A Review of the School Facilities Construction Commission

Project Staff

Marcia Ford Seiler, Director
Jo Ann G. Ewalt, Ph.D.
John T. Jones, Ph.D.
Sabrina Olds
Pam Young

Research Report No. 332

Legislative Research Commission
Frankfort, Kentucky
lrc.ky.gov

Accepted February 10, 2006, by the
Education Assessment and Accountability Review Subcommittee

Paid for with state funds. Available in alternative form by request.

Foreword

In the 2005 budget, the General Assembly directed the Office of Education Accountability to study the School Facilities Construction Commission (SFCC) and to make recommendations for strengthening SFCC and the school facility funding system. This review analyzes the impact of SFCC offers of assistance and other facility funding programs operating outside SFCC on the facility issues facing school districts. Included in the study was a review of school district facility needs assessment procedures, methods of calculating construction and renovation costs, and the opinions of school superintendents and others of SFCC and facility funding in the Commonwealth.

Office of Education Accountability staff would like to acknowledge the assistance of many individuals whose cooperation and expertise contributed to this report. Robert Tarvin and staff of SFCC, Mark Ryles and staff of the Kentucky Department of Education's Division of Facilities Management, and Susan Goins and others from the department's Division of School Finance provided financial data as well as information and background on the school facilities funding and construction processes. Staff thanks Terry Blake of RBS Design Group for the use of the cover photograph. The assistance of Legislative Research Commission staff who worked on this study is appreciated.

Finally, valuable insight was provided by the school superintendents who responded to the study survey and by various school personnel who provided information and guidance.

Robert Sherman
Director

Legislative Research Commission
Frankfort, Kentucky
February 10, 2006

Cover photo: construction of North Hancock County Elementary School.

Contents

List of Tables

List of Figures

Summary

In the 2005 budget, the General Assembly directed the Office of Education Accountability to conduct a study of the School Facilities Construction Commission (SFCC) and to make recommendations for strengthening SFCC and the school facility funding system.

Chapter 1: Purpose and Procedures of the School Facilities Construction Commission

In 1978, the General Assembly enacted legislation creating the Kentucky School Building Authority. After seven years of service, the office was abolished and in 1985, a similar body, the School Facilities Construction Commission (SFCC), was created in KRS 157.611. SFCC was established to assist local districts in meeting the school construction needs and the education technology needs of the state. SFCC is empowered to act on behalf of school districts to issue bonds in its name and to enter into lease agreements with local boards of education to finance construction of new facilities and major renovation of existing school facilities.

SFCC is mandated to operate in a manner that will ensure an equitable distribution of funds based on unmet facility needs. Operating as an independent corporate agency attached to Finance and Administration Cabinet, SFCC consists of eight members appointed by the governor. It is staffed by a director and support personnel and meets on a quarterly basis to address issues related to both school facility construction and technology funding.

With the passage of the Kentucky Education Reform Act (KERA) in 1990, school facilities have been funded by the state through a three-pronged approach based on school district size, wealth, and need. First, within the Support Education Excellence in Kentucky (SEEK) formula, local school districts are provided with capital outlay funding based upon student count. Districts receive $100 per pupil. Second, districts are permitted through the Facilities Support Program of Kentucky (FSPK) to levy a 5-cent equivalent tax per $100 in assessed property value earmarked for facility funding. This program is commonly referred to as local FSPK. These tax receipts are equalized by the state through FSPK at 150 percent of the statewide average per-pupil assessment. The equalization is commonly called state FSPK. Third, districts that have levied the local FSPK 5-cent equivalent tax are eligible to participate in SFCC program, in which offers of assistance are based solely on a district's percentage of total state unmet facility construction and renovation needs.

The Kentucky Department of Education (KDE) prepares and sends to the Kentucky Board of Education for certification a statement of each school district's available local revenue, eligibility for SFCC participation, and determination of the district's total facility needs and unmet facility needs. These certified statements are then sent to SFCC. Included in this material are calculations of the total state level of unmet facility need and each district's percent of total state unmet need. Offers of assistance to eligible districts are determined by the level of bonding authority and general fund appropriations to SFCC established by the General Assembly. SFCC distributes its debt service offers based on each district's percent of total state unmet need.

Since 1985, 174 of Kentucky's 176 public school districts have received debt service funding from SFCC. The commission's normal process is to make its offers of assistance for debt service to school districts in July of even-numbered years, based on the bonding authority it has been provided by the General Assembly. Districts have 30 days to accept their offers and may request an additional 30 days to accept. However, this timeline has varied in the past three fiscal biennia because of unfunded or underfunded debt authorizations and because the General Assembly did not pass budgets in the 2002 and 2004 Regular Sessions.

SFCC offers of assistance are made once each biennium, and total offers have varied from a low of $2.5 million in FB 1994-1996 to a high of $17.5 million in FB 1988-1990. Similarly, total bonding revenues for school construction and renovation per biennium have ranged from $29.9 million to $204.7 million. The General Assembly did not pass a budget in the 2002 and 2004 legislative sessions but did pass budgets in 2003 and 2005. In addition, the General Assembly has at times authorized but not fully funded SFCC's bonding activity. These events have contributed to the variation in SFCC offers of assistance and total bonding revenue.

In the past decade, the General Assembly has created additional non-SFCC funding sources for facility construction to address specific characteristics or needs of local school districts. Legislation and budget language created opportunities for some districts meeting specified criteria to increase tax rates at the local level. In some instances the General Assembly has equalized the locally raised revenue. In addition, through the 2003 and 2005 budget bills, the General Assembly has directed funding to selected districts with category 5 (poorest condition) schools, upon certification of eligibility by the Kentucky Board of Education. Known as both Urgent Need School Trust Fund and category 5 funding, this program gave districts meeting certain criteria funds to replace or renovate category 5 schools.

The local and state sources of funding for school facilities construction and renovation are:

Local funding*

FSPK 5-cent tax

Growth 5-cent tax

Districts that are experiencing student growth and meet other criteria may levy this tax.

Second growth 5-cent tax

Districts that have levied one growth tax and remain eligible may levy a second growth tax.

Recallable 5-cent tax

All districts are eligible to levy this tax, subject to hearing and voter recall.

State funding

FSPK equalization

SFCC debt payment offers

Capital outlay

Equalization of the growth tax

Districts that have levied the second growth tax are eligible for equalization of the first growth tax.

Equalization of the recallable tax

Equalized Facility Funding

This is a one-time allocation of equalization of the 5-cent equivalent tax for districts committing at least 10-cent tax for facilities and not receiving any other equalization except FSPK. It was passed in 2005 and will pay districts for 20 years.

Urgent need or category 5 funding

*Local school building taxes are called "nickels" because they are all 5-cent equivalent taxes.

A comparison of spending on school facilities in Kentucky and surrounding states shows that Kentucky's share of local and state spending was 63 percent, higher than all but one state. Similarly, in FY 2000, Kentucky spent $281 per pupil, compared to $293 in Ohio. All other neighboring states' per pupil facility spending was lower than Kentucky's spending.

Chapter 2: School Facilities Construction Commission and Other Funding Sources

When examining participation rates, SFCC is the primary school facility program because 174 of 176 districts have taken advantage of this funding mechanism. Participation in the other local and state programs ranges from a high of 20 percent in the urgent need program assisting districts with the poorest condition schools to a low of 3 percent participation in the recallable 5-cent local tax and state equalization programs. In terms of the level of resources provided through these programs, SFCC is not the largest source of facilities funding, but it is the largest source of state funding.

State revenue makes up a greater share of total facility funding than does revenue from local sources, although the difference in state and local per pupil facility funding narrowed in FY 2004 and 2005. State revenue accounted for 61 percent of facilities funding in FY 1998 and 1999, compared to 54 percent and 56 percent in FY 2004 and 2005, respectively. Total facility funding has increased 60 percent in the past eight years, from $432 per pupil in FY 1998 to $693 per pupil in FY 2005.

From FY 1998 through FY 2003, there were only two sources of local funding: the local FSPK property tax and the first growth nickel tax that was authorized in 1994. Local FSPK generates the majority of local facility revenue, and it also generates more revenue overall than any state facility revenue source. By 2005, local FSPK revenues totaled $201 per pupil and accounted for 66 percent of total local facility revenue. By 2003, the growth nickel was generating $41 per pupil for those districts eligible to levy the tax.

The second growth nickel and the recallable nickel were authorized in 2003 and revenues from these levies are reflected in FY 2004 and 2005. By FY 2005, local revenue generated by both growth nickels totaled $95 per pupil. Capital outlay has generated $100 per pupil in facility funding for all years.

With respect to state facility funding, SFCC debt service paid on behalf of school districts accounts for the greatest share of state facility revenue, and by FY 2005 it totaled $157 per pupil. State FSPK equalization, which the General Assembly has fully funded during this time period, has also increased. The state equalizes local FSPK revenues at 150 percent of the state average per pupil assessment. As revenues generated by local FSPK increase, the funds needed to equalize the tax also increase.

Urgent need funding for schools in the poorest condition was first authorized in FY 2003, and debt service for the first bonds sold through this program totaled $10 per pupil in FY 2005. This funding source will account for an increasing amount of state facility funding as eligible districts complete plans for construction or renovation and use these funds. In addition, staff estimate that the six districts eligible for equalization of their recallable nickel will receive $4 per pupil in

facility funding in 2006, and the districts eligible for equalized facility funding will receive $8 per pupil in 2006.

Chapter 3: Findings of the Survey of School Superintendents

The Office of Education Accountability conducted an online survey of school superintendents from October 14 through November 10, 2005. The purpose of the survey was to better understand the experiences and perceptions of superintendents regarding the financing of school construction and renovation. Respondents were asked about the impact of various programs, procedures, and requirements of the current school construction system on districts' ability to adequately address facility needs. Through a series of open-response questions, superintendents were also given the opportunity to make recommendations for strengthening SFCC and for providing detailed comments on areas of concern. One hundred forty-three superintendents or their representatives completed the survey, for a response rate of 81 percent.

Superintendents representing growth districts, districts with limited financial resources, districts with declining enrollments, and districts with a high proportion of category 4 and 5 schools offer different perspectives on the challenges and opportunities of the current system.

Generally, superintendents commented positively about the importance of SFCC in addressing facility needs, and nearly 75 percent stated that SFCC should be the primary source of state funding. However, many indicated that individual offers of assistance are not sufficient to fund major renovation or construction projects. Respondents suggested that increased SFCC funding and consistent offers each biennium would improve the effectiveness of the SFCC program.

Almost 60 percent of respondents believe SFCC should be permitted to escrow offers of assistance on behalf of districts for a period of eight years. While past budget language authorized extensions on the ability to escrow offers, the statute limits escrowed offers to four years. A number of superintendents in districts with low bonding potential indicated they would like to see offers remain available until they are used. Superintendents from districts with limited bonding potential indicated that given the current amount of SFCC offers, districts must choose between utilizing the funds to take care of smaller projects or saving offers in order to complete larger construction needs.

Forty percent of the superintendents who responded indicated that they are prevented from offering instructional programs they would otherwise provide because of current school facility limitations. The programs most often mentioned include preschool, all-day kindergarten, science and technology labs (particularly at the middle school level), and arts and humanities programs. In addition, many superintendents noted that installation of modern technology wiring is difficult to accomplish in older facilities. Respondents also noted that extracurricular programs and physical education programs are hampered by facility limitations.

A majority of the superintendents, 57 percent, believed the SFCC funding formula should include factors that take into consideration specific local conditions. However, responses were divided about which conditions should receive the weighting. Superintendents indicated that growth, low property assessments and bonding capacity, and condition of facilities should be

factored into offers. Regarding the condition of facilities, superintendents suggested two approaches. Some respondents indicated that emphasis should be placed on aging buildings in poorer condition. Other superintendents indicated that while facility condition is important, the funding formula should reflect districts' efforts to maintain school facilities.

When asked what factors prevented districts from giving top priority to the facility needs of category 4 or 5 schools, most superintendents cited lack of funding and the need to address the immediate facility problems of other schools.

Currently, districts can use SFCC, FSPK, or capital outlay to pay for land acquisition if it is a direct construction cost, which requires the land cost and construction costs to be submitted on one construction application approval form, or BG-1. If districts wish to buy land prior to starting the construction process, cost of the land purchase is generally required to be made out of the general fund. More than 90 percent of superintendents indicated that districts should be allowed to pay for land through FSPK regardless of when the land is acquired if the land is earmarked for construction of a new school.

Most districts have maintenance plans for major building systems, including electrical, HVAC, plumbing, and structural upkeep and repairs. However, a majority of superintendents say they cannot fully fund their maintenance programs. Beyond maintenance, most superintendents said their districts do not have replacement plans for these systems. Of those that do, most indicated that they are unable to fund replacement plans. The exception is HVAC replacement, where a slight majority has a plan in place, but almost 60 percent are unable to fund it, with another 34 percent indicating they can partially fund their HVAC replacement plan.

Many superintendents find the planning and financing of new construction and renovations to be complex and believe they would benefit from additional training in these areas. More than 70 percent said they would benefit from training in preparing District Facility Plans and Master Education Facility Plans. Training was also requested on allowable expenditures for capital outlay and the building fund and general overview training on how to best utilize all sources of funding to meet the districts' needs.

While about three-quarters of responding superintendents said they understand how SFCC offers of assistance are calculated, 25 percent indicated they do not understand the process. Almost 50 percent of those responding either rarely or never review the KDE determination of unmet need for their district. Such information is critical and should be reviewed for accuracy, as it is the basis for offers made by SFCC.

Other areas in which respondents believe more information and assistance is needed include restricting local available revenue in order to receive SFCC offers, an overview of the bonding process, and regular training for staff and board members in facilities planning and funding. Superintendents would like to receive more assistance in the technical aspects of building construction and renovation and required KDE building forms and processes. Other assistance was requested in the renovation of old facilities, information on contracting with and utilization of architects, and incorporating technology into new buildings.

In addition to providing comments and suggestions regarding SFCC, respondents were given the opportunity to comment on all other funding mechanisms. Superintendents indicated a need to increase both capital outlay and SFCC funds. In general, the most common other suggestion was for the legislature to give all districts the ability to levy an additional nickel without recall. Superintendents also asked for greater flexibility in the use of capital outlay and FSPK. Recently, budget language has permitted districts to use capital outlay funds for maintenance and insurance, although this authority is not contained in statute. Superintendents' comments were divided regarding the impact of growth nickel and recallable nickel equalization and equalized facility funding. Some indicated that equalization funds have been targeted to districts that already have relatively greater facility resources. Other districts believe the funds distributed through these sources are needed and, therefore, are equitable.

