

K-12 Construction Finance

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Wahkiakum School District No. 200 v State of Washington

On September 7, 2023, in a 9-0 decision, the state Supreme Court ruled the constitution does not include capital construction costs within the category of education costs for which the State alone must make ample provision.

The majority opinion stated that the constitution:

1. "Treats school capital construction costs differently than it treats other education costs; and
2. Requires the State and local school districts to share the responsibility for those school capital construction costs."

Today's discussion

- What does shared responsibility for school construction costs look like in today's state K-12 programs?
- Overview of the largest K-12 construction program known as SCAP (School Construction Assistance Program) and how the state and local school districts finance school construction costs within SCAP
- Deeper examination of a particular project type: HVAC (Heating, Ventilation, and Air Conditioning) and related issues

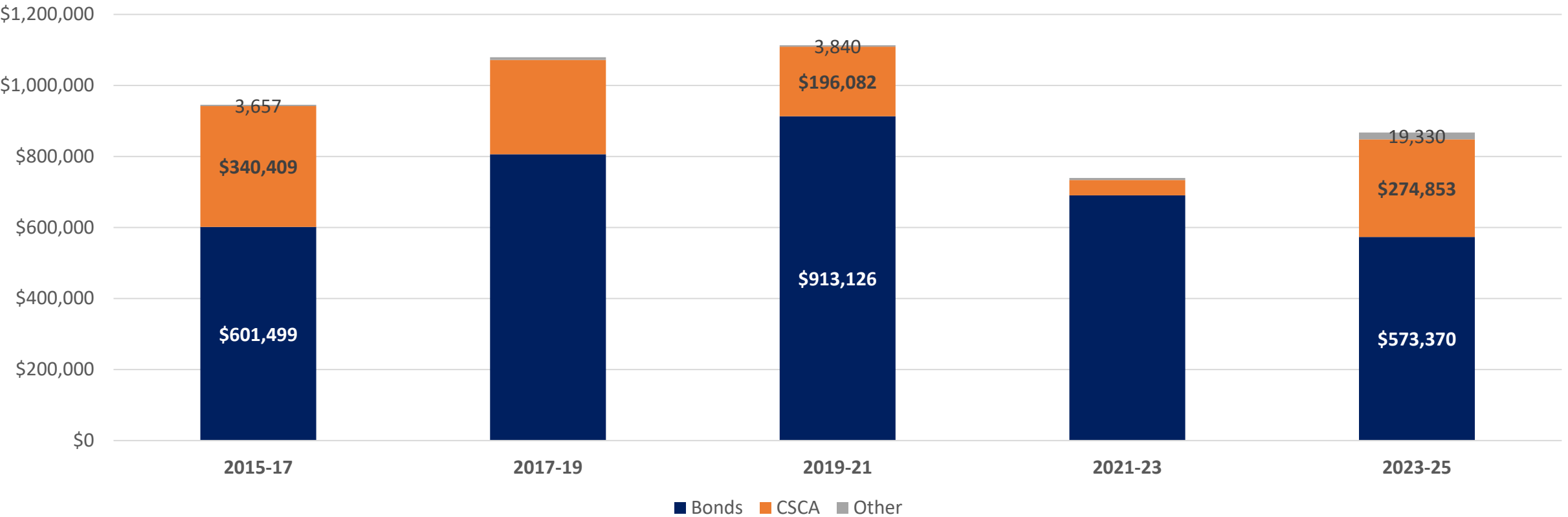
Statewide programs & fund sources

School construction is a myriad of programs, projects and funding sources. SCAP is only one program, but SCAP is the largest.

2023-25 K-12 Construction Programs/ Projects New Appropriations	Amount (\$1000s)	Local Cost Share Required for Participation?
2023-25 School Construction Assistance Program	\$588,172	Yes
2023-25 Small District & Tribal Compact School Modernization	\$100,031	No
West Sound Technical Skills Center Modernization	\$41,361	No
2023-25 School Seismic Safety Grant Program	\$40,000	Yes
Chief Leschi School HVAC	\$25,000	No
2023-25 Distressed Schools	\$21,740	No
2023-25 School District Health and Safety	\$20,200	No
2023-25 Healthy Kids-Healthy Schools	\$11,500	No
2023-25 Skills Centers Minor Works	\$5,135	No
2023-25 Agricultural Science in Schools Grant to FFA Foundation	\$5,000	No
2023-25 Career Preparation and Launch Capital Grants	\$4,000	No
Green Schools: Stormwater Infrastructure Projects	\$575	No
Total	\$862,714	

How has the state financed these statewide programs? Almost entirely from state bonds and cash from the Common School Construction Account (CSCA).

