STATE ROLE IN FUNDING SCHOOL FACILITIES

SCHOOL FACILITIES FINANCING WORK GROUP September 18, 2013

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TOPICS

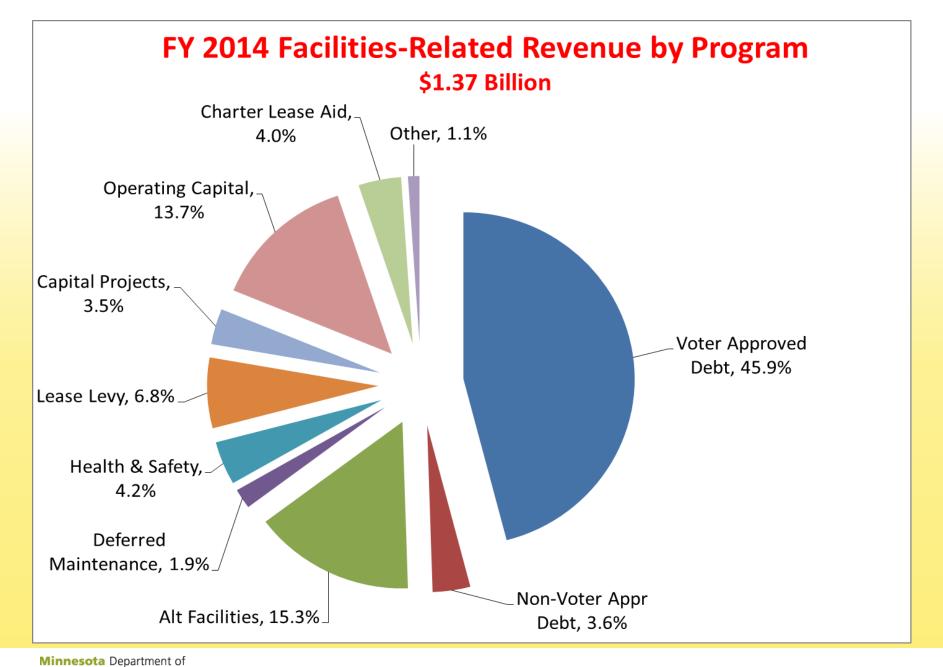
1. Current Funding Methods:

- a) Basis for Determining How Much Revenue Will be Available to Each School District:
 - Voter-approval
 - Pupil-based formula
 - Cost-based formula
 - Combined pupil and cost-based formula
 - Grant / loan award
- b) State and Local Shares of Revenue

2. Analysis:

- a) Advantages and disadvantages of various funding methods
- b) What mix of funding methods would be best to accomplish goals?







1) Voter-Approved

- a) Bond Referendum: \$\$ Stated on Ballot and Debt Service Schedule
- b) Capital Projects Referendum: Tax rate against Net Tax Capacity Stated on Ballot



2) Pupil-Based Formulas

Per Pupil Rate, Adjusted for Building Age:

- i) Operating Capital
- ii) Deferred Maintenance
 - -- (limited to districts not eligible for alt bonding)



3) Cost-based formulas

- a) Health & Safety
- b) Alternative Facilities
 - -- (Deferred Maintenance portion limited to 25 large districts)
- c) Lease Levy Desegregation
 - -- (limited to certain districts)
- a) Telecommunications / Internet Access Equity Aid



4) Combined pupil and cost based formulas:

Per Pupil rate, not to exceed MDE-approved cost or a percentage of approved cost:

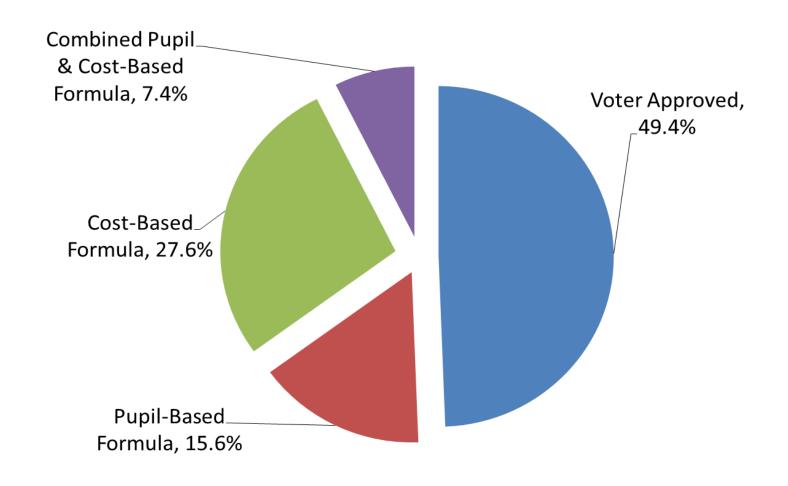
- i) Building lease levy
- ii) Charter lease aid

