

# Vermont House Committee on Education

## SCHOOL FACILITIES FUNDING

### Your Question:

You asked for information on how states fund public school facilities.

### ECS Response:

Elementary and secondary school construction is a significant capital expenditure for state and local governments and is the [second largest](#), only behind road construction nationally. The goal of this funding is to provide students with modern and updated facilities that support their learning and development. State financial support can come in the form of grants, loans, or bonds, and each may have specific eligibility requirements. Adequate funding for school capital construction is essential for schools to maintain and improve their facilities, ultimately boosting student achievement and success. However, in times of budget constraints, funding for facilities construction may take a back seat to other priorities. This could result in reduced or delayed funding, negatively impacting schools' ability to provide safe and modern learning environments for students.

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The distribution of state funding for school capital construction varies between states and is typically determined by state legislatures or school construction authorities. State policies for school capital construction serve as guidelines and regulations for financing and constructing school facilities. These policies encompass the allocation of funds, eligibility criteria, construction and renovation guidelines, and regulations for maintenance and operation of said facilities. Policy variations among states reflect differing priorities and availability of resources.

The following memo provides an overview of school facility finance. The first three sections discuss the state role in paying for school facilities, state funding mechanisms and possible revenue sources other than local property taxes. As a note, this information comes from external sources with some less current than others. In the last section, we describe examples of school construction funding for **Massachusetts, Maine, Rhode Island, and Wyoming**. The research for the state examples is drawn from statute, regulations, and budgets for research Education Commission of the States is completing for a forthcoming 50-state comparison on school facilities construction. More information, such as general trends and categorization by state funding approaches, will be available after ECS publishes findings.

### Who Pays for School Facilities?

In 2021, the 21st Century School Fund, the National Council on School Facilities and International Well Building Institute released a report on [State of Our Schools](#). The report compares spending from state, local, and federal

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sources between 2009 and 2019 for construction capital outlay for school facilities. Districts' average annual spending was \$54 billion over that time period with local governments providing 77% of those funds, state governments 22%, and the federal government 1%.

Despite these averages, state contributions vary widely. According to the same report, 11 states did not provide funds to school districts specifically for school construction or debt service between 2009 to 2019. On the other end of the spectrum, ten states (**Alaska, Connecticut, Delaware, Hawaii, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Wyoming**) contributed 50% or more of total capital outlay costs. Of those, two have unique circumstances, which has led to an increased state share of school capital costs (**Hawaii** operates a single school district and **Wyoming** had consequential litigation).

### State Funding Mechanisms

The 21st Century School Fund, the Building Educational Success Together collaborative and the National Clearinghouse for Educational Facilities produced [a report](#) in 2010 that compares capital outlay policies across the 50 states. While this information is dated, states do not frequently change policies governing this allocation of aid. Below is a summary of what the report found (omitted states do not provide state funding to local districts for capital construction). In general, state policies governing capital outlay funds roughly follow this design: State aid is distributed in the form of (1) direct appropriations/grants or (2) as a reimbursement for local bonds (general obligation, revenue and refunding) raised to fund capital outlay.

#### Direct Appropriations or Grants

AL, AK, AR, AZ, CA, CO, CT, D.C., DE, HI, IA, IL, KY, MS, NJ, NM, NC, OH, TN, UT, WY

#### Debt Reimbursement

AK, GA, ID, KS, MA, MD, ME, MN, NH, NY, PA, RI, SC, TX, VT, WA, WV

Of the states that distribute aid via one of the methods listed above, some condition the amount of aid given based on the wealth of the district.

#### Aid Conditioned on District Wealth

CA, CO, CT, DE, IL, IA, MA, MT, NH, NM, NY, RI, TX

After deciding how much aid to distribute to a district, states must choose which districts receive funds before others. Some states then distribute aid based on a first come, first serve model (RI), or award funds to the districts that need it most based on a needs assessment (MA, OH, PA and WY).

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### Revenue Sources

Capital construction projects are primarily funded at the local level and therefore heavily reliant on property tax revenues. Yet, states, localities and school districts use other revenue sources for school infrastructure projects. Some options, which are discussed below with state examples, are state general funds, sales taxes, lottery revenues and excise taxes.

### State General Funds

States award school construction grants to local school districts and some of these programs are funded through state general funds or a combination of general funds and other sources.

- **Ohio** - [The Ohio School Facilities Commission](#) provides matching grants to school districts based on a legislative formula ([OH ST § 3318](#)). Districts are ranked using equity factors (i.e., local district wealth and income) and allocated grants based on their ranking. The Facilities Commission performs periodic assessments of school facilities to determine districts' need and cost of capital construction or renovation.