Chapter 4: Recommendations for Strengthening SFCC and the School Construction and Renovation System

The recommendations included in this report are based on the research and analysis reported in earlier sections of the study. Where appropriate, recommendations reflect information provided by superintendents. In addition, the Office of Education Accountability provided SFCC and KDE with the opportunity to make suggestions for strengthening SFCC and the school construction and renovation system. Several of their policy recommendations are included in this report.

There are 23 recommendations in this report.

1: Amend KRS 157.622 to allow the SFCC to escrow district offers for up to eight years.

2: If the General Assembly chooses to continue authorizing the growth levy, eliminating the sunset provision of the first growth nickel in KRS 157.621 and including authorization of the second growth nickel in statute would increase the consistency of this funding source.

3: The criteria for determining growth districts established in KRS 157.621 should remain in place. Additional criteria should be added to address the needs of faster growing districts that have a significant annual increase in student population. The Office of Education Accountability recommends permitting the growth levy for districts with a 5 percent average increase in student enrollment, excluding students on contracts, over two years, while meeting the other current requirements regarding bonding levels, student population in excess of classroom space, and certified facility plans.

4: KDE should have a documented method for confirming the growth criterion that enrollment exceed available classroom space.

5: KDE should develop, implement, and monitor maintenance best practice guidelines. In developing these guidelines, the department should define maintenance expenditures.

6: The General Assembly should consider revising KRS 157.420 to allow capital outlay funds to be used for maintenance and insurance, land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings including replacement

of flooring, and replacement equipment, that results in the acquisition of fixed assets or additions to fixed assets, which have benefits for more than 10 years.

7: KDE should develop a transparent and uniformly implemented waiver system to accommodate special facility needs. This waiver system should allow for documented exceptions to be made to the requirement that SFCC funds and FSPK funds must be used on major renovations.

8: Review and revision of the ranking system is suggested in order to provide reliable data to inform policymakers.

9: In order to assure that the most up-to-date facility needs are known and that SFCC offers are based on accurate unmet need calculations, KDE should amend 702 KAR 1:001 to require District Facility Plans to be updated by districts every two years, with a waiver period of two years.

10: KDE should simplify and clarify 702 KAR 1:001 with regard to the Master Education Facility Plan and District Facility Plan process, and it should enforce the annual review provision of this regulation. In addition, KDE should provide clarification on the types of projects that are appropriate for inclusion in the project priorities listed on the facility plan. KDE should also provide clarification as to how the Local Planning Committee is to apply the requirement that the district's financial situation be considered in developing facility plans.

11: KDE calculates construction costs using a publication published by the RSMeans company called the *Means Building Construction Cost Data*. The Office of Education Accountability recommends that KDE use the most current RSMeans data. In addition, KDE should apply an inflation adjustment to accommodate the fact that—even when the most current data are used—the RSMeans allowances are a year old.

12: KDE should consider utilizing the regional cost indexes available through RSMeans in calculating the cost of construction.

13: KDE should include a factor, when utilizing the RSMeans cost calculation, to cover expenses that are not included in the cost estimation, such as architect and engineer fees, bond sale costs, and contingencies.

14: When determining minimum enrollments for the purpose of calculating facility project allowances, KDE should include preschool enrollment.

15: SFCC should develop its biennial budget request with specific goals that address state unmet facility need levels.

16: If the General Assembly adopts Recommendations 11-14, KDE's maximum project budget will be brought in line with actual construction costs. The General Assembly may also wish to amend KRS 157.620 to direct that school districts that construct buildings with total costs in excess of 25 percent of KDE's maximum project budget will have 75 percent of the excess cost deducted from their future unmet needs over the next three budget cycles.

17: KDE should continue to follow the June 30 of the odd-year deadline for calculating unmet need. The General Assembly may wish to amend KRS 157.620 to clarify that SFCC may use more current data. In doing so, SFCC could better reflect district need and remain in compliance with statute if similar circumstances warrant.

18: KDE should adjust its procedures for determining districts' local available revenue by using actual repayment terms for outstanding debt in calculating current bonding potential.

19: The General Assembly may wish to amend KRS 157.620 to permit the Kentucky Board of Education to certify districts' eligibility and unmet need statements by December 15 of odd-numbered years, rather than October 15.

20: The conflict between KRS 157.622 and 750 KAR 1:010 should be resolved. If legislative intent is that the savings generated through refinancing be used on behalf of districts in ways that adhere to SFCC requirements, the General Assembly should direct that the regulation be made consistent with statute.

21: KDE should have a written policy, including application process, for distribution of federal Qualified Zone Academy Bond credits.

22: KDE should allow land costs to be paid out of capital outlay, building fund, and SFCC if it is clearly tied to a documented need for a new or expanded facility.

23: KDE should offer specific training to district superintendents, finance officers, and facility managers. The training topics should include developing required facility plans; appropriate use of facility funding; and general training on the Division of Facility Management's building process, including building and ground forms and best practices in contracting and utilizing engineers and architects in planning and building.

Chapter 1

School Facilities Construction Commission Purpose and Procedures

Introduction

The School Facilities Construction Commission (SFCC) was established to assist local districts in meeting school construction needs in a manner that will ensure an equitable distribution of funds.

In 1978, the General Assembly enacted legislation creating the Kentucky School Building Authority. After seven years of service, the office was abolished and in 1985, a similar body, the School Facilities Construction Commission (SFCC), was created in KRS 157.611**.** SFCC was established for the purpose of assisting local districts in meeting the school construction needs and the education technology needs of the state in a manner that will ensure an equitable distribution of funds based on unmet facility needs and the total implementation of the Kentucky Education Technology System. Operating as an independent corporate agency attached to Finance and Administration Cabinet, SFCC addresses issues related to both school facility construction and technology funding. This study analyzes its activities related to school facility construction funding and does not report on its funding of or activities relating to educational technology.

SFCC acts on behalf of school districts to issue bonds to finance construction and major renovations.

SFCC is empowered to act on behalf of school districts to issue bonds in its name and to enter into lease agreements with local boards of education to finance construction of new facilities and major renovation of existing school facilities.

With passage of the Kentucky Education Reform Act (KERA) in 1990, school facilities have been funded by the state through a three-pronged approach based on size, wealth, and need.

With the passage of the Kentucky Education Reform Act (KERA) in 1990, school facilities have been funded by the state through a three-pronged approach based on school district size, wealth, and need. First, within the Support Education Excellence in Kentucky (SEEK) formula, local school districts are provided with capital outlay funding based upon student count. Districts receive $100 per-pupil.[1] Second, districts are permitted through the Facilities Support Program of Kentucky (FSPK) to levy a 5-cent equivalent tax ($.05 per $100 in assessed property value) earmarked for facility funding.[2] This program is commonly referred to as local

[1] The per-pupil calculation is based on adjusted average daily attendance as defined in KRS 157.320. This means the aggregate days attended by pupils, adjusted for weather-related low attendance days, divided by the actual number of days the school is in session after the five lowest attendance days have been deducted.

[2] In addition to taxing real property, districts may levy taxes on tangible property and motor vehicles and may levy "permissive taxes" including utilities, occupational, and excise taxes.

FSPK. These tax receipts are equalized by the state through FSPK at 150 percent of the statewide average per-pupil assessment. The equalization is commonly called state FSPK. Third, districts that have levied the local FSPK 5-cent equivalent tax are eligible to participate in the SFCC program, in which offers of assistance are based solely on a district's percentage of total state unmet facility construction and renovation needs.

Since 1994, the General Assembly has created facility funding sources outside the SFCC program that address specific school district characteristics or needs.

In the past decade, the General Assembly has created additional non-SFCC funding sources for facility construction to address specific characteristics or needs of local school districts. Legislation and budget language created opportunities for some districts meeting specified criteria to increase tax rates at the local level. In some instances, the General Assembly has equalized the locally raised revenue. In addition, through the 2003 and 2005 budget bills, the General Assembly directed funding to selected districts with category 5 (poorest condition) schools, upon certification of eligibility by the Kentucky Board of Education (KBE). Known as both Urgent Need School Trust Funds and Category 5 funding, this program gave districts meeting certain criteria funds to replace or renovate category 5 schools.

Description of This Study

In 2005, the General Assembly indicated its intent that SFCC serve as the primary source of state revenue for school construction financing and directed the Office of Education Accountability to study SFCC and make recommendations to strengthen the program.

In the 2005 budget, the General Assembly indicated its intent for SFCC to serve as the primary source of state revenue for districts with respect to funding school construction. The General Assembly also indicated its intention to cease funding two targeted facility funding programs—the Urgent Need School Trust Funds and Equalized Facility Funding—as of June 30, 2006.

Through the budget language, the General Assembly directed the Office of Education Accountability to conduct a study of the SFCC's ability to provide local school districts with necessary debt service to maintain a facility program that will be conducive to a positive learning environment. This review includes an analysis of how SFCC offers of assistance impact the facility issues facing districts experiencing growth and how SFCC offers impact local school districts that have facilities identified as category 5. The Office of Education Accountability has further been directed to make appropriate recommendations as to changes or modifications to the current system that would improve the effectiveness of SFCC to fund facility needs.

How This Study Was Conducted

In June 2005, the Education Accountability and Assessment Review Subcommittee (EAARS) approved the Office of Education

Accountability's study plan for reviewing SFCC, its purpose and methods of operations, and the various other programs currently used to fund school facility construction.

In June 2005, the Education Accountability and Assessment Review Subcommittee (EAARS) approved the Office of Education Accountability's study plan for reviewing SFCC.

In conducting the study, staff interviewed the SFCC executive director, who is responsible for implementation of the facility funding program. Staff interviewed various members of KDE staff who work in the Division of School Finance and the Division of Facilities Management (DFM). DFM staff were interviewed to discuss the current processes used both at the department and the local level in determining districts' facility construction needs. The Office of Education Accountability also sought clarification from KDE regarding the process used to categorize schools according to condition.

Staff visited local districts and interviewed district staff regarding facility construction and funding issues.

Staff visited local districts and interviewed district staff regarding facility construction and funding issues. Staff attended seven meetings of education cooperatives in the state to discuss the study and solicit comments and suggestions from member superintendents.[3] An online survey of superintendents was conducted to better understand their experiences, comments, and suggestions on the SFCC and general facilities funding issues. Staff reviewed local district facility plans and facility construction files. Staff also reviewed SFCC, KDE, and local district policies and procedures and statutes and regulations related to the process of school facility funding. Fiscal agents who contract with boards of education to provide financial advice, facilitate the sale of local bonds, and coordinate construction funding through SFCC were also consulted. In addition, staff met with SFCC commissioners and staff to discuss agency procedures and activities.

Organization of the Report

Chapter 1 is an overview of SFCC and includes a summary of conclusions and major recommendations.

Chapter 1 includes a brief summary of the conclusions and major recommendations. It also provides an overview of SFCC including policy, procedures and statutory guidelines for its work, and past funding patterns.

Chapter 2 analyzes additional methods of state, local, and federal funding and examines the impact of these funding mechanisms.

Chapter 2 provides an analysis of the additional methods of state, local, and federal funding for school facility construction and reports how these funds impact the ability of SFCC to carry out its statutory duty in assisting schools with their funding needs. The

[3] Staff met with the following educational cooperatives: Ohio Valley Educational Cooperative, Northern Kentucky Cooperative for Educational Services, Central Kentucky Educational Cooperative, West Kentucky Educational Cooperative, Southeast/South Central Educational Cooperative, Green River Regional Educational Cooperative, and the Kentucky Educational Development Corporation.

chapter also analyzes how SFCC funding addresses the needs of districts in general and with regard to districts' unique characteristics and needs.

Chapter 3 reviews responses of a survey of school superintendents.

Chapter 3 reviews the results of a survey of school superintendents regarding school facility funding issues.

Chapter 4 presents major conclusions and recommendations for strengthening SFCC and the facility funding system.

Chapter 4 summarizes the research conclusions and presents recommendations the General Assembly may consider to strengthen the SFCC and improve the school facility construction and funding process.

Major Conclusions

This analysis found no reason to suggest that the current SFCC funding formula should be changed.

The SFCC program has played a major role in addressing facility needs, and the SFCC manages its bonding duties responsibly. The research examined unique needs and characteristics of school districts, including growth, poor facilities, and limited financial resources. This analysis found no reason to suggest that the current SFCC funding formula should be changed. On average, growth districts have greater per-pupil funding and lower facility needs than nongrowth districts. This is evidence that the growth tax assessments are having the desired effect. The study recommends that the special needs of districts experiencing a rapid and relatively large growth in students over a short time period be addressed by a revision of the statutory definition of "growth districts."

While by definition, districts with limited resources have the least capacity to meet facility needs, the research found that per-pupil facility funding levels are not significantly less than in other districts. Similarly, the unmet facility needs of low-resource districts are not significantly higher than that of other districts, and their average SFCC offers of assistance are higher than that of other districts.

The number of schools in poor condition has been reduced by 61 percent over the past seven years, due largely to the Urgent Need Trust Fund and Category 5 programs. The study reports a need for greater attention to facility maintenance to ensure proper upkeep of school buildings and to prevent schools currently ranked as "fair" from becoming poor schools. However, more than three-quarters of school districts have no category 4 schools or just one school ranked as category 4.

State facility programs that operate outside the SFCC, which include growth nickel equalization, recallable nickel equalization, equalized facility funding, and Urgent Need or Category 5 funding,

have decreased the equity of facility funding. In addition, superintendents reported that funding for schools in the poorest condition might have had the unintended consequence of delaying needed maintenance on some schools.

The study recommends shortening the timeframe in which districts must update their facility plans, a transparent procedure for handling deviations from prescribed usage of SFCC and FSPK funding, and an alignment of cost allowances for new construction with actual construction costs.

The study recommends a number of procedural changes and clarifications to strengthen the facility funding system. Among these are a shortening of the timeframe in which districts must update their facility plans, a transparent procedure for handling deviations from prescribed usage of SFCC and FSPK funding, and an alignment of cost allowances for new construction with actual construction costs.

Purpose and Duties of the School Facilities Construction Commission

SFCC provides equitable distribution of funds for school construction and renovation based on unmet facility needs.

The SFCC's purpose is to provide an equitable distribution of funds for school construction and renovation based on the unmet facility needs of Kentucky's school districts.[4] SFCC was established in 1985 and is the successor agency of the Kentucky School Building Authority. Statutory authority for the SFCC is established in KRS 157.611 through 157.665, and the procedures for its operation are found in 750 KAR 1:010 through 2:010. SFCC is an independent corporate agency attached to the Finance and Administration Cabinet and consists of eight members appointed by the governor, a director, and two support personnel.

SFCC is empowered to act on behalf of school districts to issue bonds in its name and to enter into lease agreements with local boards of education to finance construction of new facilities and major renovation of existing school facilities.

Appendix A lists and summarizes the primary statutes and regulations pertaining to the SFCC and to facility construction and renovation funding.