5) State Grant or Loan Approved by Legislature

- a) Capital Loan
- b) Cooperative Facility Grants



FY 2014 Facilities-Related Revenue by Funding Method \$1.37 Billion





Cost Containment / Accountability Strategies:

- Voter-approval:
 - Majority vote
 - Local levy share
- Pupil-based formula:
 - Per pupil maximum
 - Limitations on allowable uses
 - Local levy share



Cost Containment / Accountability Strategies:

- Cost-based formula:
 - Limitations on allowable uses
 - Local levy share
 - Less than 100% funding (local match from unreserved general fund)
- Combined pupil and cost-based formula:
 - Per pupil maximum
 - Limitations on allowable uses
 - Local levy share
 - Less than 100% funding (local match from unreserved general fund)



Cost Containment / Accountability Strategies:

- Grant / loan award
 - Limitations on allowable uses
 - Local levy share
 - Less than 100% funding (local match from unreserved general fund)
 - Specific legislative approval



Costing Out Proposed Changes

- Proposals that would loosen up on cost containment / accountability strategies will have a cost that needs to be accounted for.
- Legislature tracks both state aid impact and levy impact.
- Generally, the education committees have a zero levy target, so any change that increases revenue / property taxes must be paid for with state aid that reduces levies

Equalization: State and local shares of revenue are a function of district tax base per pupil unit

1) Unequalized (all local property tax):

- Debt Service Revenue under 15.74% of ANTC
- Capital Projects Referendum Revenue
- Building Lease Levy
- Alternative Facilities
 - (Except for grandfathered aid from 1997 or 1998 for selected districts)



2) Nominally Equalized

- (nearly all local property tax; most districts off the formula):
- Debt Service Revenue: Tier 1 Equalization
- Health & Safety

3) Moderately Equalized

- (significant state aid but many districts off the formula and high-wealth districts raise significantly more per pupil from a given tax rate than low-wealth districts)
- Deferred Maintenance
- Debt Service Revenue: Tier 2 Equalization



4) Highly Equalized

- (most districts on the formula; high-wealth districts raise only a moderate amount more per pupil from a given tax rate than low-wealth districts)
- Operating Capital

5) All State Aid

- Telecommunications / Internet Access Equity Aid
- Charter School Lease Aid



6) Loan / Grant Agreement

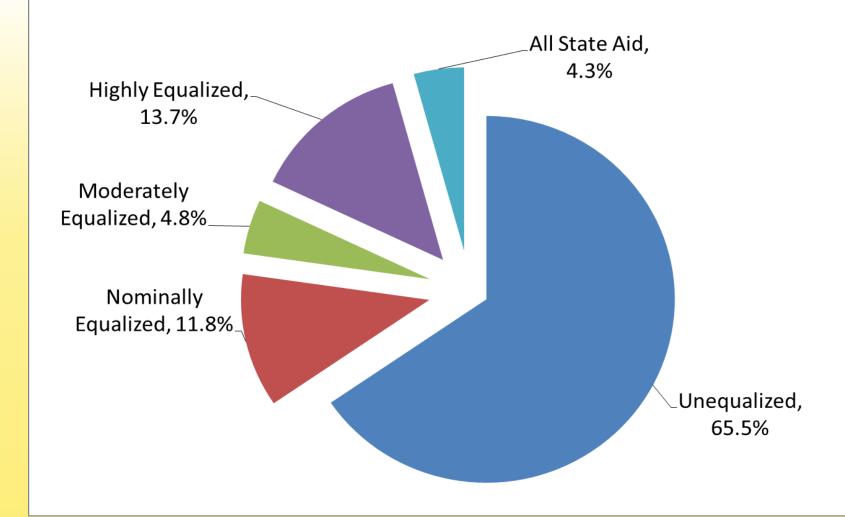
- State funding is based on amount included in bonding bill, not to exceed statutory maximums:
- Capital loan: District must issue bonds up to lesser of net debt limit or 637% of ANTC.
 - Maximum capital loan equals difference between cost of project and local bond issue.
 - District must annually levy the greater of 29.39% of ANTC or amount needed to pay principal and interest on local bond issue