### Sales Taxes

Sales taxes are among the more common sources of dedicated revenue for funding school infrastructure projects, outside of property taxes, and are sometimes structured as a local option by referendum. General state sales tax is common ([in 45 states and D.C.](#)) and frequently shared between state and local governments. Cities and counties that have adopted home rule charters may levy their own tax in addition to the state sales tax.

- **Iowa** – The state dedicates a one cent state sales tax to school infrastructure needs or school district property tax relief through the Secure an Advanced Vision for Education ([SAVE](#)) program. Before SAVE, Iowa had a local option to designate one cent sales tax for school infrastructure. In 2019, SAVE distributed \$498 million in sales tax revenues, with the majority going for school infrastructure construction, and the legislature and governor recently extended the sunset date of the program until 2051.
- **Georgia** - Voters approved a constitutional amendment in 1996 authorizing counties and independent boards of education to levy a one percent sales tax if approved by referendum – called a Special Purpose Local Option Sales Tax ([SPLOST](#)). In 2018, Georgia voters approved a legislatively referred constitutional amendment to expand this authority to a school district or school districts with a majority of the students enrolled within a county to put forward the referendum.
- **Virginia** – The state dedicates a portion of the state's 5.3 percent general sales tax towards public education (not specific to school facilities) and permits localities [in state law](#) to levy up to a one percent general retail sales tax solely for capital projects for school construction or renovation. In 2020, Henry County voters (a rural county in southern Virginia) adopted this increase by referendum.

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### Lottery Funds

Most states and DC operate their own lottery, and many dedicate a portion or the entirety of revenues (less prize money and administration) to public education. [A 2007 review](#) published in the Journal of Education Research & Policy Studies found that 25 states send lottery revenues to schools. This funding is not typically restricted to capital spending.

- **North Carolina** – Voters approved the creation of a state lottery in 2005 and dedicated a portion of revenues to the Education Lottery Fund for school construction. In the 2018-2019 school year, the state awarded \$240 million for school construction, about one-third of education-related lottery expenditures. In 2017, North Carolina created a new lottery funded program for assisting school construction called the [Needs-Based Public School Capital Fund](#). This fund awards resources to localities that have less ability to generate sales and property tax revenues, have a high debt-to-tax revenue ratio, and for projects that will address critical deficiencies in serving the current and future student population.

### Excise Taxes

States also dedicate revenue from excise taxes for public education - sometimes referred to as “sin taxes” if levied on a good or service with undesirable or harmful impact on society. Some examples include taxes on the sale of marijuana, alcohol, and cigarettes and casino gaming taxes. Excise taxes can also be placed on goods that do not have social harm. An [ECS review of marijuana revenue](#) in 2019 shows that **Colorado, Nevada, Oregon,** and **Michigan** dedicate a portion of their tax revenue from marijuana sales to education.

- **Colorado** – The marijuana ballot initiative in Colorado, [Amendment 64](#), requires that a portion of the taxes go toward funding construction of public schools. In the first 11 months of 2018, Colorado collected roughly \$245 million in tax revenue from marijuana sales, licenses and fees. The state allocated \$40 million for school capital construction and another \$30 million to the State Public School Fund.

### Financing Projects Through Bonds

The other primary revenue source for financing capital construction projects is the issuance of debt. States may help finance capital construction projects by issuing general obligation (GO) bonds at the full-faith-and-credit of the state or municipal governments may do so if they meet state requirements. Many states require voter approval before general obligation debt can be issued, because taxpayers are ultimately responsible for paying off the debt. The National Association of State Budget Officers (NASBO) completed a comprehensive review of [capital budgeting in the states](#) in 2014. This review identifies 19 states that require voter approval through a statewide referendum for GO debt issuance. The review of financing capital construction through GO bonds is not specific to school construction. In addition, some of the states only require voter approval if the bonded amount exceeds a dollar threshold. For example, **Maine** only requires approval for projects \$2 million or greater. Also, some states may require a supermajority in the state legislature rather than or in addition to voter approval. **Minnesota** requires bonding proposals to pass with 60% of the legislative vote and **Texas** requires 66%.