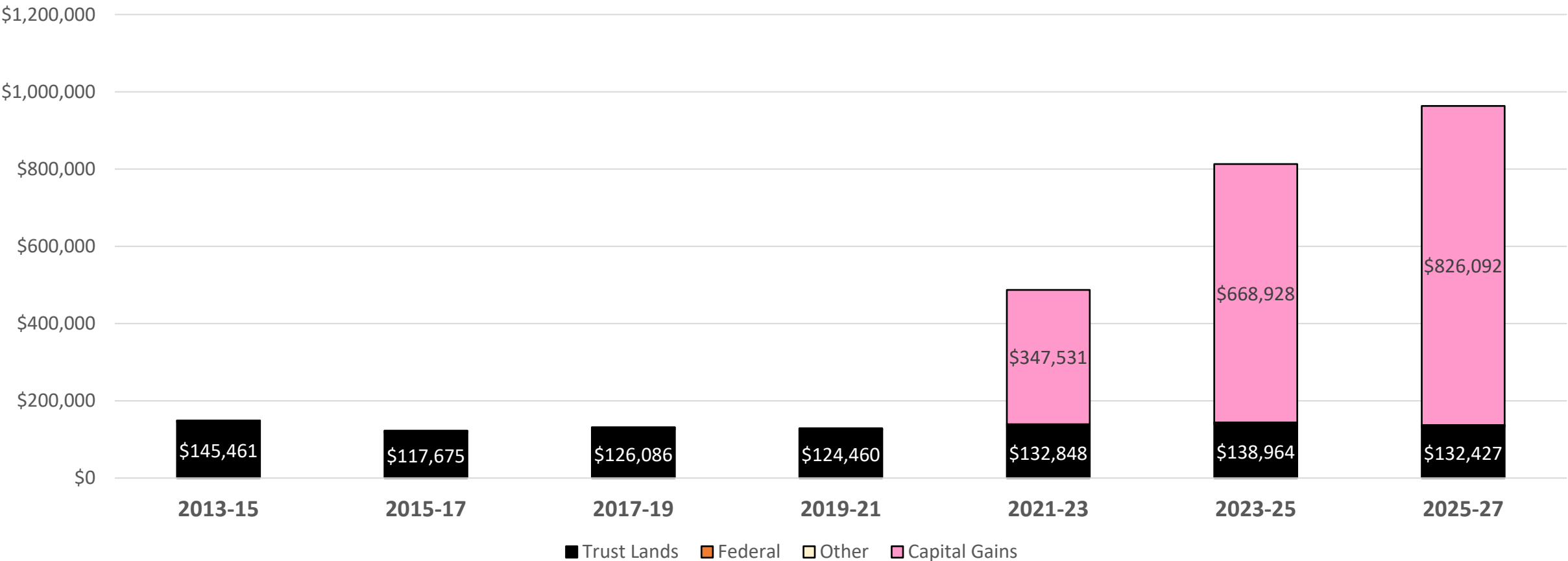
Appropriations History For All School Construction Related Programs
State Bonds, CSCA, & Other Funds
(\$ in thousands)



After the 2023 legislature concluded, revenues into the CSCA have grown substantially. The major source has also changed from almost exclusively trust land revenues to capital gains tax.

Common School Construction Account Revenues by Major Source

\$ in thousands



Note: 2023-25 & 2025-27 are based on the November 2023 revenue forecast. 2021-23 is based on actual data through June 2023



School Construction Assistance Program (SCAP)

What is SCAP?

- SCAP provides funding assistance to school districts that are undertaking a major new construction or modernization project.
- School districts are responsible to secure local funding for construction projects.
- If eligible, the State provides partial funding based on formulas, allowances, and costs related to certain aspects of a construction project.

Understanding SCAP financing is largely a function of...