6) Loan / Grant Agreement (continued):

 Coop Facilities Grant: Grant is limited to 75% of project cost, not to exceed \$20 million for a new facility or \$10 million for a remodeling project.



FY 2014 Facilities-Related Revenue by Equalization Type \$1.37 Billion





Analysis: Voter – Approved Revenue

Advantages:

- Accountable to district voters
- Local control over revenue uses

- Disparity / Inequity among districts in quality of facilities for students due to variations in ability and willingness of voters to support education facilities projects
- Cost to districts of running bond issues and capital project referendums
- Inconsistency with facilities funding for cities and counties



Analysis: Pupil-Based Formulas

Advantages:

- Uniform funding based on recognized cost factors such as number of students, building age.
- Promotes efficiency by allowing for local control over use of a fixed pot of funding
- Consistent with approach used to fund most operating costs
- Minimal paperwork / low cost of administration
- Stable, predictable revenue

- Per pupil allowances are not inflated regularly and are not sufficient to cover needs
- Does not recognize unique local needs that are not tied to standard cost factors.
- Better suited to ongoing /recurring costs than to one-time major projects such as new construction



Analysis: Cost-Based Formulas

Advantages:

- Recognizes unique local needs that are not tied to standard cost factors.
- Automatically adjusts for changing costs

- Lacks incentive for efficiency / cost-containment if funding covers
 100% or nearly 100% of allowable costs
- May require excessive paperwork to ensure that restrictions on use are followed
- Not aligned with approach used to fund most operating costs

Analysis: Grant / Loan Awards

Advantages:

Addresses unique local circumstances

- Very high administrative cost
- If funding is limited to a small fraction of need, results may be very inequitable with some districts having a very high portion of needs met and others receiving nothing
- Funding is very uncertain; depends on the outcome of a lengthy political process.
- Best suited to very unique situations; not practical to administer for large numbers of districts
- Not aligned with approach used to fund most operating costs



Analysis: Levy Equalization

Advantages:

- Equity for students: reduces wealth-related disparities in access to revenue
- Equity for taxpayers: more equal yield per student from equal property tax effort
- Selling point for bond issues

- With limited overall state resources for education, \$ spent on levy equalization / property tax relief may reduce \$ available for basic formula and other revenue increases
- Reduced cost to local taxpayers may result in loss of local accountability / ownership of facility decisions, and increase in facility costs.



Analysis

How does our current facilities funding system measure up?

1) Voter approval:

- What types of facilities projects should require it?
- Are there some types of projects that currently require voter approval that school boards should be able to approve without going to the voters?

2) Formula funding:

- What is the appropriate mix of pupil-based funding, cost-based funding, and combined pupil/cost based funding?
 - What types of facilities costs should be funded with each type of formula?
 - How can we ensure adequacy and equity for all, while keeping costs under control and limiting paperwork?



Analysis

How does our current facilities funding system measure up?

3) Grant / loan funding

- What should be the role of grants and loans in the state's facilities funding system?
- How can we ensure adequacy and equity for all, while keeping costs under control and limiting paperwork?

4) Equalization:

- What is the appropriate state share of facilities funding?
- Should some programs be equalized at a higher level than others?
- How can state equalization be made more stable and predictable?



Analysis

How does our current facilities funding system measure up?

- 5) Ideally, what changes should be made to provide adequate, equitable and sustainable funding for school facilities?
- 6) Assuming that resources are not unlimited, how should potential funding changes be prioritized?
 - If there was no new money for revenue / aid / levy increases, what could be done to improve the school facilities funding system?
 - If there was a limited amount of new money (e.g., \$10 million, \$20 million, \$50 million), what would be the highest priorities for increased facilities funding?

