

# SCHOOL FACILITIES FUNDING

Prepared by:

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## 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.

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 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 four sections discuss the state role in paying for school facilities, state funding mechanisms, possible revenue sources other than local property taxes, and local revenue limits. In the last section, we describe examples of school construction funding for **Massachusetts, Rhode Island, and Wyoming**.

The research for the state examples is drawn from statute, regulations, and budgets as documented in Education Commission of the States' [50-State Comparison: K-12 School Construction Funding](#). In this review, capital school construction is defined as major facility projects that involve the construction of new structures or major renovations. This may involve planning, design, site acquisition or the retrofit and replacement of buildings. These expenses are typically funded through the capital budget and often financed with bonds. Not discussed here is funding for maintenance and operations projects that involve regular, routine facility work, such as cleaning, grounds keeping, minor repairs, utilities and building security.

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## 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 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 ECS [50-State Comparison: K-12 School Construction Funding](#) identified that 90% of states (45 states and D.C.) offer some financial assistance to school districts for school construction costs. State governments provide this support through direct appropriations and financing support. Direct appropriations is state aid to pay for up-front planning or construction costs or for payments on locally issued bonds. The state does not require repayment from districts. Financing support is state assistance is provided in the form of debt assistance or loans to districts. Financing support can be provided by a state or state authorized entity and requires full or partial repayment. Listed below are the states that exclusively provide appropriations, exclusively provide financing support, and those that provide both appropriations and financing support.

### Appropriations (10 States)

CO, GA, ID, KS, MT, NC, NM, NV, OK, OR

### Financing Support (7 States and DC)

AL, DC, IN, MI, MO, MS, ND, SD

### Both - Appropriations and Financing Support (28 States)

AK, AR, AZ, CA, CT, DE, FL, HI, IL, KY, MA, MD, ME, MN, NH, NJ, NY, OH, PA, RI, SC, TX, UT, VA, VT, WA, WV, WY

Of the states that provide direct appropriations, 28 states condition the amount of aid given to districts based fully or in part on the wealth of the district.

### Funding Condition on Local Wealth (28 States)

AK, AR, CO, CT, DE, GA, ID, KS, MA, MD, MN, MT, NC, NH, NJ, NM, NV, NY, OH, OK, OR, PA, RI, SC, TX, UT, VA, WA

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## Revenue Sources

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

## State General Funds

Some 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.

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** 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** dedicates a portion of the state's 5.3 percent general sales tax towards public education (not specific to school facilities) and [permits](#) localities 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 an undesirable or harmful impact on society. Some examples include taxes on marijuana, alcohol, and cigarette sales, and casino gaming taxes. 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.

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 GO debt can be issued. 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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## Local Revenue Limits

Most states have limits on local collections of property tax revenue. The Tax Foundation [has identified](#) 46 states and D.C. with property tax limitations, which they classify as assessment limits, levy limits or rate limits. States may have more than one type of property tax limitation.

- **Rate limit (35 states):** Caps the millage rate that can be set by local policymakers to levy property taxes.
- **Levy limit (34 states):** Constrains the overall revenue growth by restricting the increase in property tax collections to a certain amount or forbids increases above a given level.
- **Assessment limit (18 states):** Places restrictions on how much an individual's taxes can rise due to an increase in the assessed value of a property.

Many states with property tax limits include an override provision which typically allows the governing body to circumvent the limit by a simple majority or super majority vote. The Lincoln Institute of Land Policy [Access Property Tax Database](#) and [state profiles](#) summarize the override processes in each state. An ECS review of this data has identified the number of states where local governments can override the limit with approval by a local referendum. In total, 37 states have an override process by referendum for one of the three property tax limitations. The number of states with a referendum override differs for each property tax limit.

- **Rate limit overrides (27 states):** The approval requirement for most states is a simple majority (21 states), yet some states require a two-thirds majority (three states) or have multiple thresholds (three states).
- **Levy limit overrides (21 states):** The approval requirements for most state is a simple majority (17 states), yet some states require 60% approval (one state), two-thirds approval (two states) or have multiple threshold (one state).
- **Assessment limit overrides (2 states):** Only 2 of the 18 states with property tax assessment limits permit local overrides through voter referendum. Both states – California and Georgia – require a simple majority (50%) approval from voters for the override. Georgia also requires two-thirds approval from each legislative chamber.

## Additional Resources on Local Revenue Limits

- **Lincoln Institute of Land Policy [State-by-State Property Tax at a Glance](#)** (2023) a series of narratives on property tax systems in the 50 states and the District of Columbia, published in conjunction with Significant Features of the Property Tax database.
- **Pew Trusts [Local Tax Limitations Can Hamper Fiscal Stability of Cities and Counties](#)** (2021) provides ways in which states can improve localities budget flexibility and resiliency.
- **Tax Foundation [Property Tax Limitation Regimes: A Primer](#)** (2018) discusses property tax limitations adopted by states.
- **Tax Policy Center [What are tax and expenditure limits?](#)** (2020) explains how tax and expenditure limits restrict the growth of government revenues or spending.

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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 LEAs 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:

$$\text{Base Percentage} + \text{Community Income Factor} + \text{Community Property Wealth Factor} + \text{Community Poverty Factor} + \text{Incentive Percentage} = \text{Total State Share Percentage}$$

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

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## Wyoming

The Wyoming School Facilities Commission submits 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.](#)

According to 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 number of students enrolled relative to other states and the uniqueness of state revenue sources, which are 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\(a\)\(i\)](#)).
- 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\(b\)\(i\)](#)).