Since 1985, SFCC has provided various amounts for debt service for bonds issued on behalf of districts to fund construction and renovation projects. SFCC offers of assistance are made once each biennium. As Table 1.1 shows, funding to the SFCC has varied significantly during this period. The middle column presents SFCC offers for each fiscal biennium from 1986-1988 through 2002-2004. These biennial amounts represent debt service paid by SFCC on behalf of the school districts for a 20-year period. The right

[4] SFCC also has a statutory responsibility for the implementation of the Kentucky Education Technology System. Technology funding is not analyzed in this study.

column shows the total bond revenue received by SFCC for bond sales for construction and renovation projects on behalf of school districts. These biennial amounts present the current value of the 20-year life of each SFCC offer.

Table 1.1
SFCC Offers of Assistance and Bonding Authorization
FB 1986-2002

Fiscal Biennium	Offers of Assistance	Bonding Authorization
1986-1988	$15,105,579	$176,109,066
1988-1990	$17,559,698	$204,720,521
1990-1992	$16,032,505	$186,915,674
1992-1994	$2,981,450	$34,759,366
1994-1996	$2,564,900	$29,902,997
1996-1998	$4,350,460	$50,720,032
1998-2000	$17,251,791	$201,130,776
2000-2002	$9,087,197	$105,943,489
2002-2004	$8,707,767	$101,519,893

Source: School Facilities Construction Commission.

SFCC offers of assistance per biennium varied from a low of $2.5 million in fiscal biennium 1994-1996 to a high of $17.5 million in FB 1988-1990.

As the table shows, SFCC offers of assistance per biennium varied from a low of $2.5 million in FB 1994-1996 to a high of $17.5 million in FB 1988-1990. Similarly, total bonding revenues for school construction and renovation per biennium have ranged from $29.9 million to $204.7 million. The General Assembly did not pass a budget in the 2002 and 2004 legislative sessions but did pass budgets in 2003 and 2005. In addition, the General Assembly has at times authorized but not fully funded SFCC's bonding activity. These events have contributed to the variation in SFCC offers of assistance and total bonding revenue.

Table 1.2 presents the funding mechanisms, eligibility criteria, and implementation date for all state and local school facility funding sources that are currently available to eligible school districts in Kentucky. Beginning in 1994 with the first tax levy tied to growth (first growth nickel), these state and local funding sources have operated outside the SFCC program. For school districts with category 5 schools that met criteria outlined in Table 1.2, funding provided by the urgent need program flowed through SFCC. However, SFCC served merely as a fiscal agent in selling bonds on behalf of the 35 districts that received urgent need funding in 2003 and 2005.

Table 1.2
School Facilities Capital Construction Funding: Local and State Funding Sources

Program	Description	Eligibility Criteria	Funding Source	Date Authorized
Capital Outlay	$100 per Adjusted Average Daily Attendance	Provided to all districts through the SEEK[1] formula.	State	1954
Local FSPK[2]	Districts may levy a 5-cent equivalent tax per $100 of property assessed.	All districts are permitted to levy this tax.	Local	1990
State FSPK Equalization	Local 5-cent equivalent tax is equalized at 150% of statewide average per-pupil assessment.	All districts with FSPK tax are eligible; equalization amount depends on local property wealth.	State	1990
SFCC[3]	KBE[4] certifies districts' facility needs. SFCC offers are made once each biennium, are based on state bonding authorization, and are calculated on districts' percentage of total state unmet need.	Districts must have an unmet need[5] as shown on approved facility plan, must participate in local FSPK, and must restrict all uncommitted local facility revenue on the balance sheet as of June 30 of odd-numbered years.	State	1985
First Growth Nickel	Eligible districts are permitted to levy a 5-cent equivalent tax for facility funding.	Growth of at least 150 students and 3% overall growth in last 5 years; debt service of at least 80% of capital outlay, and local and state FSPK; current enrollment greater than available classroom space; certified District Facility Plan.	Local	1994
Second Growth Nickel	Eligible districts are permitted to levy an additional 5-cent equivalent tax for facility funding.	Districts must have levied the first growth nickel and continue to meet growth criteria.	Local	2003
Equalization of the First Growth Nickel	Local tax receipts raised by the first growth nickel are equalized at 150% of state average per-pupil assessment.	Districts must have levied the second growth nickel.	State	2003
Recallable Nickel	Districts can levy an additional 5-cent equivalent tax for facility funding subject to a hearing and voter recall.	No special eligibility criteria beyond hearing and voter recall provisions.	Local	2003
Retroactive Equalization of Recallable Nickel	Local tax receipts raised by the recallable nickel are equalized at 150% of state average per-pupil assessment.	Equalization is retroactive—based on 2003 tax levies.	State	2005
Equalized Facility Funding	One-time allocation of equalization of 5-cent equivalent tax for facilities at 150% of state average per-pupil assessment; will pay districts for 20 years.	Districts must commit at least a 10-cent equivalent tax for building purposes or have debt service equal to at least 10-cent equivalent tax and received no other equalization except state FSPK.	State	2005
Urgent Need School Trust Funds or Category 5 Funding	Assists districts with category 5 (poorest) schools; funding is based on new construction or major renovation costs as certified on district's facility plan.	Project must be on District Facility Plan, school(s) must be category 5, school enrollment must meet KDE[6] best practice minimums of 300, 400, and 500 for elementary, middle, and high schools, respectively.	State	2003 and 2005

[1]Support Education Excellence in Kentucky. [2]Facilities Support Program of Kentucky. [3]School Facilities Construction Commission. [4]Kentucky Board of Education. [5]Unmet need is defined as the district's total facility needs minus available local revenue. Unmet needs must be greater than $100,000 to participate in SFCC. [6]Kentucky Department of Education.
Source: Kentucky Revised Statutes, Kentucky Administrative Regulations.

Facility Funding in Kentucky and Surrounding States

Kentucky's state share of facility funding was 63 percent, higher than all but West Virginia, which contributed 75 percent to facility funding.

Table 1.3 shows state support for school construction in Kentucky and neighboring states in FY 2000, the most recent year for which data were available for all states. Kentucky's state share of facility funding was 63 percent, higher than all but West Virginia, which contributed 75 percent to facility funding. However, West Virginia distributed these funds on a grant basis rather than with an equitable distribution formula. In terms of per-pupil spending, Kentucky's facility support was $281 per student. This amount exceeded spending in all surrounding states except Ohio.

The Condition of Kentucky School Facilities

The General Assembly requested that the Office of Education Accountability study the SFCC's ability to provide local school districts with necessary debt service to maintain a facility program that will be conducive to a positive learning environment. The issue of whether the condition of school facilities impacts student performance is the subject of a growing body of literature. Generally the research takes one of two approaches. Some studies attempt to link student performance to overall building age or condition, while others try to assess the impact on performance of specific facility systems such as lighting, air quality, and acoustics.

Table 1.3
FY 2000 State Support for School Construction in Kentucky and Surrounding States

Illinois	**Indiana**	**Kentucky**	**Missouri**
State share 46% State funding: $500,000,000 Per-pupil spending: $244.12	State share 4% State funding: $35,669,359 Per-pupil spending: $36.07	State share 64% State funding: $175,269,131 Per-pupil spending: $281.23	State share 1% State funding: $0 Per-pupil spending: $0
School Infrastructure Fund distributes capital outlay and debt service matching grants based on school district wealth. State restricts local tax effort; local capital funding done primarily through bond sales approved by local referenda.	Capital outlay is $40 per average daily attendance. Two low-interest loan funds are also available: Common Building Fund and Veterans Memorial fund. State limits school districts debt to 2% of current assessed valuation. Further debt can be incurred through lease-rental agreements with private or public holding companies.	Capital outlay is $100 per average daily attendance. SFCC debt service based on school districts' percent of total unmet facility need. Local effort $0.05 facilities tax is equalized at 150% of the statewide average per-pupil assessed property valuation.	No funding is provided for capital outlay or debt service. State reimburses districts for cost of bond issuance, based on need, up to 2% of bond value. State funding is financed by riverboat gambling revenue. There is no limit to the amount of local revenue districts may generate for education, subject to two-thirds majority voter approval. Bond sale revenue may only be used for capital outlay and bonding debt is limited to 15% of the district's assessed valuation.
Ohio	**Tennessee**	**Virginia**	**West Virginia**
State share 60% State funding: $533,002,857 Per-pupil spending: $292.67	State share 27% State funding: $171,418,431 Per-pupil spending: $189.39	State share n/a State funding: $219,600,000 Per-pupil spending: $171.41	State share 75% State funding: $72,000,000 Per-pupil spending: n/a*
Prior to 1997, local districts funded almost all capital costs. The Rebuilding Ohio Schools program established that year will run for 15 years. It operates 10 capital funding programs for various construction needs, most based on local wealth and some requiring local match.	Capital outlay funds, which are included in the state Basic Education Program, may be used for equipment, building facilities, or debt retirement. Allocation is based on local wealth and square footage needs.	Virginia school districts do not have independent taxing authority; local funds are provided by city and county governments. Capital outlay is financed through pooled bonds issued by VA Public Schools Authority. VA also operates a low-interest loan fund for capital construction.	The School Building Authority was established in 1988 to provide state funds for construction and maintenance. It has not issued bonds since 1994 but currently makes debt service payments for earlier bonds. State offers several targeted capital programs.

* State funds allocated based on review of districts' 10-year Comprehensive Facilities Plan by School Building Authority. Plans must demonstrate need.
Sources: State of Tennessee. Office of Education Accountability; National Conference of State Legislatures.

Aside from safety and health concerns, the primary policy rationales for state spending on school facilities are equity and enhanced academic performance.

While analysis of the relationship between school facilities and student performance is beyond the scope of this study, it is important to note that aside from safety and health concerns, the primary policy rationales for state spending on school facilities are equity and enhanced academic performance (Schneider). A June 2003 Issues Brief on facilities presented by KDE to the Kentucky Board of Education notes that "[r]esearch indicates that a school's physical environment impacts student achievement and enhances equal opportunities for all students, the attitudes and retention of staff and the degree of parental involvement" (Kentucky 1).

The Kentucky Department of Education's (KDE's) Division of Facility Management (DFM) uses a 5-point scale to rate the condition of school buildings, with 1 considered excellent and 5 considered poor.

KDE's Division of Facility Management uses a 5-point scale to rate the condition of school buildings. The Kentucky School Facilities Planning Manual 702 KAR 1:001 establishes the building evaluation system, presented in Table 1.4, which it requests that architects and engineers use in evaluating schools as part of a local facility planning process.

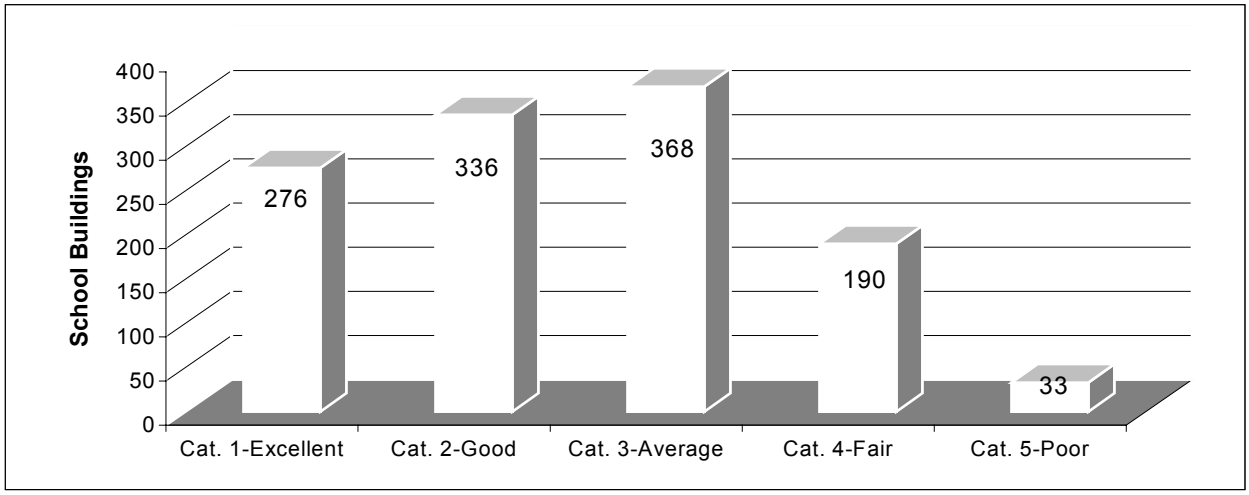
Table 1.4
School Condition Ranking Criteria

Ranking	Description	Ranking Criteria
1	Excellent	Functional age of 1-10 years. No apparent deterioration; basically new. [1]
2	Good	Functional age of 10-20 years. Minor deterioration; no improvements needed.
3	Average	Functional age of 20-30 years. Some deterioration; no improvements needed within the next 5 years.
4	Fair	Functional age of 30-40 years. Deteriorated; needs improvement or possible replacement.
5	Poor	Functional age older than 40 years. Deteriorated to the point of replacement; needs immediate attention. Required systems are nonexistent and need to be provided.

[1]Functional age is either actual age or years since last major renovation.
Source: 702 KAR 1:001.

According to data provided by DFM, as of April 15, 2005, there were 1,203 school buildings in use in Kentucky. Figure 1.A presents the condition ratings of these buildings as determined by KDE.

Figure 1.A
2005 School Building Condition Assessment



Source: KDE Division of Facilities Management.

About 82 percent of Kentucky's schools are rated excellent to average, and 19 percent are rated fair to poor.

Just over half of Kentucky's school buildings are considered by KDE to be in excellent or good condition; 82 percent are rated excellent to average, and 19 percent are rated fair or poor. Three percent of the state's public schools are currently considered to be in category 5 condition. However, of the 24 districts with category 5 schools, 18 districts received Urgent Need Trust Fund or Category 5 funding to replace or renovate these facilities. Once these projects have been completed, 26 category 5 schools will be removed from this list, but it is likely that some of the schools currently listed as category 4 will move into the category 5 rating when this list is updated by DFM.

It should also be noted that there are some schools listed by the KDE as category 1 where new construction or renovation is planned but has not yet begun, or where schools will be replaced or consolidated, but this has not yet been accomplished. Thus, the current number of Category 1 schools is slightly lower than indicated by KDE data, and the number of categories 2 through 5 may be slightly higher than shown in Figure 1.A. The process of determining the rating of facilities as well as the change in the condition of Kentucky's inventory of school buildings over time will be discussed later in the report.

It should also be emphasized that an important aspect of planning for school facility needs is not reflected in this review. Ideally the number of new schools that will be needed because of district

growth or because of deteriorating facilities should also be considered as part of the planning process.

SFCC Biennial Budget Process

Since 1985, 170 of the 176 public school districts have received debt service funding from SFCC.