$f(x) =$

- A. The eligible area covered by SCAP
- B. The materials and services covered
- C. The price per square foot allowed by SCAP for materials and services
- D. Who pays for SCAP eligible costs
- E. Whether local school district secured their local share

A. Eligible area covered by SCAP

SCAP uses a fixed square footage amount by grade multiplied per student to determine eligible area.

SCAP Student Space Allocations:

- K-6 = 90 sq. ft. x number of students
- 7-8 = 117 sq. ft. x number of students
- 9-12 = 130 sq. ft x number of students
- Special education = 144 sq. ft x number of students

When enrollment declines so does SCAP eligible square footage. School districts can design projects that meet SCAP eligible ratios or pay for the square footage above these ratios

- A simple computed Student Space Allocation using 2022 and 2027 enrollments by grade shows a decline of 7 million SCAP eligible square feet (6% less or 30 Leg Buildings) over the next few years

Grade	2022 Sq. Ft.	2027 Sq. Ft.	Difference
K-6	49.3	46.2	(3.1)
7-8	18.9	17.6	(1.3)
<u>9-12</u>	<u>42.9</u>	<u>40.3</u>	<u>(2.6)</u>
Total	111.1	104.1	(7.0)

B. The materials and services covered

&

C. The price per square foot allowed by SCAP for materials and services

The state pays for certain costs and will only pay up to a certain amount for eligible costs

- The state provides funding for costs related to certain aspects of construction projects.
- There is a maximum cost per square foot of construction that the state will recognize in SCAP and this is called the construction cost allocation (CCA).
- The CCA is set in the budget as calculated in the SCAP model and is grown by inflation.

**SCAP
materials
and
services
covered.**

**Certain
costs are
jointly
shared,
and some
are not**

SCAP-Recognized Costs By Payer

State & Local Funds

Eligible and allowable construction costs

7% sales tax

Furniture & equipment

Art in public places

Value engineering

Constructability Review

Building Commissioning

Certain special inspections & testing

Educational specifications

Energy ELCCA Report

Project/ Construction Management

A/E design fees

Local Funds Excess Costs

Constructions costs above eligible
square footage

Costs above construction cost allocation
(next slide)

Sales tax above 7%

Construction contract modifications
(change orders)

Construction or design contingency

Design service fees not included in A/E
contract

Local Funds Additional Project Costs

Land purchases and easement costs

Feasibility studies

Surveys and geotechnical services

Off-site work (right-of-way
development, traffic mitigation, etc.)

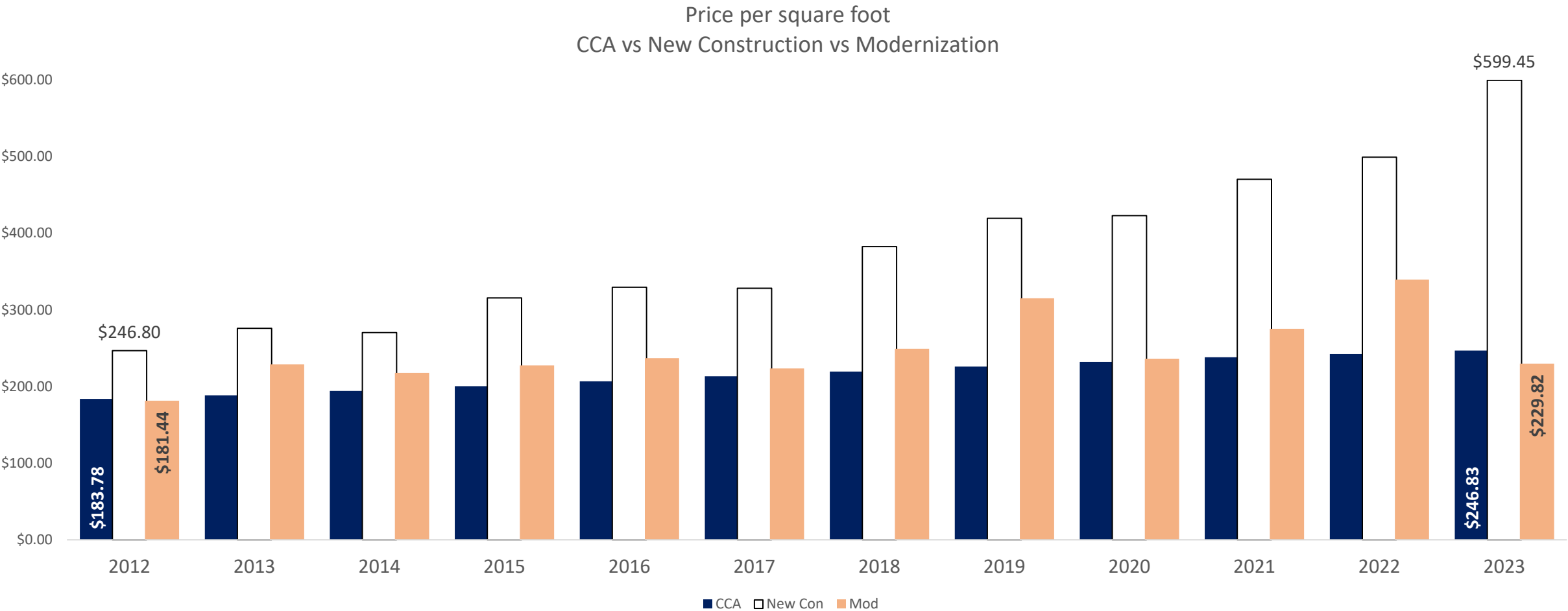
Hazardous materials abatement and
demolition, if not in modernization
work

