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## Capital Budget Committee

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### ESSB 5853

**Brief Description:** Regarding the school construction assistance program.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Pedersen, Warnick, Frockt, Bailey, Carlyle, Zeiger, Dhingra, Becker, Wellman, Walsh, King, Liias, Wagoner, Palumbo, Hobbs, Rivers, Keiser, Hunt, Darneille, Rolfes, Hasegawa, Conway, Braun, Billig, Kuderer, Salomon, Cleveland, McCoy, Nguyen, Short, Das, Hawkins, Takko, Saldaña, Randall, O'Ban, Wilson, C., Van De Wege and Wilson, L.).

#### Brief Summary of Engrossed Substitute Bill

- Makes phased changes to the Student Space Allocation (SSA) and the Funding Assistance Percentage (FAP), two of the funding formula components of the School Construction Assistance Program (SCAP), beginning July 1, 2019, and ending June 30, 2024.
- Adds 5 percent to the FAP for schools listed on historic registers.
- Limits bond appropriations for the SCAP to no more than thirty percent of total state general obligation bond appropriations by reducing the Construction Cost Allocation (CCA) funding formula component in the omnibus capital appropriations act.
- Requires the Office of the Superintendent of Public Instruction to develop a plan to implement further improvements in funding school construction, including a preservation and renewal program to replace modernization grant awards in the SCAP, and submit the plan to the Governor and the Legislature by June 30, 2022.

**Hearing Date:** 3/21/19

**Staff:** Christine Thomas (786-7142).

**Background:**

School Construction Assistance Program.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Washington provides financial assistance to school districts for the construction of new schools and modernization of existing facilities through the School Construction Assistance Program (SCAP) administered by the Office of Superintendent of Public Instruction (OSPI). The SCAP exists as a partnership between local school districts and the state and is based on two principles: (1) state and local school districts share responsibility for funding school construction projects; and (2) all school districts that are eligible to partner with the state through SCAP receive varying amounts of state assistance based on the relative wealth of the districts.

Appropriations for the SCAP are provided in the state capital budget. State funding assistance is provided for new or replacement construction or modernization of instructional space only. Land purchases and auxiliary facilities, such as stadiums, district administrative space, and portables must be funded entirely with local revenues. School districts may be eligible for SCAP grants to modernize or replace aging schools in their districts under certain circumstances. Schools built prior to 1993 must not have been built or modernized within the prior 20 years to be eligible. Schools built after 1993 must not have been built or modernized within the last 30 years. Modernization projects must also be major renovations, meaning that the costs must exceed 40 percent of the replacement costs of the school. School districts may be eligible to replace existing buildings rather than modernize existing schools. A new construction project in lieu of modernization project, or "new-in-lieu," is subject to the same criteria as a modernization project, and the project must be more cost effective to construct a new school rather than modernizing an existing school.

A school district must first secure local funding before it becomes eligible for state financial assistance. Local funds may include voter-approved capital levies and bonds, impact fees, mitigation payments, interest income from a school district's capital projects fund, or transfers from a school district's general fund with OSPI approval. Once the local share is secured, the state allocates funding to districts through a funding formula based on a set of space and cost standards adopted by the Legislature, and a statutory funding assistance percentage based on the relative wealth of the district as determined by assessed land value per student.

#### Funding Assistance Percentage.

The amount of state funding contribution to eligible project costs is determined by applying the Funding Assistance Percentage (FAP), also known as the "state match ratio." A district's FAP is calculated each calendar year. The intent of the formula is to equalize funding by providing a higher percentage of assistance to less wealthy school districts, as determined by assessed land values per student. The wealthiest districts receive a 20 percent FAP, while less wealthy districts may receive an amount up to 100 percent. For school districts with higher assessed values per student, the formula may produce funding assistance percentages that are less than 20 percent or even negative. In this case, school districts receive a "floor" funding assistance percentage of 20 percent. Thus, all districts approved for state funding receive a FAP allocation of at least 20 percent.

School districts experiencing rapid enrollment growth may receive additional growth points up to 20 percent. However, the total FAP may not exceed 100 percent. Unlike Student Space Allocation (SSA) and Construction Cost Allocation (CCA) that are determined in developing the capital budget, FAP is set in statute.

#### Student Space Allocation.

The eligible space for new construction area is determined by comparing the district-wide square foot capacity to the district's projected growth and future space needs. For state assistance purposes, current capacity and future space needs are estimated using an SSA. The SSA is set in Washington Administrative Code (WAC) and is based on assumptions made to appropriate SCAP funding in the biennial capital budget.

