

Your Question:

You asked for information about how states fund school capital construction.

Our Response:

This State Information Request provides an overview of how states fund capital construction — often referred to as school facility funding. First, we will look at the national landscape of facilities funding and the interplay between federal, state and local financing. Second, we offer the broad constructs of policies underlying state aid for localities to finance facilities. Last, we offer state examples to demonstrate these policies and look at recent legislation from the 2020 and 2021 legislative sessions.

National Landscape for Capital Construction

In 2016, the 21st Century School Fund, the National Council on School Facilities and The Center for Green Schools produced a report on [The State of Our Schools](#). Between 1994 and 2013, districts' total average annual spending was \$46 billion for management and operations costs alone. Capital construction costs averaged a total of \$49 billion annually over the same period.

The report also shows that localities and states contribute, on average, 45% each of the share of annual maintenance and operation costs. The federal government, on average, contributes the remaining 10%. The local share for facilities funding was on average 82% while the state share was 18%. Local districts typically use bond financing to cover the costs of large capital projects.

Despite the average shares mentioned above, state contributions vary widely. According to the same report, 12 states provided no direct funding or reimbursements to school districts for capital spending in 2015. On the other end of the spectrum, six states (**CT, DE, MA, RI, HI** and **WY**) contributed over 50% of total capital outlay costs. Of those six, 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). The average state share rose from 11% in 1999 to 20% in 2013.

State Capital Construction Policies

The 21st Century School Fund, the Building Educational Success Together collaborative and the National Clearinghouse for Educational Facilities produced a [report](#) in 2010 that compares capital outlay policies across the 50 states. While this information is dated, most states have not changed their policies governing the allocation of aid. Below is a summary of what the report found (any state omitted from these lists does not provide state funding to local districts for capital construction). In general, state policies governing capital outlay funds roughly follow this design:

State aid is distributed in the form of (1) direct appropriations/grants or (2) as a reimbursement for local bonds (general obligation, revenue and refunding) raised to fund capital outlay.

Direct Appropriations or Grants

AL, AK, AR, AZ, CA*, CO*, CT*, D.C., DE, HI, IA, IL, KY, MS, NJ, NM*, NC, OH*, TN, UT, WY

Debt Reimbursement

AK, GA, ID, KS, MA, MD, ME, MN, NH, NY, PN, RI, SC, TX, VT, WA, WV

Of the states that distribute aid via one of the methods listed above, some condition the amount of aid given based on the wealth of the district.

Aid Conditioned on District Wealth

CA, CO, CT, DE, IL, IA, MA, MT, NH, NM, NY, RI, TX

After deciding how much aid to distribute to a district, states must choose which districts receive funds before others. Some states then distribute aid based on a first come, first serve model (**RI**), or award funds to the districts that need it most based on a needs assessment (**MA, OH, PN** and **WY**).

State Examples

Below are a few state examples that are representative of the varying ways states fund capital construction through policy.

Colorado

The Colorado Department of Education provides matching grants to local districts through the [BEST program](#). The state determines the grant amount by looking at the following: the district's wealth and income in comparison with the statewide average, the effort put forth by the school district to hold an election for bonded indebtedness and the district's unreserved fund balance as a percentage of its annual budget ([C.R.S. 22-43.7-109](#)).

Idaho

Idaho allocates funds to assist school districts in making interest payments on bonds through the Bond Levy Equalization Program ([I.C. § 33-906](#)). The amount of aid a district receives (ranging from 10% to 100% of the district's obligation) is determined by a formula which accounts for local economic conditions (i.e., the community's wealth and income).

Ohio

[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. In addition, the facilities commission performs periodic assessments of school facilities to determine districts' need and the cost of capital construction or renovation.

Legislative Examples

In 2020 and 2021, Education Commission of the States has [tracked](#) a slight uptick in legislation related to facilities finance. One possible reason for this is that states' overall fiscal health has steadily improved since the Great Recession, which may allow appropriations for school facilities to increase. We found a few examples of states that restructured how they allocate state aid and the process by which districts apply for state aid. Below are a few examples of enacted legislation we've identified.

2020 Legislative Session

- **Maine:** [LD 1918](#) allows regular school districts, regional school units, community school districts, and career and technical education regions to establish reserve funds. Reserve funds established may provide for capital improvement or for financing the acquisition of a specific item or type of capital equipment.

- **Minnesota:** [H.F. 1](#) limits future loans for capital construction to the portion of the approved amount districts can be expected to repay over a 50-year term.
- **South Dakota:** [S.B. 170](#) revises maximum tax levy requirements for school capital outlay funds. Starting in fiscal year 2021, schools may receive the maximum taxes allowed under current statute (which currently grows 3% per year) or \$3,400 per enrolled student — whichever is less.

2021 Legislative Session

- **Colorado:** [S.B. 21-202](#) transfers \$10 to the public school capital construction assistance fund to provide "Building Excellent Schools Today" grants, which fund school air quality improvement projects. The state makes grants and must prioritize applicants based on local match requirements. Applicants with the lowest matching requirements are assigned the highest priority and those with the highest matching requirements are assigned the lowest priority.
- **Montana:** [H.B. 192](#) increases the school major maintenance fund formula to \$15,000 plus \$110 multiplied by the district's average number of belonging (measure of student attendance) for the prior fiscal year. It also increases the major maintenance subsidy per local dollar of local effort multiplier from 171% to 187%.

Additional Resources

- Building Educational Success Together (BEST) provides [state profiles](#) with basic information on school facilities in each state.
- [Infrastructure Report Cards](#) (with specific information on schools) by the American Society of Civil Engineers (2017).