The General Assembly appropriates funds to SFCC for administrative support and debt service. This budget review includes only appropriations related to the SFCC's bonding activity. Since 1985, 170 of the 176 public school districts have received such debt service funding. SFCC's normal process is to make its offers of assistance for debt service to school districts in July of even-numbered years, based on the bonding authority it has been provided by the General Assembly. Districts have 30 days to accept their offers and may request an additional 30 days to accept. However, as shown in Table 1.5, this timeline has varied in the past three fiscal biennia because of unfunded or underfunded debt authorizations and because the General Assembly did not pass budgets in the 2002 and 2004 Regular Sessions.

SFCC's budget consists of two parts: General fund appropriations and Capital Fund bonding authority.

The SFCC's budget consists of two parts: General Fund appropriations and Capital Fund bonding authority. General Fund appropriations cover existing debt service for previously issued bonds, funds to cover previously authorized SFCC offers of assistance that were escrowed for school districts, and appropriations to cover new bonding authority approved by the General Assembly. The Capital Fund bonding authorization portion is also determined by the General Assembly. It reflects the level of new debt that SFCC has been authorized to issue on behalf of school districts in a given biennium. The General Assembly also determines the interest rate SFCC uses in calculating the level of debt service needed to fund a given level of bonding authority.

In preparing its biennial budget requests, SFCC requests General Fund appropriations sufficient to cover existing debt, previously authorized unissued debt, and debt to service new offers.

In preparing its biennial budget requests, SFCC requests General Fund appropriations sufficient to cover existing debt, previously authorized unissued debt, and debt to service new offers. In its budget request relating to previously authorized unissued debt, SFCC budgets as follows. For the first year of a fiscal biennium, SFCC requests General Fund appropriations to cover about 30 percent of the debt needed to service the previously authorized unissued debt. It requests 100 percent of the General Fund appropriations needed to service authorized but unissued debt in the second year of the biennium. At the end of each fiscal year, any unused appropriations for new debt or previously authorized unissued debt are returned to the General Fund. Table 1.5 presents funding for SFCC in the past four biennial budget cycles from 1998-2000 through 2004-2006.

In FB 1998-2000, SFCC was authorized to issue $201.4 million in new debt but its General Fund appropriation was sufficient to fund only $109 million of this authorization.

In FB 1998-2000, SFCC was authorized to issue $201.4 million in new debt, but its General Fund appropriation was sufficient to fund only $109 million of this authorization. SFCC made offers in July 1998 for the total amount authorized but stopped selling bonds in April 2000 when its bond sales reached $109 million, which was the limit of its appropriated debt service.

In FB 2000-2002, SFCC was given authority through budget language to make offers totaling $100 million but received no General Fund appropriations. SFCC made offers totaling $100 million in December 2001 in anticipation of funding in FB 2002-2004.

In FB 2000-2002, SFCC was given authority through budget language to make offers totaling $100 million but received no General Fund appropriations for new debt service and no Capital Fund bonding authority. SFCC did not make its customary offers in July 2000 but did make offers totaling $100 million in December 2001 in anticipation of funding in FB 2002-2004.

The General Assembly did not pass a budget during the 2002 Regular Session; thus SFCC could not sell bonds on behalf of school districts in 2003. The 2003 budget language authorized SFCC to make offers totaling $100 million, but General Fund appropriations were sufficient to cover only $32.7 million of these offers. SFCC made offers totaling $100 million in December 2003 but stopped selling bonds in June 2004 when bond sales reached the funded limit of $32.7 million.

A similar pattern emerges for FB 2004-2006. The General Assembly did not pass a budget in the 2004 Regular Session. The 2005 budget language authorized SFCC to make offers totaling $100 million but neither General Fund appropriations for new debt service nor Capital Fund bonding authority were provided. SFCC made offers totaling $100 million in December 2005 in anticipation of funding in FB 2006-2008.

Table 1.5
School Facilities Construction Commission Funding (in millions) FB 1998-2006

		General Fund Appropriations			Capital Fund Bonding Authorization	
Fiscal Biennium[1]	*Fiscal Year*	*Existing Debt*	*Previously Authorized Unissued Debt*	*New Debt*	*Reauthorization*	*New Offers of Assistance*
1998-2000	1999	$56.9	$2.5	$2.6		
	2000	$58.9	$4.2	$9.5*	$35.7	$201.4
Notes: * The $9.5 million new debt appropriation funded only $109 million of the $201.4 million authorized. SFCC made offers totaling $201.4 million in July 1998 but stopped selling bonds in April 2000 when its bond sales reached $109 million, pending debt service funding for $92.4 million in offers outstanding in the FB 2000-2002 budget.						
2000-2002	2001	$70.1	$1.8	0		
	2002	$70.6	$8.1	0*	$109.0**	0
Notes: *$100 million in new offers was authorized in budget language, and SFCC made its 2000 offers totaling $100 million in Dec. 2001 in anticipation of funding in FB 2002-2004. However, neither General Fund appropriations for new debt service nor Capital Fund bonding authority were provided. The $92.4 million in offers made but not funded in FB 1998-2000 was covered by appropriations for previously authorized unissued debt. **The $109 million reauthorization included $92.4 million for these offers.						
2002-2004	2003	$75.6	0	0		
	2004	$77.5	$2.2*	$7.3**	$28.0	$242.7***
Notes: The General Assembly did not pass a budget in 2002. The $100 million in offers made in Dec. 2001 was covered by appropriations for previously authorized unissued debt. The 2003 budget language included authorization for $100 million in new offers, and SFCC made its 2002 offers totaling $100 million in Dec. 2003. *$2.2 million covers first-year debt service for the FB 2000-2002 offers. **However, of the $7.3 million in General Fund appropriations for new debt, $4.6 million was earmarked for category 5 schools. $2.7 million in new debt service went to SFCC and covered only $32.7 million of the $100 million in new offers. SFCC stopped selling bonds in June 2004 when its bond sales reached $32.7 million, pending debt service funding of $67.3 million in offers outstanding in the FB 2004-2006 budget. ***The $242.7 million in bonding authorized in the Capital Fund portion of the budget included $110 million for category 5 schools, $100 million for FB 2000-2002 SFCC offers, and $32.7 million for FB 2002-2004 offers.						
2004-2006	2005	$86.8	$4.0	0		
	2006	$87.6	$15.6	$7.7*	$164.4	$165.6**
Notes: The General Assembly did not pass a budget in 2004. The 2005 budget language included authorization for $100 million in new offers. SFCC made 2004 offers totaling $100 million in Dec. 2005 in anticipation of funding in the FB 2006-2008 budget. Neither General Fund appropriations for new debt service nor Capital Fund bonding authority were provided in the 2005 budget. The $67.3 million in offers made but not fully funded in FB 2002-2004 was covered by appropriations for previously authorized unissued debt. *The $7.7 million appropriation for new debt was for category 5 schools. **The $165.6 million authorization for new offers provided in the Capital Fund budget included $91.5 million for category 5 schools, $6.8 million for category 5 projects authorized in the FB 2000-2002 offers, and $67.3 million for projects authorized in the FB 2002-2004 offers.						

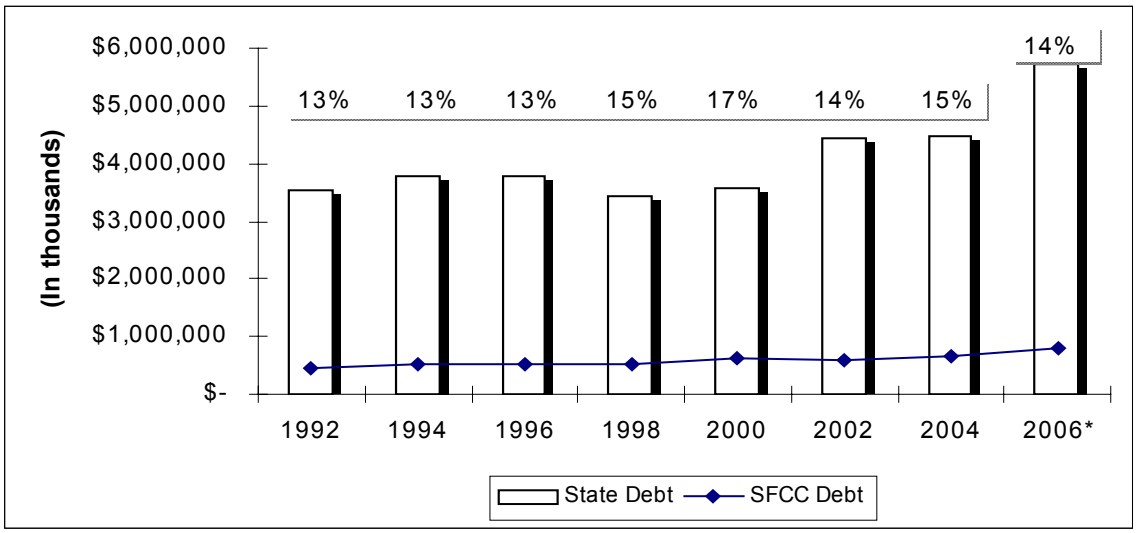
[1]An interest rate of 5.8% was used to estimate the level of debt needed to service bonding authorizations in FB 1998-2000 and 2000-2002. In FB 2002-2004 and 2004-2006 the interest rate was 5.6%.
Source: School Facilities Construction Commission

SFCC's bond debt outstanding has remained fairly constant from 1992 to 2006.

SFCC Debt Outstanding. Another way to look at state support for school facilities is to consider the level of state-supported outstanding debt that is held by SFCC. Figure 1.B presents the percent of total state General Fund appropriation-supported debt outstanding held by SFCC as of June 30 of the fiscal biennium, from 1992 through 2006.[5]

In this analysis, which was prepared by the Legislative Research Commission's staff economists, SFCC's bond debt outstanding has remained fairly constant during this time period. However, it should be noted that SFCC's outstanding debt for the 2004 and 2006 biennium includes Urgent Need Trust Fund bonds that have been issued by the SFCC but which are not part of the SFCC's regular facility funding program.

Figure 1.B
SFCC Percent of State Appropriation-Supported Debt Outstanding
FB 1992-2006



*2006 is projected debt balance.
Source: Culpepper and Clark.

[5] The 2006 estimates are projections prepared by the Legislative Research Commission's staff economists. They are based on the assumption that all projects authorized and reauthorized by previous General Assemblies were funded on a long-term basis prior to the end of FY 2004.

Determination of SFCC Offers of Assistance

Eligibility criteria for participation in SFCC are established in KRS 157.611 through 157.622. These statutory provisions are summarized in Appendix A of the report.

Eligibility criteria for participation in the SFCC program and procedures the agency must follow in determining offers of assistance to school districts are established in KRS 157.611 through 157.622 (see Appendix A).

In order to be eligible to participate in SFCC, school districts must meet the following criteria.

- School districts must participate in FSPK, which requires that districts commit an equivalent tax rate of 5 cents per $100 of assessed property for new facilities or major renovation of existing facilities.
- On July 1 of odd-numbered years, the district must restrict all available local revenue for facility construction or major renovation.[6]
- School districts must have an approved District Facility Plan certified by KBE. This plan, which must be updated every four years, establishes and prioritizes the district's capital construction needs within four general categories. Priority one projects denote new construction or major renovations to begin within the biennium. Priority two projects include new construction or major renovations not scheduled within the biennium. Priority three projects include noneducational additions or expansions, such as kitchens or administrative areas. Priority four projects include expansions of management support areas such as central offices or bus garages. Both priority three and four projects can be listed regardless of when construction is to begin.
- Districts' unmet facility needs, defined in KRS 157.615 as the total cost of new construction and major renovation needs on the approved school facility plan, minus any available local revenue, must be greater than $100,000. KDE uses a nationally generated average cost for new construction and renovation prepared by the RSMeans company.

The procedures by which SFCC determines its offers of assistance are set forth in KRS 157.622 and are intended to result in an equitable distribution of state funding.

SFCC Offers of Assistance. The procedures by which SFCC determines its offers of assistance are set forth in KRS 157.622 and are intended to result in an equitable distribution of state funding. KDE prepares and sends to KBE for certification a statement of each school district's available local revenue, eligibility for SFCC participation, and determination of the district's total facility needs

[6] As set forth in KRS 157.615, "available local revenue" means the sum of the school building fund account balance; the bonding potential of the capital outlay and building funds; and the capital outlay fund account balance on June 30 of odd-numbered years.

and unmet facility needs. These certified statements are then sent to SFCC. Included in this material are calculations of the total state level of unmet facility needs and each district's percent of total state unmet needs. Offers of assistance to eligible districts are determined by the level of bonding authority set by the General Assembly. SFCC distributes its debt service offers based on each district's percent of total state unmet needs.

Table 1.6 shows the relationship between the bonding potential that is generated by the SFCC's biennial offers of debt service assistance and the state's total unmet facility needs.

Table 1.6
SFCC Bonding Authority and Total State Unmet Facility Needs
FB 1994-2002

Fiscal Biennium	SFCC Bonding Authority	Total District Unmet Needs	SFCC Bond Authority - % of Total Unmet Needs
1994-1996	$29,902,997	$2,328,065,623	1.28
1996-1998	$50,720,032	$2,625,316,102	1.93
1998-2000	$201,130,776	$2,441,607,196	8.24
2000-2002	$105,943,489	$1,979,430,994	5.35
2002-2004	$101,519,893	$1,927,933,085	5.27

Source: School Facilities Construction Commission and Kentucky Department of Education.

The level of unmet construction and renovation needs of local school districts has fallen by 17 percent over the past decade, from $2.3 billion to $1.9 billion. SFCC's bonding activity on behalf of districts, considered as a percent of state school facility unmet needs, has increased slightly.

As Table 1.6 shows, the level of unmet construction and renovation needs of local school districts has fallen by 17 percent over the past decade, from $2.3 billion to $1.9 billion. SFCC's bonding activity on behalf of districts, considered as a percent of state school facility unmet needs, has increased slightly. However, the state school facility unmet needs figure is directly affected by the manner in which local school districts prepare their District Facility Plans. To illustrate, one school district could put all of its construction and renovation needs on the local plan, regardless of whether the district can reasonably expect to have enough bonding potential to actually address these needs. That district will have greater unmet needs, all things equal, than a similar district that only lists on its facility plan those projects it can reasonably expect to complete within a few biennia.

Facility Planning Process

The Kentucky School Facilities Planning Manual 702 KAR 1:001 specifies that the District Facility Plan "shall include the most critical building needs of the district, taking into consideration the

district's financial situation." Staff of SFCC and DFM noted that in the past few years, KDE has monitored the relationship between districts' facility plans and their financial capacity and has worked with local planning committees to approve facility plans that realistically reflect projects the district can accomplish in a reasonable timeframe (Tarvin; Ryles). However, a number of superintendents attending educational cooperative meetings commented that they see a need for more uniformity in the process of developing District Facility Plans.