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### State Examples

#### Massachusetts

Since 2004, Massachusetts has provided over \$16.2 billion in funding for school facility construction and renovation projects through [the Massachusetts School Building Authority \(MSBA\)](#), a quasi-independent government authority. The MSBA [approves](#) projects and their eligibility for financial assistance using a priority list defined in [statute](#). According to the 2021 State Of Our Schools report, Massachusetts spent an annual average of \$1.24 billion on school construction between 2009 – 2019, with funding from state and local sources and adjusting for inflation, and \$1,376 per student (based on 2017-2018 enrollment figures). For more information on the school Building Assistance Program policies, please consult [Mass. Gen. Laws Ann. Ch. 70B](#)

#### **Distribution**

The state provides reimbursement grants ([Mass. Gen. Laws Ann. ch. 70B, § 10](#)) to LEA funding to cover a percentage of the total school facility construction project cost. The amount the state pays toward approved projects is determined using the following formula:

Base Percentage + Community Income Factor + Community Property Wealth Factor + Community Poverty Factor + Incentive Percentage = Total State Share Percentage

The base percentage is 31 percentage points. The community income factor is defined as the municipality's per capita income as a percentage of the statewide average per capita income, with more percentage points given to communities with lower per capita income compared with the statewide average. The community property wealth factor is determined by using the municipality's equalized property valuation (EQV) as a percent of the statewide average EQV, meaning that communities with lower EQV relative to statewide average EQV receive more percentage points. The community poverty factor awards more percentage points to LEAs with higher proportions of students from low-income backgrounds relative to the statewide average. Finally, the MSBA may award incentive percentage points for projects that incorporate various state programs related to cost-effectiveness, sustainability, and governance ([963 Mass. Code Regs. 2.18](#)). No LEA can receive more than 80 percentage points, meaning they must cover at least 20% of any total project cost.

To cover the remaining local share of approved projects, the MSBA provides financing options to LEAs. The MSBA may issue up to \$10 billion in general obligation or special obligation bonds to provide financing to LEAs ([Mass. Gen. Laws Ann. ch. 70B, § 3B](#)).

#### **Revenues**

In addition to revenue derived from the sale of bonds, which help LEAs pay for their local share of the project cost, Massachusetts has created a dedicated revenue stream for the MSBA. The state dedicates 1 cent of the state's 6.25% sales tax to the School Modernization and Reconstruction Trust Fund, the proceeds of which are used to pay for annual reimbursement grant amounts ([Mass. Gen. Laws Ann. ch. 10, § 35BB](#))

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### Maine

The state regularly subsidizes [major school construction projects](#) for building new schools, making on-site additions, and restoring existing school buildings. Local school districts must apply to the Maine Department of Education to receive financial support and receive approval from a [local vote](#) prior to design and funding approval. The Department of Education develops a priority list based on applications for a given rating cycle using a 200-point rating system and the list is approved by the Commissioner and Board of Education. The funds help districts pay principal and interest payments on bonded debt. The [Maine Municipal Bond Bank](#) created by the state legislature in 1973 assists school administrative units with financing construction projects.

According to the 2021 State Of Our Schools [report](#), Maine spent an annual average of \$115.9 million on school construction between 2009 – 2019, with funding from state and local sources and adjusting for inflation, and \$652 per student (based on 2017-2018 enrollment figures).

### **Distribution**

Maine's State Board of Education is responsible for approving schools on the priority list for funding that is developed by the Maine Department of Education. The board can approve as many projects as available within the debt limit. The debt limit is defined [in statute](#) and is \$126 million for 2023.

The priority list is developed by the department using a rating system that is defined in [state regulations](#) (Section 3). The state awards a total of 200 points based on the following criteria:

- Buildings and Grounds (90 points) - Based on unsafe conditions (building classification, structure, combustible, access and egress, boiler room, electrical, storage, stairwells, environmental hazards, security), site (traffic/circulation, sewerage system, environmental conditions, water quality and quantity, physical education and play areas), and obsolete, inefficient and/or unusable (facility deficiencies and inefficiencies, mechanical and building systems).
- School population (45 points) - Based on instructional areas (classroom areas, special areas), program scheduling (extended school day, overcrowding, classes in unsuitable areas, scheduling in temporary facilities), and enrollment estimates and population shifts.
- Program and planning (65 points) - Based on instructional services (career preparation/guidance, English/language arts, mathematics, world languages, science, technology/distance learning, social studies, visual and performing arts, library/media, special/gifted/alternative education, early childhood).

The state allocation for debt service costs is paid to each school administrative unit based on the unit's debt retirement schedule. The state's allocation for debt service costs may also be payable to the Maine Municipal Bond Bank, if the bank helped finance the project. School administrative units may sell bonds to fund the local share of project costs.

### **Revenues**

The state does not have dedicated revenue to support school construction but does appropriate general funds to the Maine Municipal Bond Bank and debt service costs in the state budget. In the [2020-21](#) enacted budget, the

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state appropriated \$18 million in general funds to the Maine Municipal Bond Bank's School Revolving Renovation Fund.

### Rhode Island

The Rhode Island [School Building Authority](#), located within the Rhode Island Department of Education, is responsible for overseeing and managing the state's funding mechanisms for school facilities. The state provides [School Housing Aid](#) as a partial reimbursement to districts for the costs of completed school projects that include repair, renovation, or new construction. School districts may also apply to the School Building Authority to receive [Capital Funds](#) to provide upfront funding to fast-track construction projects with the goal of addressing high priority projects in communities with limited fiscal capacity. The Rhode Island [Health and Education Building Corporation](#), a quasi-public agency, helps finance capital construction projects.

