

2012 Report per Act 40 of 2011
An Act Relating to Capital Construction
and State Bonding
Section 43

Report to the House and Senate Committees on Institutions

January 13, 2012

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STATE AID FOR SCHOOL CONSTRUCTION IN VERMONT

The Impacts of Lifting the Moratorium on State Aid and Recommendations For Moving Forward

Statutory Authority:

Act 40 of 2011 An Act Relating to Capital Construction and State Bonding

Sec. 43. STATE AID FOR SCHOOL CONSTRUCTION

On or before January 15, 2012, the department of education shall provide a report on the costs of lifting the moratorium on state aid for school construction, required by Sec. 36 of No. 52 of the Acts of 2007, 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 shall 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 shall include a recommendation about when the moratorium should be lifted.

Introduction

In response to demand for state school construction aid significantly exceeding available funds, the general assembly in 2007 opted to suspend the school construction aid program by limiting eligible projects to emergencies and cost-effective projects needed to accommodate approved consolidations. Between 2007 and 2012, the general assembly approved an annual bond fund appropriation to pay school districts aid for projects eligible before the suspension took effect, reducing the state obligation from \$56 million to the current \$20.2 million owed to local school districts for the approved state share of project costs.

Demand for new projects

Multiple factors have lessened what might otherwise have been a pool of pent-up demand during these “moratorium years”.

Many Vermont school districts have experienced declining enrollments for ten years or more. This has reduced the need to increase the size of school buildings, and has in fact resulted in excess school

building capacity in some towns. Very few major school construction projects have been driven by a need for space, and in fact only one new school site has been developed since the turn of the century: the Mt. Anthony Middle School in Bennington. The two newest schools prior to that were both the result of consolidating multiple elementary schools (Randolph and Rupert/Pawlet) and were built more than twelve years ago.

Although buildings continue to suffer the effects of aging and minimal maintenance, school boards have responded to shrinking resources by limiting construction projects to the most necessary. The slow economy has helped keep bids low and project costs have not risen significantly.

In 2009 and 2010, the American Recovery and Reinvestment Act (ARRA) played an important role in helping school districts pay for school facility improvements in the absence of state school construction aid. ARRA authorized Vermont public school districts to utilize \$48 million in Qualified School Construction Bonds (QSCBs) to finance repair and renovation projects for up to 17 years at zero interest. Partnering with Merchants Bank, twenty QSCBs were issued over a two year period, saving school districts millions of dollars over the life of the bonds.

ARRA also funded a number of energy-saving projects through the Dept. of Public Service, meeting another demand that otherwise would have been difficult for school districts to fund in the absence of state aid. 88 schools shared more than \$3.7 million for energy efficiency and lighting retrofit projects.

Although school facilities were impacted by Tropical Storm Irene and a few districts experienced significant property damage, no schools were destroyed or permanently closed as a result of weather events. Emergency school construction aid, exempt from the suspension, was tapped.

During the suspension on state school construction aid, the department is only reviewing projects at the request of districts wishing to exclude the costs from their excess spending calculation. As a result, department staff may be unaware of school construction and renovations projects that move forward without state assistance, especially routine projects that attract little attention. Roof and boiler replacements, for example, are being completed without state assistance or department involvement, as needed. Therefore, the department's ability to determine the volume of projects under construction, as well as to gauge the demand for new projects, is limited. Nonetheless, it is our opinion that few school districts are delaying necessary projects waiting for the school construction aid suspension to end.

Quality Control

The erosion of state oversight over school improvement projects has been a consequence of the school construction aid suspension. Practices and measures which were required and approved as a condition for the state funds have not necessarily been completed during the suspension of funding. Examples of regulations which are more difficult to enforce without a construction aid approval process include bidding, contractor bonding and insurance, ventilation levels, and in some cases even permits. Examples of regulations which are directly tied to state aid approval, and consequently unenforceable currently, include acoustic and illumination requirements, project supervision and expertise, appropriate space for educational program needs and minimum square footages, the cost effectiveness of building systems, and overall project quality. As a result, under current conditions it is likely that over time the quality of our school buildings will decline and maintenance costs may increase.