Figure 1.C presents the process by which local school districts develop facility plans.

Figure 1.C presents the process by which local school districts develop facility plans. Although districts are required to update their plans every four years, they can apply to KBE for a waiver of this requirement if conditions in the district have not changed since the last facility plan was approved. Districts can also amend their plans as needed throughout the four-year period. The plan approval process is an iterative one, in which DFM works with local planning committees and boards of education to achieve a final District Facility Plan that will be sent to KBE for certification. As shown in Figure 1.C, districts are required to hold a minimum of two hearings to inform and solicit input from the community regarding the construction and renovation needs of the district.

Figure 1.C
District Facility Planning Process

LPC: local planning committee
LBE: local board of education
DFP: district facility plan

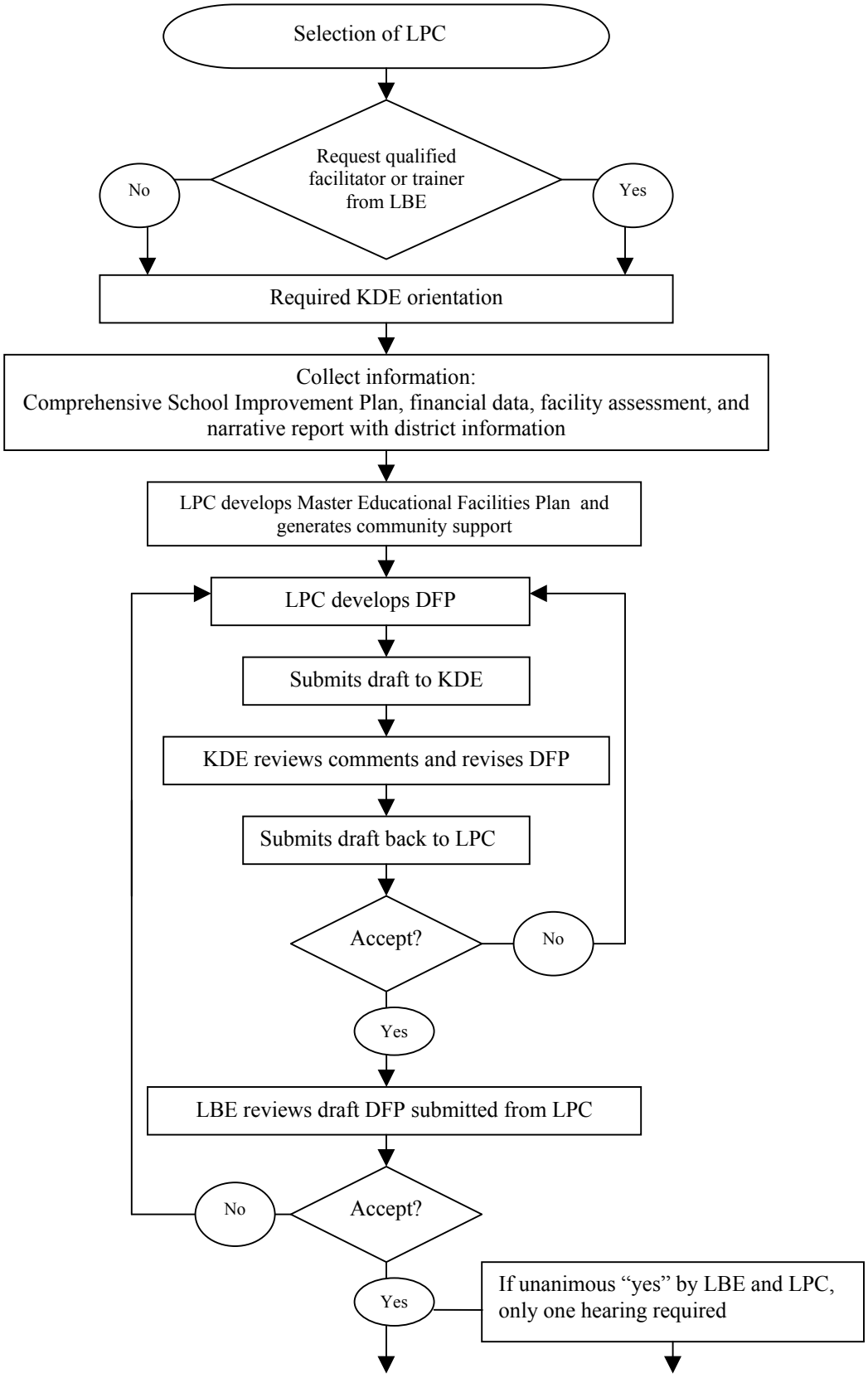
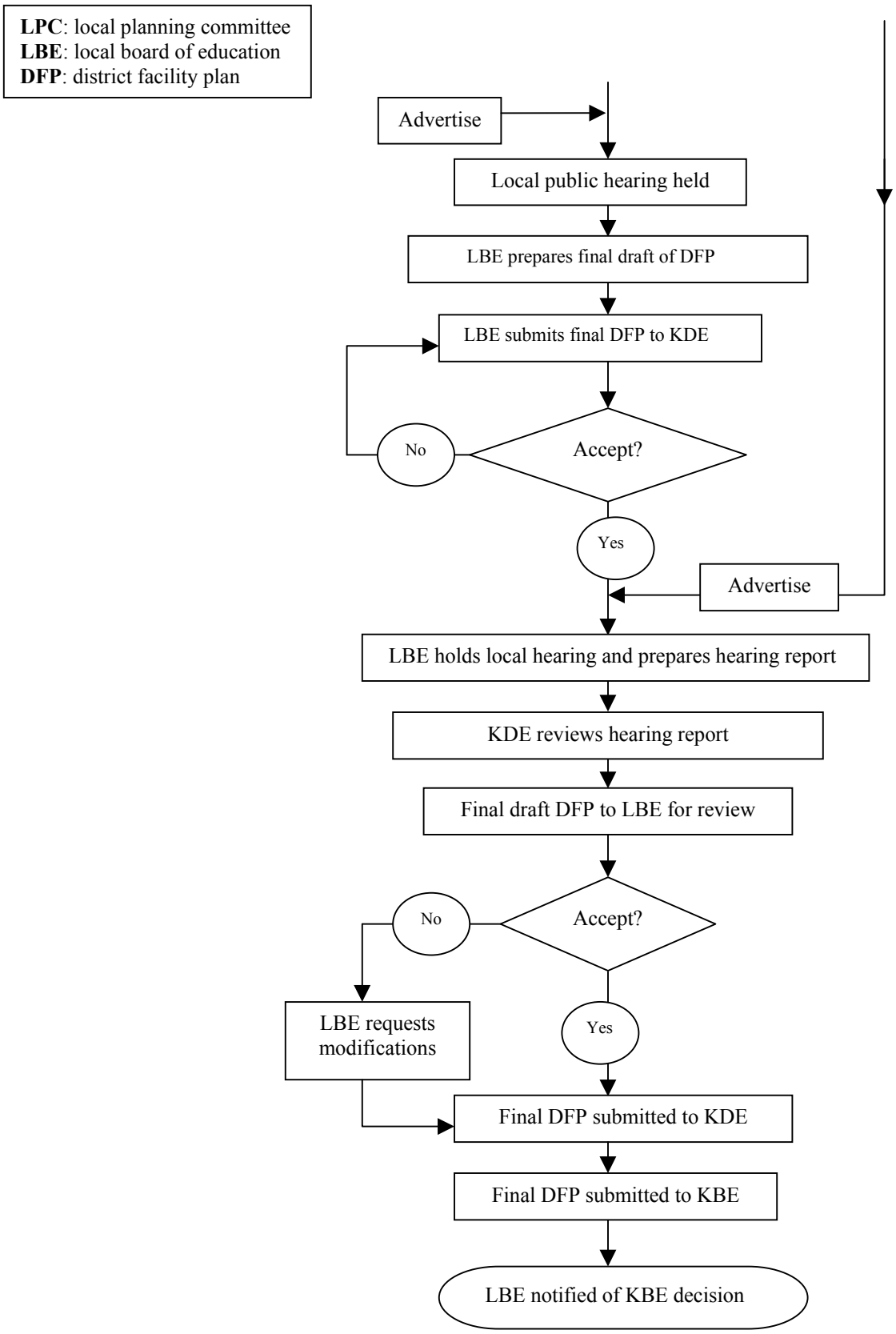


Figure 1.C. continued
District Facility Planning Process



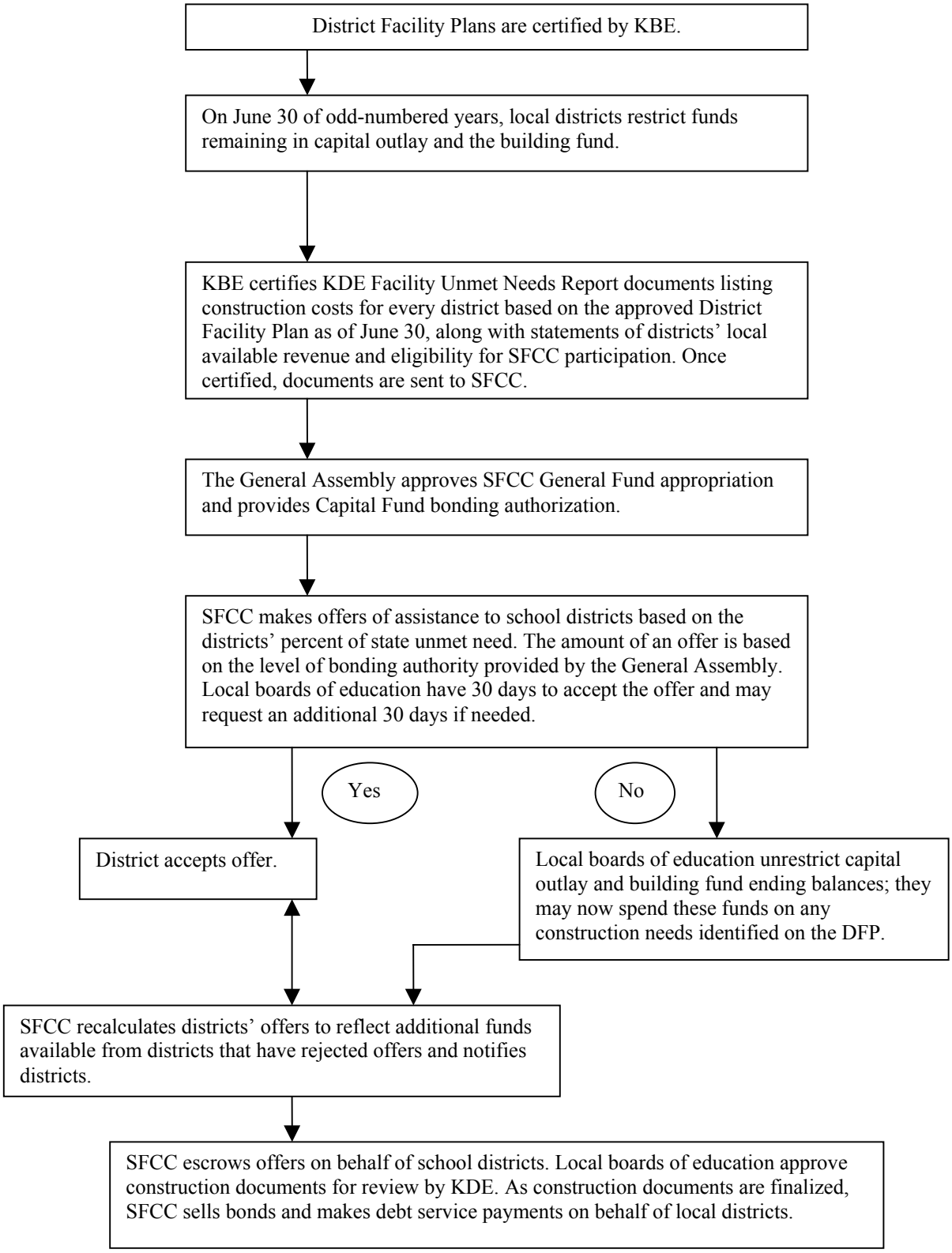
The process by which SFCC makes its offers of assistance is presented in Figure 1.D.

The process by which SFCC makes its offers of assistance is presented in Figure 1.D. SFCC receives a statement from KBE certifying each school district's facility needs, available local revenue, and eligibility to participate in the program. Once SFCC receives authorization from the General Assembly to make offers of assistance, it calculates districts' offers by multiplying SFCC total authorized debt service by each district's percent of state unmet facility needs. Offers are made by July 15 of even-numbered years and expire in 30 days, although districts may request an additional 30 days to respond. Once districts have accepted or rejected their offers, SFCC recalculates its offers to reflect the additional funding that is available because of rejected offers.

SFCC is permitted by statute to escrow offers on behalf of school districts for four years; however, current budget language allows offers to be escrowed for eight years.

SFCC is permitted by statute to escrow offers on behalf of school districts for four years. However, current budget language allows offers to be escrowed for eight years. Districts work with DFM and with local architects and engineers to prepare construction documents consistent with their certified District Facility Plan. SFCC offers of assistance must be used to fund districts' top construction priorities as listed on the facility plan. Once the construction documents are finalized and approved by KDE, SFCC sells bonds and begins to make debt service payments on behalf of school districts. All school construction bonds in Kentucky are financed for 20 years.

Figure 1.D
School Facilities Construction Commission Procedure for Offers of Assistance



Chapter 2

School Construction and Renovation: School Facilities Construction Commission and Other Funding Sources

Introduction

Chapter 2 analyzes the impact on school capital funding of non-SFCC programs and examines how these programs affect SFCC's ability to distribute funds equitably. The SFCC is the most frequently used source of state funding for new school construction and renovation.

This chapter analyzes the impact on school capital funding of non-SFCC programs and examines how these programs affect SFCC's ability to distribute funds in an equitable manner. Chapter 2 also presents the funding levels for local and state school capital programs from FY 1998 through 2005. While the SFCC remains the most frequently used source of state funding for school construction and renovation, the amount of revenue generated by other funding programs is greater than that provided through SFCC.[1]

Organization of the Chapter

The analysis begins with a review of the impact of facility funding on districts with limited resources, growth districts, and districts with buildings in poor condition. Total local and state school facility funding levels are presented, and the component programs that make up funding at the local and state level are analyzed. SFCC's ability to provide for the equitable distribution of capital funding is discussed in light of the targeted programs that operate outside SFCC. A brief review of federal sources of facility funding is also provided.

The analysis concludes with a discussion of other factors that impact the equitable distribution of facility funding. These factors include the process by which District Facility Plans are developed; SFCC funding for various project types; variations in the cost of new construction and in square footage per pupil for schools serving similar populations; and urgent need or category 5 funding.

