construction in 2013 Acts and Resolves No. 51, Sec. 45. The State intends to honor its obligation by FY2016 to pay for projects for which state aid had been committed prior to the suspension.

Funding of School Construction Projects Since 2008

Prior to 2007 when the suspension was put into place, the General Assembly had been spending approximately 20 percent of the total capital funds available (about \$10 million per year) on school construction and had also appropriated one-time General Fund revenues to help pay down State obligations.²

In FY 2008, the Joint Fiscal Office and the Office of Legislative Council issued a report revising the State's obligation to \$74 million to account for the suspension of State aid and the fact that no new projects would be approved under the program, except for certain emergency projects and consolidation projects.

Since FY 2008 the State has received capital funds ranging between approximately \$7-\$10 million each year to repay its obligations under the school construction aid program. The capital budget request in FY 2015 is approximately \$10 million and it is estimated that the FY2016 capital budget request will be approximately \$4 million. At that time, the State's total obligation will be repaid.

² For the three years prior to the suspension, the General Fund appropriations for school construction were as follows: \$4 million in FY06, \$8 million in FY07, and \$2 million in FY08.

Next Steps for the Committee

This Committee is tasked with considering options for revising the system for providing aid for school construction so that it will be sustainable in the future. Specifically, the Committee is directed analyze:

- whether the State should provide a contribution for school construction;
- the effect of the State not providing aid for school construction;
- if the program is continued, the rate of any awards that are granted; and
- if the program is continued, what source of funds should be used to grant awards.