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## Capital Budget Committee

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### SSB 5126

**Brief Description:** Providing common school trust revenue to small school districts.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Pedersen, Hawkins, Wellman and Wilson, C.; by request of Superintendent of Public Instruction).

#### Brief Summary of Substitute Bill

- Makes the prioritized project list of the Small School District Modernization Grant Program the first priority of appropriations from the Common School Construction Fund after payment of principal and interest for skill center bonds.
- Starting in the 2025-27 biennium, no less than \$60 million in new appropriations in the capital budget must be used to fund the small school district prioritized list, and any remaining amounts in the common school construction fund may be appropriated for other common school construction purposes. This amount increases to \$70 million in the 2027-29 biennium and increases to \$80 million in the 2029-31 biennium and every biennium thereafter.

**Hearing Date:** 3/21/23

**Staff:** John Wilson-Tepeli (786-7115).

#### Background:

Washington is a land grant state. When Washington entered the Union, the federal government granted two sections of land in every township as a trust dedicated to support the common schools. The 1.8 million acres of school trust lands are managed by the Department of Natural Resources to generate revenue for the support of school construction.

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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 part of the legislation nor does it constitute a statement of legislative intent.*

Prior to 1967, state assistance for school facilities was paid from a variety of sources. Up until 1951, the State General Fund was used to pay the state share of school construction. Between 1951 and 1967, the state share of school facilities was provided by state bonds supported by cigarette and motor vehicle taxes.

A constitutional amendment enacted in 1967 dedicates school trust land revenues to support school construction. Article IX of the Constitution establishes two funds:

- *The Permanent Common School Fund.* This fund was created in the original Washington State Constitution, and it received all the income from the sale of school trust lands and nonrenewable resources from the trust lands. The principal of the Permanent Common School Fund (PCSF) is irreducible, and only the interest income from the investment of the permanent fund was available for payment of current expenses for the common schools. The 1967 amendment dedicated the use of the interest income to school construction and to pay debt service on state bonds used for school construction. The principal in the fund remains irreducible, and the interest income is deposited into the Common School Construction Fund (CSCF).
- *The Common School Construction Fund.* This fund was created by the 1967 amendment for the exclusive purpose of financing the construction of facilities for the common schools. Revenue to this fund is from the harvest of timber on school trust lands, from agricultural and real estate leases on school trust lands, and/or interest income from the PCSF. The CSCF revenues attributable to PCSF interest earnings are pledged to pay debt service on bonds issued to construct school facilities for students in kindergarten through grade 12. The CSCF revenues from other sources are used to fund school construction on a cash basis.

*School Construction Assistance Program.* The School Construction Assistance Program (SCAP) provides state financial assistance on a formula basis to school districts for constructing new, and remodeling existing, school buildings. Only districts' permanent instructional space is eligible for state funding through the program. The Office of the Superintendent of Public Instruction (OSPI) administers the program and works with school districts on project approval and reimbursement. The state allocates SCAP funding to districts based on a set of space and cost standards that are determined by the OSPI and adopted by the Legislature, as well as a statutory funding assistance percentage based on the relative property wealth of districts. Capital construction costs for instructional space that exceed the state financial assistance provided by the SCAP are generally borne by school districts. A school district must first secure local funding before it may become eligible for SCAP funding.

*Small District and Tribal Compact Schools Modernization Program.* This program provides planning and construction grants for small school districts and tribal compact schools with significant building deficiencies. Projects are evaluated and ranked by an advisory committee of facilities professionals. This prioritization process must achieve the greatest improvement of

school facilities, in the districts and state-tribal education compact schools with the most limited financial capacity, for projects that are likely to improve student health, safety, and academic performance for the largest number of students for the amount of state grant support. Project grant lists developed through this program are provided to the Governor and the Legislature for their consideration during the budget development process.

Participation is limited to school districts and tribal compact schools with total enrollments of 1,000 students or less. No local cost share is required of districts, but grants may be coordinated with SCAP funding. Although the related statutes do not limit the scope of modernization projects funded through this program, the work funded has generally modernized parts of school facilities. Examples of typical projects include heating, ventilation, air conditioning, electrical, and roofing improvements. The 2021-23 Capital Budget contains provisions that limit program participation for the 2023-25 biennium to projects with a state funding level of \$5 million or less.

**Summary of Bill:**

The prioritized project list of the Small School District Modernization Grant Program receives first priority of appropriations from the Common School Construction Fund (CSCF) , after payment of principal and interest on bonds.

Appropriations from the CSCF must be prioritized as follows:

- beginning in the 2025-27 biennium, no less than \$60 million dollars of new appropriations in the biennial capital budget must be used to fund the small schools project prioritized list;
- in the 2027-29 biennium, no less than \$70 million dollars of new appropriations in the biennial capital budget must be used to fund the small schools project prioritized list;
- in the 2029-31 biennium and every biennium thereafter, no less than \$80 million dollars of new appropriations in the biennial capital budget must be used to fund the small schools project prioritized list; and
- any remaining amounts in the CSCF in excess of those amounts listed above may be appropriated for other common school construction purposes.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.