[1] All school districts receive capital outlay funding through SEEK, and districts are required to participate in FSPK by levying a 5-cent equivalent tax for facilities (referred to as "local FSPK") in order to qualify for SFCC assistance.

Facility Funding and Unique District Characteristics

In 2005 budget language, the General Assembly expressed its commitment to SFCC's role in providing for the equitable distribution of school facilities funding.

In the 2005 budget, the General Assembly expressed its commitment to the role of SFCC in providing for an equitable distribution of facility funding based on unmet facility needs. The budget language also indicated the intent of the General Assembly that SFCC continue to be the primary means of assisting local school districts in maintaining a quality facility program. As is described in Chapter 1, SFCC provides debt payments on behalf of school districts based solely on the districts' proportion of total state unmet facility needs. The General Assembly directed the Office of Education Accountability to analyze the SFCC funding formula's ability to address unique district needs and specified that facility needs related to growth and building condition be studied. The funding formula used by SFCC to make offers of assistance is established in KRS 157.622 and no adjustments are made for unique district characteristics such as wealth, growth in enrollments, or the condition of school buildings in the district.

Facility Needs and Wealth

The General Assembly directed the Office of Education Accountability to analyze the SFCC funding formula's ability to address unique district needs and specified that facility needs related to growth and building condition be studied.

Table 2.1 shows the facility need and revenue of school districts in the lowest 20th percentile of per-pupil property assessment and reflects data used to calculate the SFCC offers made in December 2005. As the table shows, these low-resource districts have higher average per-pupil unmet need than other districts and have a lower ratio of local revenue to total facility need. In addition, low-resource districts' average unmet needs, as a percent of total facility needs, is slightly higher than that of other districts.

Table 2.1
Low-resource Districts' 2004 Per-pupil Facility Needs and Revenue

	Average Per-pupil Unmet Need	Average Local Revenue as a Percent of Total Need	Average Unmet Need as a Percent of Total Need	Average Per-pupil SFCC Offer	Average Per-pupil Escrowed SFCC Offers
Low-resource Districts	$5,655	13%	87%	$20	$31
All Other Districts	$4,149	18%	82%	$14	$13

Data are based on 2004 SFCC offers of assistance made December 2005. Low-resource districts are the 20 percent of districts with the lowest per-pupil property assessments.
Source: Staff calculations of KDE local available revenue and unmet need data.

There are few differences between low-resource districts and other districts in average local revenue and unmet need, compared to total facility need.

The magnitude of the differences between low-resource districts and other districts is relatively small, however. While average per-pupil unmet need is $1,506 higher in low resource districts, the difference between low-resource and other districts in terms of

average local revenue and average unmet need, as a percent of total need, is just 5 percent. Low-resource districts receive an average of $6 more per pupil in SFCC offers because of their greater need.

Low-resource districts also escrow SFCC offers of assistance at a greater rate than do other districts because their lower revenues create the need to save offers until they can accumulate sufficient bonding potential to address larger construction and renovation projects.

Facility Needs and Growth

The intent of the growth nickels is to help districts with significant increases in enrollment to meet facility needs exacerbated by growth.

In FY 2005, there were 26 school districts eligible to levy the growth assessment, and 18 of these districts levied the second growth nickel and received equalization. The intent of the growth nickels is to help districts with significant increases in enrollment to meet facility needs exacerbated by growth. Table 2.2 presents the facility needs and revenues of growth districts and compares them to nongrowth districts.

Table 2.2
Growth Districts' 2004 Per-pupil Facility Needs and Revenues

	Average Per-pupil Unmet Need	Average Local Revenue as a Percent of Total Need	Average Unmet Need as a Percent of Total Need
Growth Districts	$2,870	43%	58%
All Other Districts	$4,746	10%	90%

Data are based on 2004 SFCC offers of assistance made December 2005.
Source: Staff calculations of KDE local available revenue and unmet need data.

Growth districts have greater local revenue and lower facility needs, on average, than do nongrowth districts.

Growth districts' average per-pupil unmet need is almost $1,900 lower than that of other districts. The difference between growth and nongrowth districts in terms of average local revenue and average unmet need, as a percent of total need, is 33 percent. As Table 2.2 demonstrates, on average, growth districts have significantly lower facility needs and higher facility revenue than do nongrowth districts. However, for a few districts experiencing extremely rapid and large increases in student enrollment, the requirement that the increase in students and percent of overall growth be documented for five years may result in significant strain on school facilities.

For example, Boone County enrollment grew by 25 percent and added 2,884 students from FY 2000 to 2005. Oldham County grew 22 percent and gained 1,737 during that time. Several other school districts have also experienced rapid and large enrollment

increases. Incorporating additional students into existing schools creates a different level of facility need for districts with different circumstances. For smaller districts with fewer buildings, the impact of rapid growth—even at levels of less than 150 students—can be more significant than in a larger district where the growth is more widely dispersed or the growing student population can be absorbed into the current facilities through various means, including redistricting. A single growth formula applied to school districts with varying characteristics may not be the best way of achieving the policy goal of addressing student growth.

Facility Needs and Building Condition

All but seven category 5 schools will be improved once districts replace or renovate these facilities with urgent need funds. In addition, over three-quarters of all school districts have either no category 4 schools or just one category 4 school.

The review of state progress in improving the condition of school buildings, provided later in this chapter, demonstrates that the number of category 4 and 5 buildings has been significantly reduced over the past seven years. Due largely to the Urgent Need Trust Fund and Category 5 funding programs, all but seven category 5 schools will be improved once construction or renovation is complete.[2] The incidence of category 4 buildings is also important because they will become category 5 facilities unless they receive appropriate attention. However, while 51 percent of Kentucky's school districts have at least one category 4 building, more than three-quarters of all school districts have either no category 4 buildings or just one category 4 building. Of the 42 districts that have more than one category 4 school, 67 percent have just two or three facilities in fair condition, according to KDE's April 2005 building assessment.

The analysis of unique district needs and characteristics, including growth, resources, and building condition, found no evidence to suggest that modification to the current SFCC funding formula is needed to accommodate these issues.

The analysis of unique district needs and characteristics, including growth, resources, and building condition, found no evidence to suggest that modification to the current SFCC funding formula is needed. While these conditions do strain districts' ability to meet facility needs, the school facility system appears to be adequate in addressing these concerns.

[2] The 2003 General Assembly made a distinction in HB 269 between the Urgent Need Trust Fund and Category 5 funding. To qualify for urgent need funds, the category 5 project was required to be on the DFP. The category 5 funding was for districts that generally met the urgent need requirements but that did not list the project on the DFP. Additionally, almost all category 5 projects required school consolidation since enrollments were lower than best practice enrollment minimums. This report references Urgent Need Trust Fund and Category 5 funding interchangeably.

Local and State Facility Funding

The General Assembly has approved a number of funding programs for which most school districts are ineligible.

The General Assembly has approved a number of funding mechanisms at both the local and state level that operate outside the SFCC program. Based on eligibility criteria established for these funding sources, most school districts are not eligible to participate. Table 2.3 shows the number and percent of school districts that currently participate in the various funding programs.

The table does not include capital outlay or the FSPK. The capital outlay program funded as part of SEEK and FSPK equalization funds (referred to as state FSPK) are generally considered integral components of Kentucky's school facility funding effort. While the analysis that follows includes the share of total state school capital funding represented by these programs, they are considered in concert with SFCC because, like the SFCC program, they are also distributed equitably. As noted in Chapter 1, capital outlay distribution is based on size (i.e. number of pupils served); FSPK equalization is based on district wealth. Local FSPK participation is a prerequisite to participating in SFCC.

Table 2.3
FY 2005 School District Participation in Local and State Facility Funding Programs

Program	Funding Source	Districts Participating*	
		Number	Percent
School Facilities Construction Commission	State	174	99%
First Growth Nickel	Local	26	15%
Second Growth Nickel	Local	18	10%
Equalization of First Growth Nickel	State	18	10%
Recallable Nickel	Local	6	3%
Retroactive Equalization of Recallable Nickel	State	6	3%
Equalized Facility Funding	State	15	9%
Urgent Need or Category 5 Funding	State	35	20%

*Districts may participate in more than one program.
Source: SFCC and staff calculations from KDE data.

In reviewing the programs listed in Table 2.3, it is important to note that while most funding programs outside SFCC restrict participation to only those districts that meet specific criteria, in the case of the recallable nickel, most districts have chosen not to participate although all districts may levy the tax. The assessment is subject to a hearing and voter recall provision, which may make this levy difficult to accomplish in some districts. Six districts levied the recallable nickel in FY 2004 and qualify for equalization in FY 2006. Budget language specifies that only districts that levied the tax in FY 2004 are eligible for state equalization.

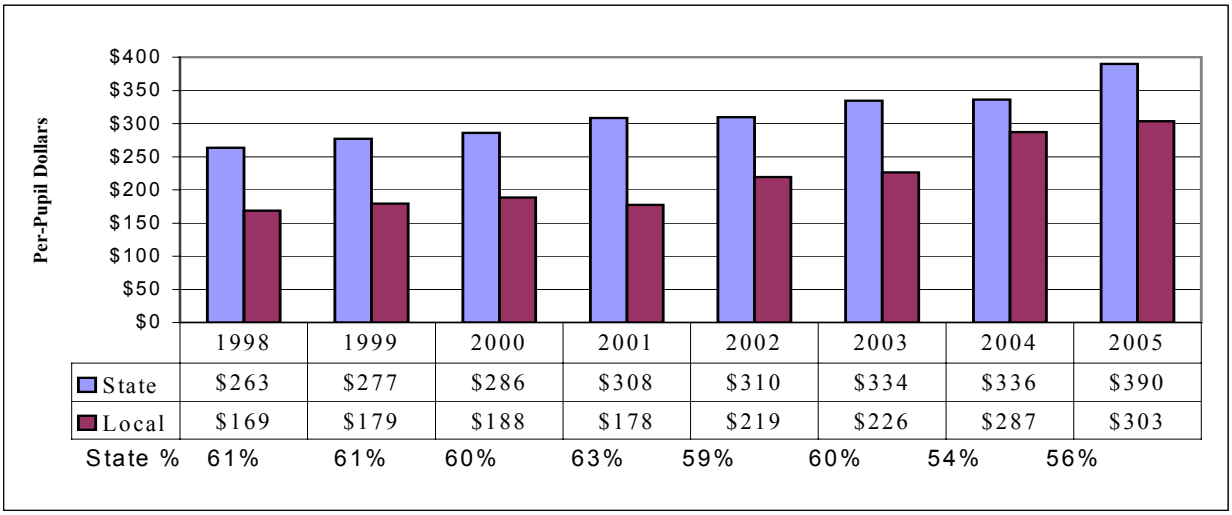
While 174 of Kentucky's 176 school districts have participated in SFCC since its inception in 1985, the number of districts participating in any given biennium will vary.

In addition, while 174 of Kentucky's 176 school districts have participated in SFCC since its inception in 1985, the number of districts participating in any given biennium will vary. This can happen if a district becomes ineligible because it has local revenue that exceeds its facility needs. An eligible district also may choose to reject an offer because it does not wish to restrict its local available revenue as required by SFCC provisions. Finally, although 15 districts met the criteria for equalized facility funding, two of these districts do not actually receive funding through this program because their per-pupil property assessments generate revenue in excess of 150 percent of the statewide average per-pupil assessment. Appendix B lists current school district participation in growth nickels and growth equalization, recallable nickel levy and equalization, equalized facility funding, and urgent need funding, as well as federal funding.

SFCC is the primary school facility program in terms of percent of school districts participating in the program. It is not the largest source of funding overall, but it is the source of the greatest share of state facility funding.

As demonstrated in Table 2.3, when examining participation rates, SFCC is the primary school facility program because almost all districts take advantage of this funding mechanism. Participation in the other local and state programs ranges from a high of 20 percent in the urgent need program assisting districts with the poorest-condition schools to a low of 3 percent participation in the recallable nickel local tax and state equalization programs. In terms of the level of resources provided through these programs, SFCC is not the largest source of facilities funding but, as shown below, it is the largest source of state funding.

Figure 2.A
Per-pupil Local and State Revenue for School Facilities FY 1998-2005



	1998	1999	2000	2001	2002	2003	2004	2005
State	$263	$277	$286	$308	$310	$334	$336	$390
Local	$169	$179	$188	$178	$219	$226	$287	$303
State %	61%	61%	60%	63%	59%	60%	54%	56%

Source: Staff compilations using KDE final SEEK calculations, districts' annual financial reports, and SFCC data.

Table 2.4 presents the components that make up local per-pupil facility funding from FY 1998 through FY 2005. Table 2.5 shows state per-pupil facility funding. Per-pupil calculations are based on total state adjusted average daily attendance.

State revenue makes up a greater share of total facility funding than revenue from local sources, although the difference has narrowed in 2004 and 2005. In 2005, state funding accounted for 56 percent of total facility funding in Kentucky

As Figure 2.A illustrates, state revenue makes up a greater share of total facility funding than does revenue from local sources, although the difference in state and local per-pupil facility funding narrowed in FY 2004 and 2005. State revenue accounted for 61 percent of facilities funding in FY 1998 and 1999, compared to 54 percent in FY 2004 and 56 percent in 2005. Total facility funding has increased 60 percent in the past eight years, from $432 per pupil in FY 1998 to $693 per pupil in FY 2005.[3]

The local Facilities Support Program of Kentucky (FSPK) generates the majority of local facility revenue, and it also generates more revenue overall than is generated by any state facility revenue source.

As shown in Table 2.4, from FY 1998 through FY 2003, there were only two sources of local funding: the local FSPK property tax and the first growth nickel tax that was authorized in 1994. Local FSPK generates the majority of local facility revenue, and it also generates more revenue overall than is generated by any state facility revenue source. By FY 2005, local FSPK revenues totaled $201 per pupil and accounted for 66 percent of total local facility revenue. By FY 2003 the growth nickel was generating $41 per pupil for those districts eligible to levy the tax.

The second growth nickel and the recallable nickel were authorized in FY 2003 and revenues from these levies are reflected in FY 2004 and 2005.[4] By 2005, local revenue generated by both growth nickels totaled $95 per pupil. Capital outlay has generated $100 per pupil in facility funding for all years.

[3] In inflation-adjusted real dollars, local facility revenue has increased 52 percent, from $169 per pupil in FY 1998 to $256 in FY 2005; and state revenue has increased 25 percent from FY 1998-2005, from $263 per pupil to $329 per pupil. Total revenue per pupil has increased 35 percent to $585 per pupil in real dollars during this period.