Legal fees, permit fees, and non-
building inspections



The maximum price per square foot that the state will pay for covered materials and services is called the Construction Cost Allocation or CCA.

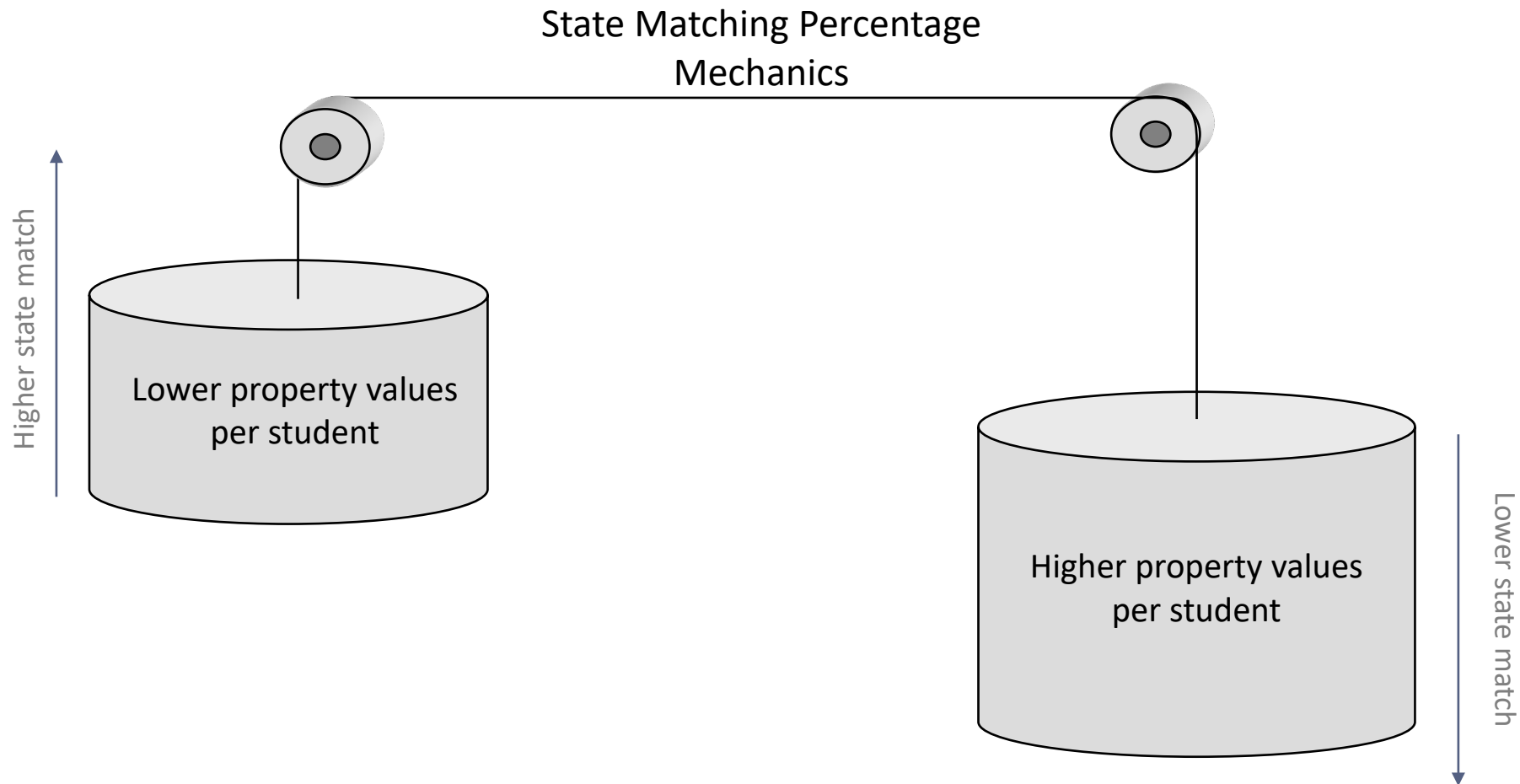
The CCA price per sq. ft. is comparable to a modernization project cost but not as comparable for new construction



