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School financing must escape the constraints of the property wealth and bonding position of the local school district. This article reviews alternative financing methods.

financing school building construction

By William E. Sparkman

Financing school building construction traditionally has been the responsibility of the local school districts in all states except Hawaii. (Hawaii has no local education agencies and provides full state funding for all public education expenses including capital outlay.) However, recent socioeconomic factors have compelled educators to suggest alternative methods for financing school facility construction that do not rely on the property wealth or bonding position of the local school district.

A continued high rate of inflation with a concomitant rising cost of construction, higher interest rates, and an increasing burden of state and local taxes are causing taxpayers to reject school bond referenda in increasing numbers. The school finance movement has prompted renewed interest in devising more equitable methods for financing school building construction.

The concept of fiscal neutrality that has emerged from recent school finance court cases logically should be extended to encompass capital outlay and debt service expenditures of local school districts. Fiscal neutrality has meant that a child's education should not be a function of the wealth of the local school district. Since school facilities have such a vital role in a child's education and since, in most states, the local school district is the primary source of funds for school building construction, a strong case could be made for shifting the financial burden of school construction to the state.

Alternatives for Financing

Historically, local school districts have had few alternatives available from which to finance needed school buildings. The pay-as-you-go method wasn't entirely satisfactory as immediate needs generally outstripped the availability of building funds. This method also was limited by the fact that prices often increased faster than the school district's ability to save. The sinking fund or building reserve method suffered similar defects.

The most common method for financing school building construction has been the sale of general obligation bonds by the local school district. The fact that these bonds were supported by the "full faith and credit" of the district and the fact that the districts had to make an additional tax levy on local property to service the debt meant that the financing of school construction was tied directly to the property wealth of the school district and to the "moods and aspirations" of the taxpayers who had to approve the bond issue. Bond referenda are often subject to various political and emotional
pressures since they usually must have the approval of the local citizenry. The bond referendum is one of the few times in local government when the people have a direct voice in school affairs and, oftentimes, their frustrations or lack of understanding of the school system or school board are taken out in a negative vote.

Weaknesses of the property tax have been a problem of the local fiscal support of school construction. The property tax has been criticized on the grounds that it is regressive, it is no longer a valid measure of wealth, and it involves poor assessment practices. The fact that property wealth is not distributed uniformly across a state means that there is considerable variation among school districts in their relative fiscal abilities to support school building construction.

Some states have hampered local school construction by establishing unrealistic limitations on local debt. Although this has been done to protect the taxpayers from excessive public debt, the effect has been to force some school districts to rely on school building authorities for financial assistance in school construction. Such school building authorities were created for the purpose of selling revenue bonds to finance needed school construction. The school buildings were leased to the local school district and the rent money was used to retire the indebtedness. When the debt was retired the buildings became the property of the school district.

Although a few states began to consider assistance to local school districts for school construction during the early years of the twentieth century, it wasn’t until after World War II that the most rapid development in state support began. The early programs of state support typically were grants or loans to the local districts for school building purposes. A national study in 1970 indicated that 40 states provided some assistance to the local school district in the form of grants for public school capital outlay or debt service, state school construction loan programs, and state school building authorities. It should be noted, however, that the local school district still provides nearly 83 percent of the total capital outlay costs in the United States (1.27). Although most states make some provision for supporting school building construction, the local school district bears a disproportionate share of the fiscal burden.

Although public school enrollment is beginning to stabilize after almost three decades of growth, there is an ever-present need for new facilities as older buildings have become obsolete and other buildings must be remodeled to accommodate new programs. The mobility of the general population has created enrollment imbalances in some districts that often necessitate the construction of new facilities in high growth areas.

New Methods of Financing

Given the current problems in terms of the need for additional school facilities and in the need for more equitable approaches in the financing of school buildings, new methods of financing school construction have been explored. The National Capital Outlay Project, a satellite research project of the National Educational Finance Project, conducted a nationwide survey of capital outlay needs and practices of the several states in 1969. The project studied existing capital outlay models and developed new models that would provide a more equitable basis for the financing of school building construction. Eight models were suggested by the researchers as alternative to traditional practices. These models included the following (1.241-266):

1. Variable grants computed on recognized project cost
2. Combination of grants and loans based upon recognized project cost
3. State and/or federal loans for recognized project cost
4. Variable incentive grants computed on locally determined cost of project
5. State and/or federal assumption of school building cost
6. Grants and metropolitan area financing for recognized project cost
7. Variable grants computed on the basis of pupil or instructional unit
8. Equalized grants for recognized debt service programs

The fiscal models suggested by the project all involved increasing the role and level of support of the state and federal governments in the financing of the capital outlay and debt service requirements of the local school district.