[4] In FY 2004, two school districts failed to follow budget requirements regarding tax levies for facilities. One district chose not to collect the recallable nickel although the tax had been approved. Another district levied the recallable nickel but failed to place the tax receipts in the building fund, so it is not clear if these receipts were committed to debt service, new facilities, or major renovations of existing facilities as required in budget language. Consequently, it appears that these two districts are not eligible for recallable nickel equalization. Table 2.B accurately reflects tax receipts raised at the local level. However, Table 2.C may overestimate recallable nickel equalization figures because it includes equalization for these two districts. The latest KDE data show these districts have received the first installment of this equalization.

Table 2.4
FY 1998-2005 Per-pupil Local Facility Revenue

Fiscal Year	Local FSPK	1st Growth Nickel	2nd Growth Nickel	Recallable Nickel
1998	$146	$23		
1999	$154	$26		
2000	$161	$27		
2001	$145	$33		
2002	$180	$40		
2003	$185	$41		
2004	$194	$49	$38	$6
2005	$201	$53	$42	$7

Per-pupil calculations based on total state adjusted average daily attendance.
Source: KDE Annual Financial Reports.

Local facility revenue is understated because districts also commit resources from their general funds to meet facility needs.

Local facility revenue reported in Table 2.4 is understated because districts also commit resources from their general funds to meet facility needs. KDE estimated that in FY 2004, $53 million in general fund expenditures went toward facilities.

State sources of funding grew in dollars and complexity from FY 1998 through 2006. SFCC debt service accounts for the greatest share of state facility revenue, and by FY 2005 it totaled $147 per pupil.

State sources of funding are reported in Table 2.5 and follow a similar pattern of growth in dollars and complexity from FY 1998 through 2006. SFCC debt service paid on behalf of school districts accounts for the greatest share of state facility revenue, and by FY 2005 it totaled $147 per pupil. State FSPK equalization, which the General Assembly fully funded during this time period, has also increased. As discussed in Chapter 1, the state equalizes local FSPK revenues up to 150 percent of the state average per-pupil assessment. As revenues generated by local FSPK increase, the funds needed to equalize the tax also increase.

Urgent Need funding for schools in the poorest condition was first authorized in FY 2003, and debt service for the first bonds sold through this program totaled $10 per pupil in FY 2005. This funding source will account for an increasing amount of state facility funding as eligible districts complete plans for construction or renovation and use these funds. In addition, staff estimate that the six districts eligible for equalization of their recallable nickel will receive $4 per pupil in facility funding in 2006, and the districts eligible for equalized facility funding will receive $8 per pupil in 2006.

Table 2.5
FY 1998-2006 Per-pupil State Facility Revenue

Fiscal Year	State FSPK	Capital Outlay	SFCC Debt Service	Urgent Need Debt Service	Growth Equalization	Recallable Nickel Equalization	Equalized Facility Funding
1998	$61	$100	$102				
1999	$75	$100	$102				
2000	$67	$100	$119				
2001	$84	$100	$125				
2002	$78	$100	$132				
2003	$103	$100	$132				
2004	$97	$100	$133		$5		
2005	$109	$100	$147	$10	$15		
2006 estimate	$101	$100	$147	$10	$16	$4	$8

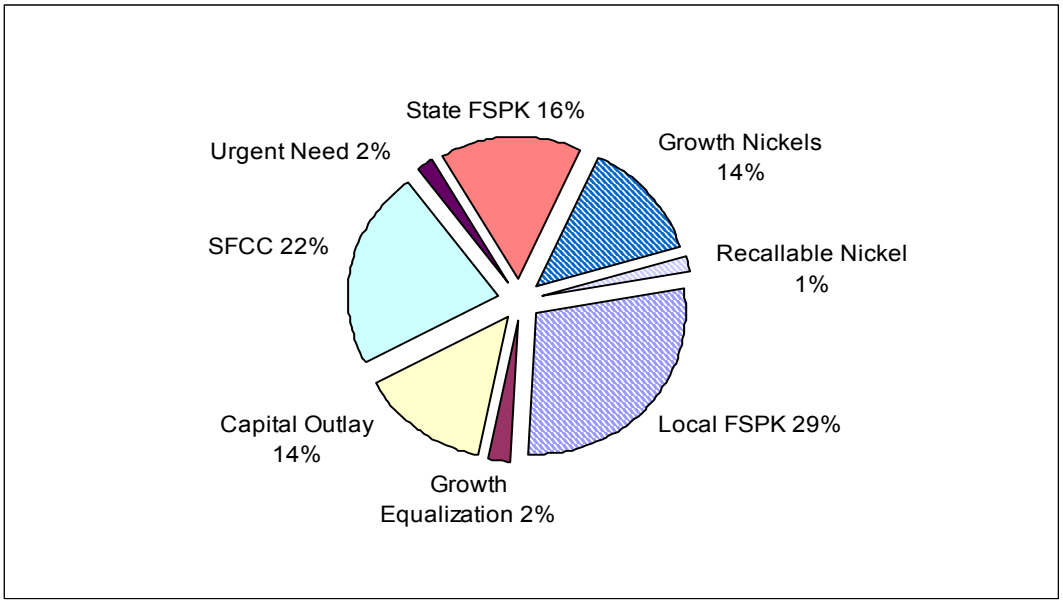
Per-pupil calculations based on total state adjusted average daily attendance.
Source: SFCC and staff compilations using KDE final SEEK calculations.

The Office of Education Accountability was asked to report on the SFCC's ability to adequately fund school construction and renovation needs, taking into consideration its mandate to provide for an equitable distribution of funds. While currently SFCC capital funding is the largest contributor to state facility revenues, it is just one of a number of state and local funding sources.

In FY 2005, SFCC accounted for about 22 percent of total facility funding.

Figure 2.B shows the relative magnitude of these revenues. In FY 2005, SFCC accounted for about 22 percent of total facility funding. State and local funding for which a minority of districts was eligible—growth nickels and growth equalization and urgent need funds—accounted for about 18 percent of total facility funding. In FY 2006, some districts will receive recallable nickel equalization and equalized facility funding. In addition, more districts will begin to use their urgent need funding. Therefore, the proportion of targeted funding going to a minority of eligible districts will increase.

Figure 2.B
FY 2005 Local and State Facility Funding



Solid colors represent state funding sources.
Source: KDE Annual Financial Reports and final SEEK calculations.

Federal Facility Funding

There are two federal programs through which Kentucky school districts have recently received facility funding: the Qualified Zone Academy Bond (QZAB) program and the emergency school repair and renovation program.

The General Assembly does not control federal sources of facility funding, but they are reported here to present a complete picture of school facility resources. There are two federal programs through which Kentucky school districts have recently received facility funding: the Qualified Zone Academy Bond (QZAB) program and the emergency school repair and renovation program.

The QZAB program was established in 1997 to assists K-12 schools located in low-income areas to fund renovations, repairs, or improvements to their schools. QZAB funds can also be used to invest in equipment and technology, as well as curriculum design and teacher training, but the funds cannot be used for new school construction.

Since FY 1998, 56 school districts have received a total of $48.5 million from the QZAB program. Twelve districts received QZAB assistance in multiple years.

Schools receive assistance from QZAB through the sale of tax-credit bonds, for which the federal government gives bond holders tax credit in lieu of interest payments. Districts receiving QZAB assistance do not have to pay interest on the bonds, which can result in savings of up to 50 percent of the cost of renovation. To be eligible to participate, schools must have at least a 35 percent free or reduced lunch student population, or the school

district must be located in an Empowerment Zone or Enterprise Community. Schools must also have a private entity willing to supply materials, in-kind service, or cash contributions worth at least 10 percent of the bonds sold.

Table 2.6
Per-pupil Qualified Zone Academy
Bond Funds FY 1998-2005

Fiscal Year	QZAB Funds	Districts Participating	
		Number	Percent
1998	$6,777,000	2	1%
1999	$6,572,000	6	3%
2000	$5,657,000	8	5%
2001	$5,550,000	6	3%
2002	$5,637,000	10	6%
2003	$5,763,000	11	6%
2004	$6,249,000	12	7%
2005	$6,249,000	13	7%

Source: Staff calculations of KDE data.

Table 2.6 lists the dollar amounts and the number of Kentucky schools that have received QZAB assistance from FY 1998 to 2005. In 1998, two schools received more than $6.7 million in assistance from the QZAB program. Since 1998, the number of participating districts has increased. Award amounts have stayed relatively constant: in FY 2004, a total of 12 schools and in FY 2005, a total of 13 schools received more than $6.2 million from the QZAB program.

The Emergency School Repair and Renovation, IDEA-B, and Technology grant was a one-time federal award of $17 million received by the state in FY 2001 and distributed to school districts over the next several years. Seventy-five percent of the grant could be used for facility repairs or renovations. The remaining 25 percent could be used to satisfy Americans with Disabilities Act requirements under Part B of the Individuals with Disabilities Education Act and for technology purchases. KDE determined districts' eligibility based on the percent of students living in poverty and whether the district was located in a rural area.

Through the emergency school repair and renovation grant, 42 districts received funds totaling $16.9 million for one or more components of the grant program.

Table 2.7 shows the number of districts participating and the award amount. A total of 42 districts received funds totaling $16.9 million. Although private schools were eligible and one applied, no private school received grant funding.

Table 2.7
FY 2001 Emergency School Repair & Renovation, IDEA-B, and Technology Grant

	Repair & Renovation	IDEA-B ADA Awards	Technology Awards	Total Awards
Amount awarded	$12,700,019	$1,865,578	$2,367,761	$16,933,358
Number of districts	36	12	19	42

Source: KDE Final Award Calculations.

A simulation analysis compared the current distribution of facility funds with one in which targeted funding was allowed to flow through SFCC. When targeted funding was eliminated and all funding flowed through SFCC, facility revenue increased for the poorest districts and overall equity increased.

To explore further the impact that non-SFCC sources of state funding have had, a simulation was conducted comparing a commonly used measure of equity under the current distribution of state facility revenue to the revenue districts would have received if certain non-SFCC state funds had been distributed through SFCC. In the simulation, urgent need funds, growth nickel and recallable nickel equalization, and equalized facility funding were redistributed through SFCC based on district percent of unmet need. This analysis found that facility revenue was increased for poorer districts and that overall equity increased. Appendix C reports on the simulation.

SFCC's ability to provide for equitable distribution of facility funding is limited when state capital funds are dedicated to programs for which most school districts do not qualify.

The next section considers other factors that impact the equitable distribution of facility funding. These include the process by which school districts establish their DFPs and are funded based on these plans, as well as equity issues related to the funding of selected districts with schools in the poorest condition.

Establishing and Funding District Facility Plans

There are four distinct but related matters regarding DFPs that impact the distribution of facility funding. These include the scheduling of facility plan updates; the use of SFCC funding for districts' priority one and two projects; the use of SFCC funding for projects that appear to be ineligible for SFCC funding; and the process by which school construction costs are estimated. These issues are discussed below.

Facility Plan Updates

Districts are required to update their Master Education Facility Plans (MEFP) annually and to update their District Facility Plan (DFP) every four years.

As described in Chapter 1, school districts are required to prepare a new DFP every four years. If conditions in the district have not changed, the district may ask to waive this requirement for up to four additional years. If a district's facility needs change, it may seek KDE approval to amend its DFP before its next plan is due to be submitted. Districts are also required by 702 KAR 1:001 to consider facility needs and conditions as part of a required annual review of their Master Education Facility Plan. The facility plan includes data on demographics, transportation, student assessment, educational programs, and financial information that make up the Comprehensive District Improvement Plan. However, the regulation also stipulates that districts are to conduct a facilities assessment, using architect and engineering input, to specify facility needs.

The MEFP annual review requirement appears to conflict with the requirement that school districts update their facility plans every four years.

The facility plan annual review requirement appears to conflict with the requirement that school districts update their facility plans every four years. DFM staff have indicated that they do not enforce the facility plan requirement because much of the information is already included in the improvement plan. However, because the requirement is not enforced, it is not possible to know how many school districts engage in ongoing, annual facilities planning efforts. In addition, it is not possible to know whether all districts include input from local architects and engineers that would assist KDE in both the determination of districts' facility needs and the appropriate condition ranking of schools in the district. Moreover, it is likely that some districts actually do frequent reviews of facility needs even though they may formally update their facility plans every four years, while others may seek waivers and not engage in facility planning for a significant period of time. According to KDE, the most current approval date for districts' facility plans is as follows:

District Facility Plan Approval Date	Percent of School Districts
2001	1%
2002	16%
2003	36%
2004	18%
2005	19%
Currently have approved waiver:	9%

Source: KDE Division of Facilities Management.

There are 16 districts with approved waivers, which can be in place for up to four additional years. Some of these districts may be using a facility plan that was initially approved prior to 2001. Although new facility plans must be approved by KBE, waiver requests are approved by KDE.

Under both statute and regulation, districts must have a current DFP certified by Kentucky Board of Education in order to be eligible for any state facility funding. In addition, in order to accurately determine Kentucky's unmet school facility needs, district facility plans must be current. The MEFP annual planning procedure is a "best practice" policy that should be followed.

These issues are important for several reasons. First, under both statute and regulation, districts must have a current DFP certified by KBE in order to be eligible for any state facility funding. Second, in order to accurately determine Kentucky's unmet school facility needs, district facility plans must be current. Even if a district has an approved facility plan that has been in place for fewer than four years, if it does not reflect the district's current facility plans, the district's needs will be misstated. This could be particularly troublesome for a district experiencing rapid growth. Third, SFCC funding is based on a school district's percent of total state unmet need. Districts with facility needs that are not reflected on their plans are underestimating their needs and will receive lower SFCC offers of assistance than they would be eligible for if their plans were current. Finally, with respect to KDE's failure to enforce the facility plan requirement, KDE's facilities planning regulation was revised in 2004 and the facility plan requirement was retained, thus suggesting that the annual planning procedure is a "best practice" policy that should be followed.

Project Priorities and SFCC Funding

SFCC is required by KRS 157.622 and 702 KAR 1:001 to fund projects in priority order. KDE's facility regulation states that "projects utilizing SFCC funds shall be completed in priority order; for example, priority 1 projects shall be completed prior to priority 2 projects" (702 KAR 1:001).

Facility plans list and prioritize capital construction needs within five priority areas, as described in Chapter 1. SFCC funding may only be used for projects in priorities 1 through 4. Briefly, priority 1 projects include new construction or major renovation of educational facilities "to begin within the biennium," and priority 2 projects mirror those in priority 1 but are "not scheduled within the biennium." Priority 3 and 4 projects are listed "regardless of schedule"; priority 3 includes noneducational additions or expansions such as kitchens or administrative areas; priority 4 includes management support areas such as central offices.

There are inconsistencies in the Kentucky Department of Education's descriptions of projects that can be included in the various priority listings. If districts interpret the criteria differently, they may develop different priorities for similar projects.