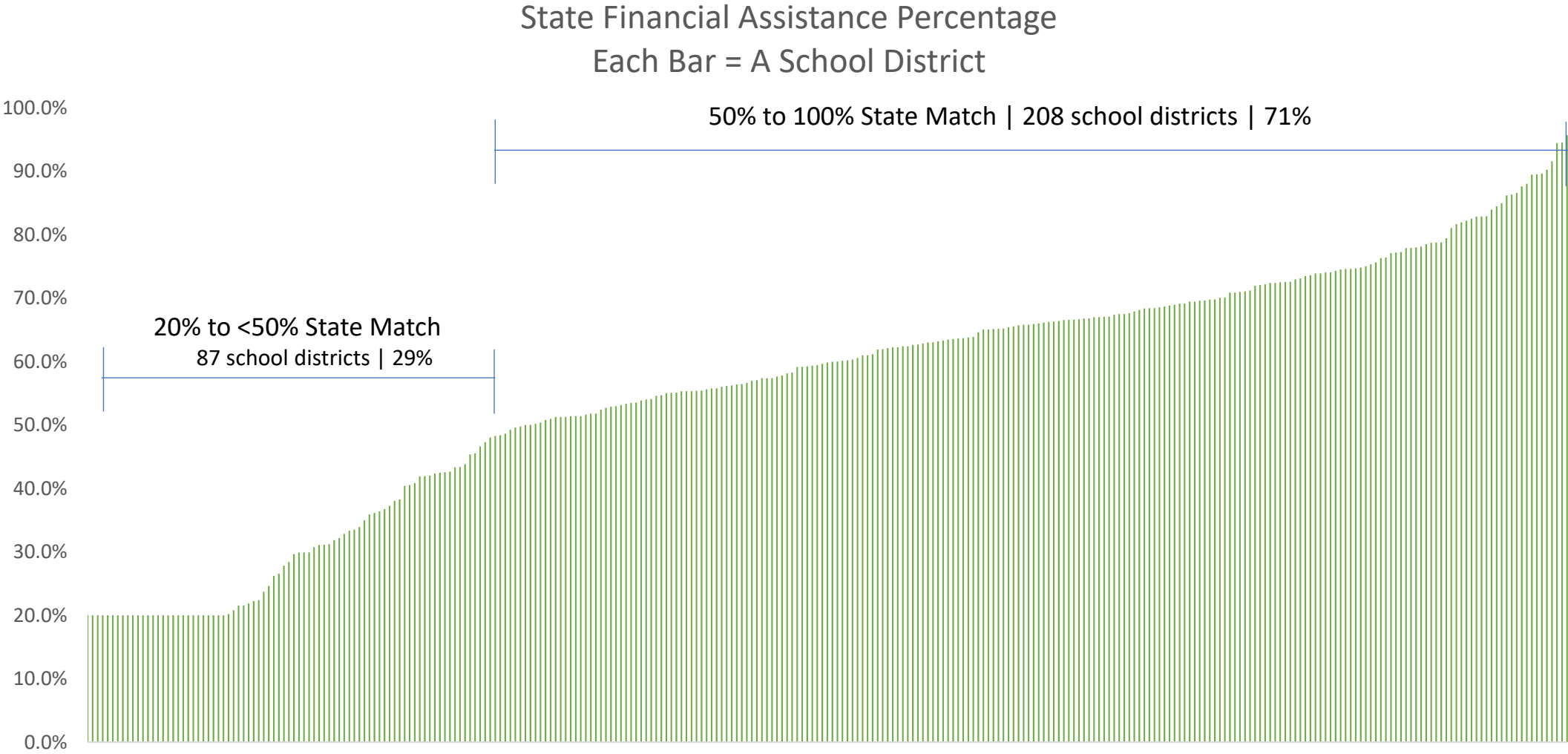
D. Who pays for SCAP eligible costs? Understanding the state match