According to the 2021 State Of Our Schools [report](#), Rhode Island spent an annual average of \$20.8 million on school construction between 2009 – 2019, with funding from state and local sources and adjusting for inflation, and \$156 per student (based on 2017-2018 enrollment figures).

### **Distribution**

Funds are distributed differently depending on the [funding mechanism](#). School Housing Aid is a reimbursement payment that is annually allocated to districts for approved projects. The Capital Funds are awarded based on an application basis to help finance future projects.

- **School Housing Aid:** State aid is provided to districts based on a percentage of an approved project's cost. The percentage provided by the state is determined based on a share ratio, which captures a community's property wealth. [State statute](#) defines the formula for computing the school housing aid ratio, which is calculated by comparing the per student weighted assessed valuation for the district to the per student weighted assessed valuation statewide. The minimum state share is 40%; the maximum is 92.7%. Statute requires the General Assembly to annually appropriate the sum of all school housing aid payments to districts.
- **Capital Funds:** The availability of capital funds for new projects is determined by the governor and general assembly in the budget. Once authorized, the School Building Authority will approve a priority list based on [criteria set in statute](#), which includes: replacing or renovating structurally unsound buildings; whether it is needed to prevent loss of accreditation; whether it is needed to improve energy conservation from the HVAC system; whether it is needed to provide full range of programs consistent with state and local requirements; and whether it is needed to comply with a mandatory instructional program. Upon issuance of the priority list, the Rhode Island Health and Educational Building Corporation will award financial assistance for the approved projects.

### **Revenues**

The state [designates revenue](#) from the Rhode Island Health and Educational Building Corporation to support one-time or limited expenses for the School Building Authority Capital Fund. The revenues from the Corporation are from fees generated from the origination of municipal bonds and other financing vehicles or from the

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Corporation's reserves. The School Building Authority makes an annual request to the governor and leadership in the general assembly for the amount that is sought for the upcoming fiscal year.

### Wyoming

The Wyoming School Facilities Commission provides facilities budget requests on behalf of LEAs to the state legislature. As outlined by statute, the Commission provides an annual report to the Select Committee on School Facilities, which then inserts recommendations into the budget bill ([Wyo. Stat. Ann. § 21-15-119](#)). Included in that report is a prioritized list of school projects as recommended by the Commission ([Wyo. Stat. Ann. § 21-15-121](#)). For more information on Wyoming's school facilities construction policies, please consult [Wyo. Stat. Ann. § 21-15-108 et seq.](#)

Looking at the figures provided by the 2021 State of Our Schools [report](#), Wyoming expended roughly an average of \$287 million on school construction between 2009 – 2019 at \$3,063.17 per student (based on 2017-2018 enrollment figures). This relatively high per student school construction expenditure is a function of the drastically lower amount of students enrolled relative to other states and the uniqueness of state revenue sources, which will be detailed below.

### **Distribution**

Wyoming provides LEAs direct appropriations via grants in the annual budget bill for costs related to specific school construction projects. Appropriations are based on square footage computations and dispersed quarterly to LEAs ([Wyo. Stat. Ann. § 21-15-109](#)). The state provides at least 70% of the amount determined by the formula to maintain and upgrade various facilities depending on the square footage dedicated to educational purposes within the LEA. In addition, the School Commission on School Finance offers loans and grants financed by bond sales to help LEAs defray the cost of school construction that the state does not cover.

### **Revenues**

The school capital construction account, which funds school construction projects, derives revenue from a variety of sources:

- Federal mineral royalties, or revenue generated from federal payments to the state for mining activity within the state of Wyoming ([Wyo. Stat. Ann. § 9-4-601\(a\)\(vii\)](#))
- Common Land income from state royalties. Up to 33 and 1/3% of mineral royalties from the lease of school lands is deposited into the School Lands Mineral Royalties Account ([Wyo. Stat. Ann. § 9-4-305\(b\)](#)).
- Pooled interest derived from earnings of the school capital construction account ([Wyo. Stat. Ann. § 21-15-115\(a\)\(i\)](#)).
- Revenues raised by school districts and recaptured by the school capital construction account for projects.
- Federal coal lease bonus payments ([Wyo. Stat. Ann. § 9-4-601\(b\)](#)).
- Revenue from the School Major Maintenance Subaccount within the Strategic Investments and Projects Account (up to 45% of the maximum amount credited to the Strategic Investments and Projects Account) ([Wyo. Stat. Ann. § 9-4-220\(b\)\(i\)](#)).