Several states have adopted new methods of financing school construction that have increased the states’ fiscal role. Delaware has provided assistance in financing the capital outlay needs of the 26 school districts in the state. Vocational facilities in the three county vocational school districts and special educational facilities have been funded entirely by the state. The level of state support in financing the approved cost of new buildings in the 23 school districts has been at the 60 per cent level for many years. The state has assumed 60 per cent of the approved project costs of school construction with the remaining 40 per cent raised by the issuance of general obligation bonds by the local district.

In 1971 Maryland adopted a program of 100 per cent financing of the cost of all school building construction and 100 per cent of the cost of retiring outstanding bonded indebtedness existing on July 1, 1967. Illinois has enacted legislation creating a state school construction bond fund that went into effect at the beginning of the 1974 fiscal year. The fund allowed state funds to be made available to finance local school construction and the debt service on outstanding local bonds.

Kentucky has provided for the financing of public school construction through a minimum foundation program which allocated $1,400 per classroom unit to local school districts during the 1973-74 school year. Participation in the foundation program required the local school districts to levy the required tax rate. The local districts, however, have supplemented the foundation program allocations with various local taxes.

As part of the Florida Education Finance Act of 1973, the state of Florida assumed a much greater role in the financing of school building construction and debt service. State funds are provided to the local school districts on a formula basis. The amount of state funds allocated to each district is determined by (1) the dollar cost of a district’s unmet capital outlay needs (as determined by the state) minus (2) the district’s portion of the constitutionally earmarked receipts of motor vehicle license sales. The program also provided for...
the state to assume future debt service on local bond issues and allowed credit for voted millage over the 10-mill school board levy that was used for capital outlay purposes during the previous five years.6

After a study of capital outlay financing in South Dakota in 1973, Hudson recommended equalized variable grants from the state computed on the basis of state recognized project costs for financing local school buildings. He also recommended an equalized debt service grant program that would recognize prior effort of the local districts for the fiscal support of school construction.7

More State Involvement

Based on several existing programs and recent studies of school facilities funding, it is apparent that the trend is toward more state involvement in the financing of school building construction. Such programs recognize the superior revenue generating capacity of the state governments. They also recognize the fact that the local property tax base in many school districts is being strained beyond its relative capacity to support additional demands made upon it.

Since education is fundamentally a state responsibility, local school districts should not have to bear the complete fiscal burden of financing school construction. This statement obviously raises the question of the potential loss of local control in the operation of the capital outlay program of the school district. However, underlying the trend toward more state support in the financing of school building construction is the larger question of equal educational opportunity for the children of the state and taxpayers' equity in the financing of needed school facilities.

provide the teacher with opportunities to utilize various instructional strategies will be the classrooms for today's innovation as well as tomorrow's innovation.

Physical facilities of the future need to reflect the development and concern for the well-rounded child. While controversy still exists about the kind of competencies or skills that a student needs to possess to function in society, our future schools need to project a concern for the academic and physical, as well as the emotional development of students.

Building schools for today as well as for the future is a Herculean task. There appears to be no single way to strike a permanent working relationship between curriculum and physical facilities. However, one of the most important steps in solving this problem lies in coordinated efforts between school architects and educators. Educators can no longer depend on these outside experts to provide them with all the information needed to construct physical structures which are compatible with the school's curriculum. An architect's responsibility is to understand, interpret and present solutions to the educator's environmental problems.

In the past, educators have not collected sufficient information to communicate their architectural needs. The suggestions proffered in the preceding paragraphs are initial steps to increase that knowledge base. Together the architect and educator must work to build schools which are a reflection of how students best learn and how teachers most effectively teach. In this manner schools will be able to achieve a greater consistency between their philosophical stance and the actual implementation of those educational beliefs.

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