Under SCAP, the state will match eligible costs between 20% and 100% based on a school district's property values per student

The state match is designed to increase as a school district's property wealth decreases relative to the state (per student)

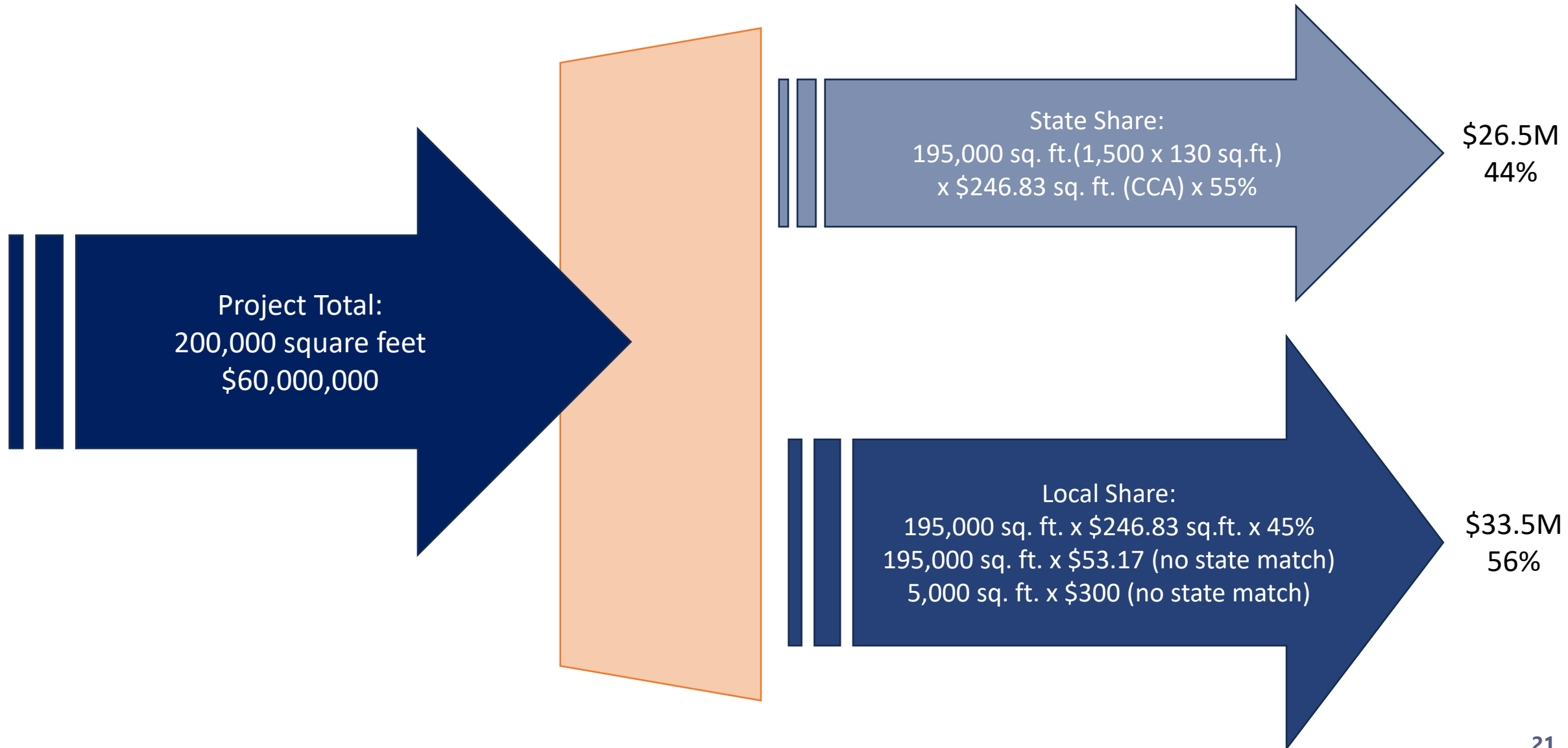


For 2023, 71% of school districts receive 50 percent or higher of state match for SCAP eligible costs