The following SSA are set in WAC rule:

- kindergarten through grade 6 (K–6): 90 square feet;
- grades 7–8: 117 square feet;
- grades 9–12: 130 square feet; and
- students with disabilities: 144 square feet.

#### Construction Cost Allocation.

The CCA is the maximum cost per square foot of construction that the state will match. The CCA is established biennially in developing the capital budget by applying an inflation factor to the previous fiscal year's CCA. After the eligible area is determined, CCA is applied to determine the maximum construction dollar amount eligible for state assistance for new construction and modernization. In the 2017–19 Capital Budget, the CCA was set at \$219.58 per square foot for fiscal year 2018, and adjusted for construction inflation to \$225.98 per square foot for fiscal year 2019. The CCA is not the actual cost of construction per square foot paid by school districts per the kindergarten through grade 12 (K–12) Capital Facilities Cost Study prepared for the Legislature by Educational Service District 112 in February 2017.

#### Historic Registers.

The National Register of Historic Places is an official listing of historically significant sites and properties throughout the country. The Washington Heritage Register is an official listing of historically significant sites and properties found throughout Washington. The Washington Heritage Register was established in 1971 as an alternative to the National Register. According to the Department of Archaeology and Historic Preservation, 89 public schools are on the National Register of Historic Places and 22 public schools are on the Washington Heritage Register.

#### Joint Legislative Task Force on Improving State Funding for School Construction.

The 2018 Legislature created the Joint Legislative Task Force on Improving State Funding for School Construction (Task Force) in the 2017–19 Capital Budget. The Task Force was required to review improvements to state financial assistance for K–12 school construction, use of school spaces for multiple purposes, school design and construction approaches that support effective teaching and learning, and recent reports on school construction. The final report and recommendations of the Task Force were made on December 14, 2018.

#### General Obligation Bonds.

The State Finance Committee (Committee), which is composed of the Governor, the Lieutenant Governor, and the State Treasurer, is responsible for supervising and controlling the issuance of all state bonds. The Committee periodically issues general obligation bonds to finance projects authorized in the capital budget. No bonds may be authorized for sale without prior legislative appropriation of the net proceeds. General obligation bonds pledge the full faith, credit, and taxing power of the state towards payment of debt service. Funding to pay for principal and interest on those bonds is appropriated from the State General Fund in the operating budget.

## **Summary of Bill:**

### State Funding Assistance Percentage.

Beginning July 1, 2021, the Superintendent of Public Instruction must increase the minimum FAP from 20 percent to 30 percent for school construction and modernization projects. An additional 5 percent is added to the FAP if the project renovates a school building that has been listed on the National Register of Historic Places, the Washington Heritage Register, or other local historic registers.

### Student Space Allocation.

The minimum SSA is set in statute and increases over three fiscal years beginning July 1, 2021. The beginning SSA remains at current levels for grades 7–12 and for students with disabilities. The K–6 SSA changes in the first fiscal year and is increased to 110 square feet per student. Upon completion of the phased implementation, the final maximum SSA in the fiscal year ending June 30, 2024 and thereafter is as follows:

- K–6: 130 square feet;
- grades 7–8: 130 square feet;
- grades 9–12: 140 square feet; and
- students with disabilities: 146 square feet.

Space allocations for state funding assistance purposes for districts with fewer than 400 students in grades kindergarten through eight or fewer than 400 students in senior or four-year high schools are established in statute.

### Construction Cost Allocation Adjustments to Restrict General Obligation Bond Appropriations for SCAP.

If the estimated total state general obligation bond appropriation for the SCAP is more than 30 percent of the total state general obligation bond appropriations, the CCA must be reduced in developing the omnibus capital budget so that SCAP bond appropriations do not exceed 30 percent of the total state general obligation bond appropriations.

### Plan to Implement Further Improvements in Funding School Construction.

The OSPI must develop a plan to implement further improvements in funding school construction. The plan must:

- build upon improvements made in the bill and recommendations made by the Task Force;
- be developed in consultation with the school facilities Technical Advisory Committee and other technical experts;
- include a program to preserve and renew or modernize school facilities built before 1994 that intends to reduce the costs for school facility preservation and renewal by replacing or renewing major school facility building systems;
- include projections of space and costs for various school facility projects including modernizations of school facilities for small schools; and
- be submitted to the Governor and the Legislature by June 30, 2022.

**Appropriation:** None.

**Fiscal Note:** Available on underlying bill.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2019.