The Nature of the Expenditures

Some small school construction, renovation, and major maintenance work is funded within a school district's annual operating budget, some is financed over a few years using short-term borrowing, and major projects are typically financed through the issuance of bonds of up to twenty years. Principal and interest payments on any financing are part of a district's annual budget and are an education expense like any other, funded through the education fund with the statewide property tax being more than 65 percent of its revenue.

When Vermont pays school construction aid, districts receive the aid as a reimbursement of a percentage of project costs either upon project completion or when funds are available, reducing the amount of local borrowing needed. When the state annually appropriates school construction aid within the Capital Bill using bonded funds, the state is effectively transferring the education expense away from the statewide property tax and education fund and instead using long-term state debt to pay for an annual recurring expense.

Previous Research

A School Construction Aid Study was completed by Joint Fiscal Office and Legislative Council staff in 2008. Because little in that study has changed, and the 2008 study covered some of the same areas identified for the current study, the department requests that the general assembly refer to the 2008 study in conjunction with this one. Among issues discussed in the 2008 study:

- State aid for school construction systems in other states. (See Section 5 of the 2008 study).
- The effects of lowering the percentage amount of school construction projects to be paid from funds raised through state bonding. (Section 1A and B).
- The effect of authorizing 30-year bonding. (Section 2A).
- The effect of paying for school construction aid over the life of the state bond instead of in two payments. (Section 2B).
- The pros and cons of using the education fund to pay for the state share of school construction. (Section 1A and B).
- The pros and cons of paying for emergency projects, biomass projects, performance contracts, and technical center equipment using state-bonded funds versus considering these to be operating costs and paying for them from the education fund. (Section 1C).
- A fair percentage for the state to pay for biomass projects based on savings that are actually realized by the school district. (Section 4).

Costs of Lifting the Moratorium

There are several factors which make it impossible to accurately estimate the "cost" of ending the school construction aid suspension and resuming a program of treating construction and maintenance of school facilities differently than other school operating expenses. It is a reasonable assumption that a number of school districts will seek legislative relief and retroactive aid for projects completed during the suspension. School boards and administrators may be tempted to fast-track projects in order to receive aid that they worry may be short-lived. Although we do not believe there is a large balloon of pent-up demand, there definitely would have been more renovation projects in the past four years if there had been aid. Lifting the moratorium would result in a noticeable increase in renovation

projects developed for voter approval. The cost would be impacted by the percentage of state aid paid for various project types.

Recommendations

1. It is the recommendation of the Department of Education that the current suspension of the state school construction aid program, which began in spring 2007, remain for at least another three years, through FY15.
 - Student enrollments are still declining or stable in most school districts.
 - Interest rates are reasonable, mitigating the cost of borrowing for necessary projects.
 - Tropical Storm Irene provided the state with a volume of pressing needs to address using state bonded debt and other available funding.

2. If and when a state-level separate funding mechanism for school facilities is re-established, such funds should be part of the education fund and not be attached to long-term state debt.

3. Incentives to consolidate school facilities should remain in place. Currently, eligible consolidation projects are exempt from the suspension and can be approved for up to 50% state school construction aid. This program should be continued but amended to reflect the legislature's current approach to consolidation (Act 153 of 2010).

4. State involvement in project approval and quality control should be restored as a means of retaining the integrity of public school facilities and protecting public investment. The department recommends establishing baseline school facility requirements that are not linked to how a project is funded. Such requirements could be established through administrative rulemaking using State Board of Education Rule Series 6000 (Procedures and Standards for School Building Projects Eligible For State Aid) as a model. Doing so will require restoring a position in the department to provide technical assistance to districts and ensure requirements are being met.

Attachments:

2008 School Construction Aid Study, Joint Fiscal Office and Legislative Council
State Board of Education Rules Series 6000

End