Putting it all together – Cherberg High Modernization Project

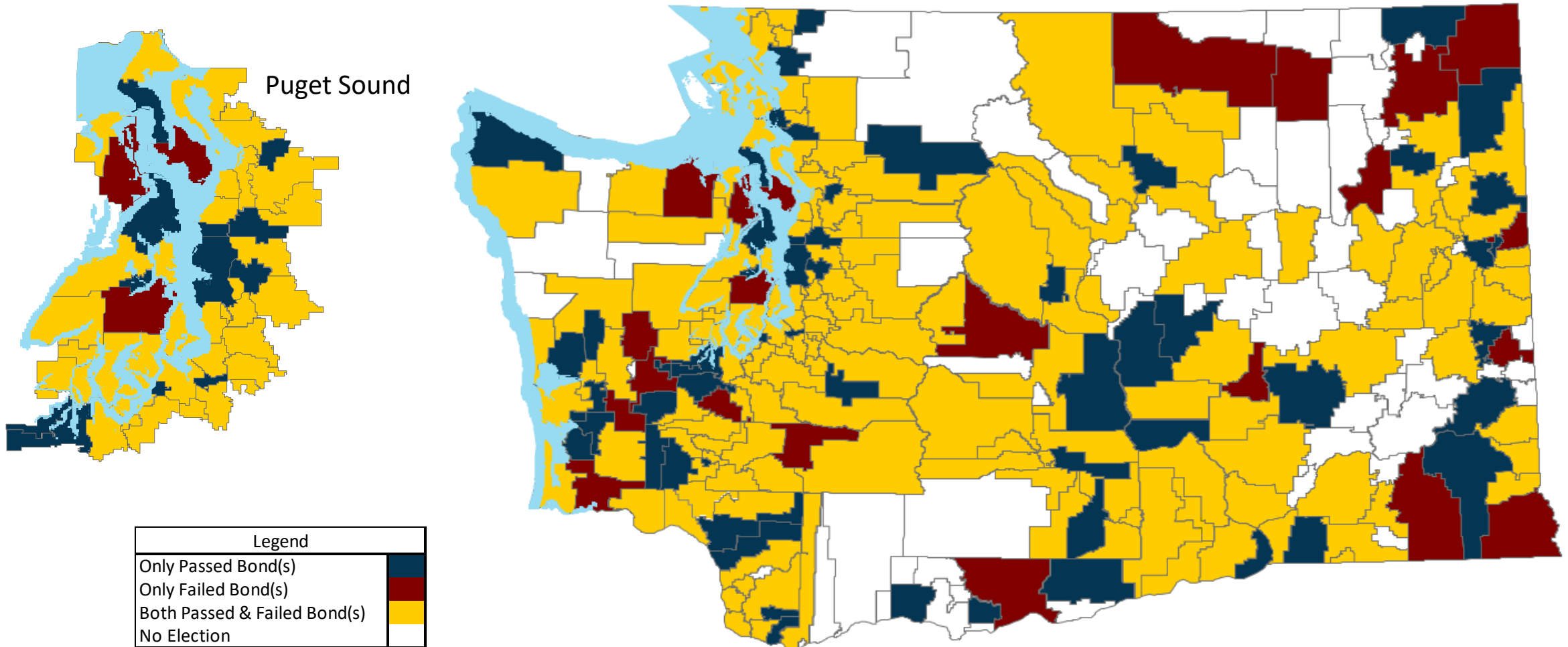
Specifications: Total Project is 200,000 sq.ft. | 1,500 students | 133.33 sq.ft./per student | Bid price \$300.00 | State Match is 55%



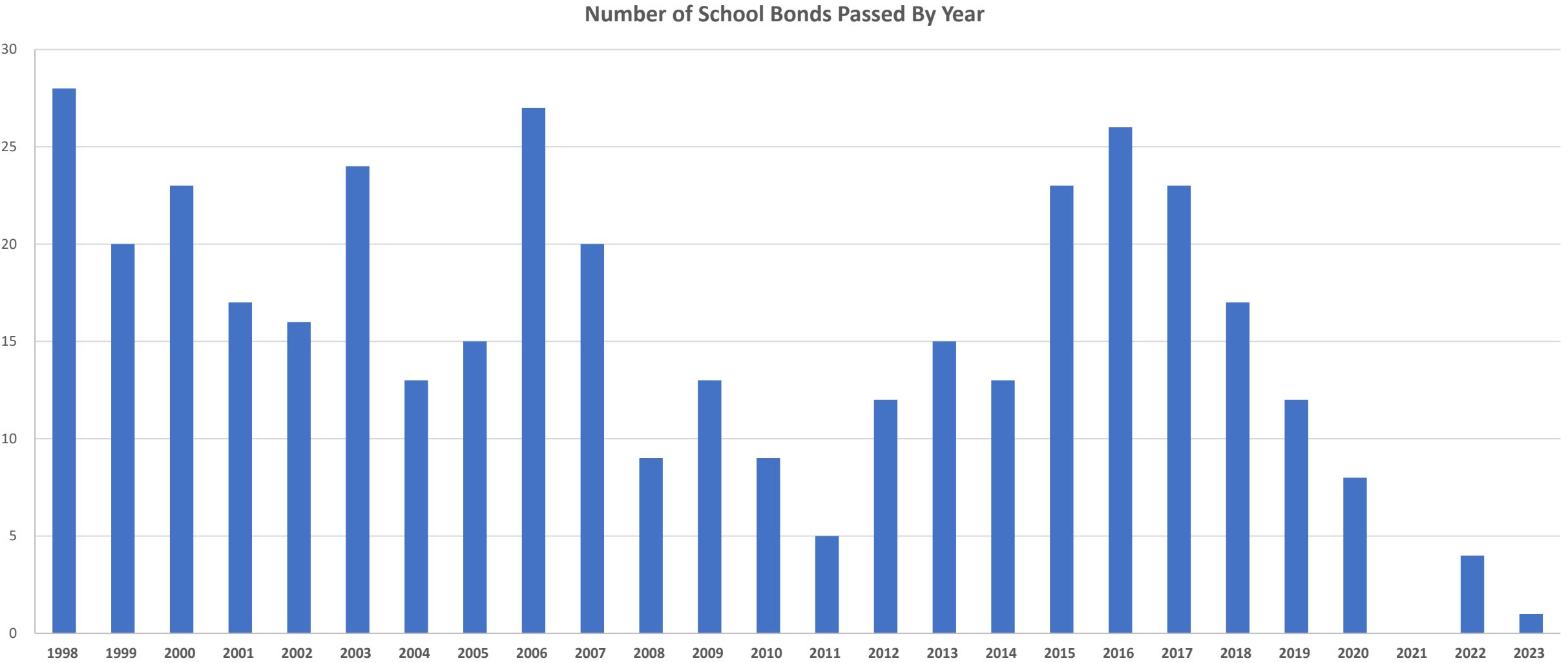
E. Securing the local share: Local bonds

Over the past 25 years, 208 school districts have passed a local bond, 174 have experienced a failed bond, and 64 did not attempt.

School Districts Bond Passage (1998 to April 2023)



Overall SCAP participation is expected to be less over the next few years with fewer districts passing bonds



School districts cannot exceed 5% of the value of taxable property for debt.

Given their size, some districts do not have the property tax base to generate enough debt capacity that allows them to pay for capital projects.

Est. Maximum Debt Capacity	No. of Districts	Cumulative No. of Districts	Cumulative Percent
\$0 to \$30M	105	105	36%
\$30M to \$55M	43	148	50%
\$55M to \$135M	42	190	64%
\$135M to \$250M	31	221	75%
\$250M to \$500M	34	255	86%
\$500M to \$1B	21	276	94%
>\$1B	19	295	100%

Summary

SCAP Challenges

Declining enrollments
Declining eligible space

Inflationary pressure
Clean buildings, other code fixes
Building & building systems age

SCAP maximum cost per
sq.ft. not connected to
market costs

No definable end goal for a
school building in terms of
design, cost, or operation

Willingness of school districts
to pay

Ability of school districts to pay

Questions?