There are inconsistencies in KDE's descriptions of projects that can be included in the various priority listings. The examples of projects listed in priorities 1 and 2 as "educational facilities" include *kitchens, cafeterias, administrative areas, auditoriums and gymnasiums*. However, the description of priority 3 "Other Projects (Regardless of Schedule)" refers to "non-educational additions or expansions" including *kitchens, cafeterias, administrative areas, auditoriums and gymnasiums*. Since the description of priority 3 projects is identical to some of the projects contained in priorities 1 and 2, it is unclear what criteria are used to develop these priorities. If districts interpret the criteria differently, they may develop different priorities for similar projects. KDE has indicated that if construction or renovations of kitchens, cafeterias, administrative areas, auditoriums, and gymnasiums are part of a major renovation, they would be placed in priority 1 or 2. If they are stand-alone projects, they would be placed in priority 3. However, the regulation contains no such clarifying information.

Although statute and regulation stipulate that projects using SFCC funds be completed in priority order, SFCC staff noted that SFCC makes no distinction between projects in priority 1 and 2.

A potentially more significant problem relates to the use of SFCC funding based on priorities. Although statute and regulation stipulate that projects using SFCC funds be completed in priority order, SFCC staff noted that SFCC makes no distinction between projects in priority 1 and 2.

According to SFCC, the policy of permitting its funds to be used for priority 1 and 2 projects as approved by KDE was established prior to current staff joining the agency. The SFCC commissioners reviewed the policy and determined it to be consistent with SFCC's goal of funding construction of classrooms or other instructional facilities. The rationale for the policy was the fact that in the first few years of KERA implementation, school districts listed a large number of so-called KERA strands under priority 1. KERA strands are new additions required under education reform for preschool, school-based decision making, and family resource facility requirements. According to SFCC, districts are allowed to use its funds for priority 2 when they have educational facility needs that are more pressing than KERA strand needs.

At this point, many school districts have addressed KERA strand projects. The impact of permitting districts to use SFCC offers for priority 2 projects prior to completing their top priorities means that funding can be earmarked for projects not scheduled within the biennium while top priority needs are not addressed. When considered together, the problem of inconsistencies in what projects should be listed in priorities 1 through 3, and the use of SFCC funds outside of priority order, create the potential for

variations in how DFPs are written and in the ways in which SFCC funds are permitted to be used.[5]

SFCC Funding for Ineligible Projects

In order to study in more detail the funding of school construction and major renovation through SFCC, a random sample of 49 school districts was selected. Appendix D reports the sampling methodology and provides a list of sample districts. The Office of Education Accountability reviewed all DFPs for these districts on file with DFM, all construction application forms approved by KDE for these districts, as well as KDE's internal construction tracking documents, from July 2000 through September 2005.

The construction application forms, known as BG-1 forms, contain a description of the project, an estimate of the project cost, square footage and building capacity data, and a listing of all funding sources. In some cases, the internal construction tracking documents list the project priority from the DFP, but often the priority is not listed. In addition, there are numerous instances when a priority number is listed but is not actually on the DFP that was certified by KBE at the time the BG-1 form was submitted and the project was approved.

This review identified a small number of instances in which SFCC funds were used for projects that appear to be ineligible.

This review identified a small number of instances in which SFCC funds were used for projects that appear to be ineligible. As described in Chapter 1, SFCC funds may only be used for new construction and major renovation projects listed on the DFP and must be used in priority order. The inconsistencies between regulatory requirements and approved projects utilizing SFCC funds are summarized below.

- **Projects Funded Out of Priority Order**. SFCC funds have been used for priority 2 projects prior to completion of priority 1 projects. As noted above, this practice does not comply with statutory and regulatory requirements, and it significantly weakens the impact of the priority ranking system. In addition, the review discovered a few instances in which SFCC funds were used for projects that were ranked lower than the top two priorities.

- **Funds Used for Nonmajor Renovations**. SFCC is required by KRS 157.615(11) to apply offers of assistance to eligible projects, which are "defined item(s) of need to construct new

[5] Since this report was written, SFCC acted to revise its policy to correct the indiscriminate use of its funds for priorities 1 and 2.

facilities or to provide major renovation of existing facilities" as identified on the priority schedule of the approved school facilities plan. The Kentucky School Facilities Planning Manual 702 KAR 1:001 defines a major renovation as "a renovation project at a permanent center ... including three (3) or more building systems." Building systems are defined as "foundations, exterior walls, roofing, ceilings, structural, mechanical (HVAC), electrical, plumbing, sewage, doors and hardware, windows, floor coverings, technology, and fixed equipment." The review of the random districts' BG-1 forms showed a number of renovation projects using SFCC funds that did not include at least three building systems at the same school.

There are inconsistencies in the use of SFCC funds for the purchase of land for new construction.

In addition, there are inconsistencies in the use of SFCC funds for the purchase of land for new construction. According to the SFCC executive director, agency funds may be used for land acquisition if the bond sale covers an entire project including both land and construction. The director of DFM stated that KDE's policy is to permit land acquisition to be funded through SFCC, or through FSPK or capital outlay, if land is a direct construction expense as defined by a BG-1 project application. This means that if districts have sufficient local resources to submit a BG-1 application that includes both building construction and site acquisition, the land is considered a direct construction expense. However, districts with limited resources must purchase land and construct facilities in phases. In these cases, the districts are not permitted to use SFCC funds, FSPK, or capital outlay for land acquisition and must purchase land using their general fund.

A similar situation occurs with the funding of athletic fields. If the cost of athletic facilities is included in a BG-1 that covers total construction costs, SFCC funds may be used. However, a project that covers only athletic facilities generally is not eligible for SFCC funding.

Although not directly related to SFCC, the BG-1 forms also showed that KDE permitted districts to use FSPK funds for renovations that did not include three major systems at one facility and thus were not major renovations. The forms also showed that FSPK funds were used for land acquisitions that were not a direct construction expense for a new building. In addition, KRS 157.620(3) permits school districts that have restricted their local available revenue in preparation for receiving an SFCC offer to use these funds prior to receiving

SFCC funding on projects listed in priority order on the DFP. The Office of Education Accountability's review of BG-1 forms found evidence that some construction applications were approved in which these escrowed funds were applied to projects that were not on the DFP at the time of approval and to projects that were not top priorities.

The current practice of allowing some districts to use SFCC and other facility funding for ineligible projects creates inequity within the established system of facility funding.

The current practice of allowing some districts to use SFCC and other facility funding for ineligible projects creates inequity within the established system of facility funding.

- **Treatment of Refinanced SFCC Bonds**. Per KRS 157.622(6), when SFCC bonds are refinanced and savings occur, SFCC is required to apply the savings to the district's account to be used toward the district's next priority project. Language in 750 KAR 1:010(10) conflicts with this requirement. The regulation stipulates that if the refinancing results in savings sufficient to lower the new debt service payments below the level currently being paid by SFCC, the savings generated are credited to the district's account, which is consistent with statutory requirements. However, when the savings generated through refinancing are low enough that SFCC's debt service can be maintained at the same level after the refinancing, 750 KAR 1:010 (10) permits the savings, including any accrued interest, to be credited directly to the district. In addition to the inconsistency between statute and regulation, the effect of returning refinancing savings directly to districts is to lower the districts' annual debt service payments by the amount of the total savings. In this case, funds generated by the savings may be used by the district for projects that are ineligible for SFCC funding.

Variations in Estimated Construction Costs. The Division of Facility Management uses a publication called *Means Building Construction Cost Data*, published by the RSMeans company, to establish the cost for construction that is listed on school districts' facility plans. The publication provides square footage cost estimates for new construction and renovations for elementary, middle, and high schools based on national averages from approximately 11,200 projects. Architectural fees and land costs are not included in the square foot estimates. The estimates are updated annually, and a new edition of the book is published each October providing square footage data as of the prior January (RSMeans).

The Division of Facility Management (DFM) uses a publication called *Means Building Construction Cost Data*, published by the RSMeans company, to establish the cost for construction that is listed on school districts' facility plans.

RSMeans calculates the cost-per-square-foot data in three ways: one-fourth costs, median, and three-fourths costs. Data in the one-fourth estimates are square footage costs in which 25 percent of the sample had lower costs and 75 percent had higher costs. In the median cost estimates, half the projects were more expensive and half were less expensive. In the three-fourths cost estimates, which are used by DFM, 75 percent of the sample projects had lower square footage costs and 25 percent had higher costs. DFM does not make adjustments for regional variations in cost although the RSMeans publication does provide regional cost multipliers.

DFM does not make adjustments for regional variations in cost although the RSMeans publication does provide regional cost multipliers.

The RSMeans publication provides two methods of adjusting costs by geographic region: a "location factor index" and a "city cost index." Location cost indicators are broken out by city and zip code and can be used to adjust for variances in materials, installation, and total building cost per square foot. The city cost index allows for adjustments to be made based on location and on specific construction cost components such as equipment rental; site construction; concrete; and wall finishes, paints, and coatings. Cities that are not listed in the publication are advised to use estimates for nearby cities with similar economic conditions. The publication provides regional adjustment multipliers for Corbin, Covington, Elizabethtown, Frankfort, Hazard, Henderson, Lexington, Louisville, Owensboro, Paducah, Pikeville, and Somerset.

To illustrate, the publication lists the following material, installation, and total figures in its location factor index for Somerset and Covington:

2006 RSMeans Location Index (Selected Kentucky Cities)

	Cost Per Square Foot Estimate		
	Material	Installation	Total
Covington	93.8	91.9	93.0
Somerset	91.6	45.1	70.9

Source: RSMeans.

The index compares Kentucky costs to national average costs and shows that total construction costs in Somerset are about 71 percent of the national average, compared to Covington's estimated cost that is about 93 percent of the national average. Most of the difference is due to estimates of higher labor costs in Covington.

As noted above, DFM does not use these regional multipliers. The construction cost listed on the district facility need assessment is the 3/4 cost listed in the RSMeans publication. Appendix E

explains the method KDE uses to determine the maximum project budget, including square footage allowances for program space (classroom space) and unassigned space.

Regardless of what a project may actually cost, the district need assessment calculated by KDE, and used to determine a district's total facility need, is based on the 3/4 cost estimate and is limited to KDE's square footage allocation.

Regardless of what a project may actually cost, the district need assessment calculated by KDE and used to determine a district's total facility need is based on the 3/4 cost estimate and is limited to KDE's square footage allocation. In other words, a district may choose to build a much bigger school than KDE's allowances would provide for and may choose to designate greater space to unassignable (nonclassroom) space than KDE's guidelines specify. However, the maximum project budget, which is used to determine the district's facility need, is determined by multiplying KDE's square footage allocation by the 3/4 cost per square foot. The school district is responsible for funding any amounts above KDE's maximum project budget allowance.

The Office of Education Accountability studied the costs of new construction from 2000 through 2005 for the random sample of 49 school districts.[6] The districts' BG-1 forms were used to examine the variations in cost per square foot, cost per capacity, square footage per student capacity, and the difference between the districts' costs and the 3/4 cost allowance used by KDE. Only new elementary school construction cost data are reported here because there was not a sufficient number of middle schools and high schools constructed during this time period to allow for a meaningful comparison among districts. Table 2.8 summarizes the construction data.

The sample includes 33 new elementary school projects in 23 school districts for which construction was approved from January 2000 through September 2005. Table 2.8 reports the project in capacity order, from 325 to 850 students. The intention of this analysis is to examine the cost and space variation in recent construction. However, it should be noted that most of these projects have not been completed so the cost data are estimates. For example, the total estimated costs reported in the table include a 5 percent contingency allowance, required by KDE, for those projects that have not been completed.

[6] None of the 49 sample school districts had new construction in 2001, so all new construction approved that year is included in the analysis.

Table 2.8
Sample School Districts' Elementary School
New Construction Estimated Costs FY 2000-2005

District and Location*	Project Year	Total Estimated Cost	Gross Square Footage	Student Capacity*	Cost Per Square Foot	Cost Per Student	Gross Square Foot Per Student
Graves Co.	2003	$6,171,281	46,369	325	$133	$18,989	143
Graves Co.	2003	$6,176,192	46,369	325	$133	$19,004	143
Barren Co.	2001	$5,542,369	45,000	350	$123	$15,835	129
Bardstown Ind.	2002	$6,742,188	44,108	360	$153	$18,728	123
Christian Co.	2001	$8,048,400	61,835	400	$130	$20,121	155
Graves Co.	2003	$6,395,081	52,107	425	$123	$15,047	123
Franklin Co.	2001	$7,960,000	63,072	450	$126	$17,689	140
Franklin Co.	2001	$9,021,825	63,072	450	$143	$20,049	140
Russell Co.	2003	$6,355,000	54,800	450	$116	$14,122	122
LaRue Co.	2001	$7,853,525	53,880	500	$146	$15,707	108
Rockcastle Co.	2000	$6,686,728	55,000	500	$122	$13,373	110
Scott Co.	2001	$12,782,066	60,000	500	$213	$25,564	120
Grayson Co.	2000	$9,430,952	57,000	600	$165	$15,718	95
Hardin Co.	2000	$9,524,177	60,000	600	$159	$15,874	100
Hardin Co.	2004	$12,782,940	66,781	600	$191	$21,305	111
Hardin Co.	2005	$12,991,800	66,781	600	$195	$21,653	111
Hart Co.	2005	$10,912,741	70,355	600	$155	$18,188	117
Madison Co.	2002	$10,177,881	73,000	600	$139	$16,963	122
Madison Co.	2004	$17,787,000	75,100	600	$237	$29,645	125
Oldham Co.	2004	$14,770,000	72,095	600	$205	$24,617	120
Oldham Co.	2004	$12,655,000	72,095	600	$176	$21,092	120
Trimble Co.	2001	$8,935,446	67,200	600	$133	$14,892	112
Whitley Co.	2001	$9,159,581	66,800	600	$137	$15,266	111
Wolfe Co.	2003	$9,660,436	58,200	600	$166	$16,101	97
Fayette Co.	2004	$12,882,000	72,000	650	$179	$19,818	111
Jefferson Co.	2001	$8,885,661	75,000	650	$118	$13,670	115
Jefferson Co.	2001	$11,100,774	75,000	650	$148	$17,078	115
McCreary Co.	2002	$9,294,391	70,484	650	$132	$14,299	108
Oldham Co.	2000	$9,218,171	76,126	700	$121	$13,169	109
Russell Co.	2000	$6,738,950	68,800	700	$98	$ 9,627	98
Boone Co.	2005	$15,695,000	72,000	750	$218	$20,927	96
Mason Co.	2004	$14,888,370	97,392	750	$153	$19,851	130
Allen Co.	2002	$11,673,873	86,360	850	$135	$13,734	102
				Minimum	**$ 98**	**$ 9,627**	**95**
				Maximum	**$237**	**$29,645**	**155**
				Average	**$152**	**$17,810**	**118**

*Table entries are sorted by student capacity.

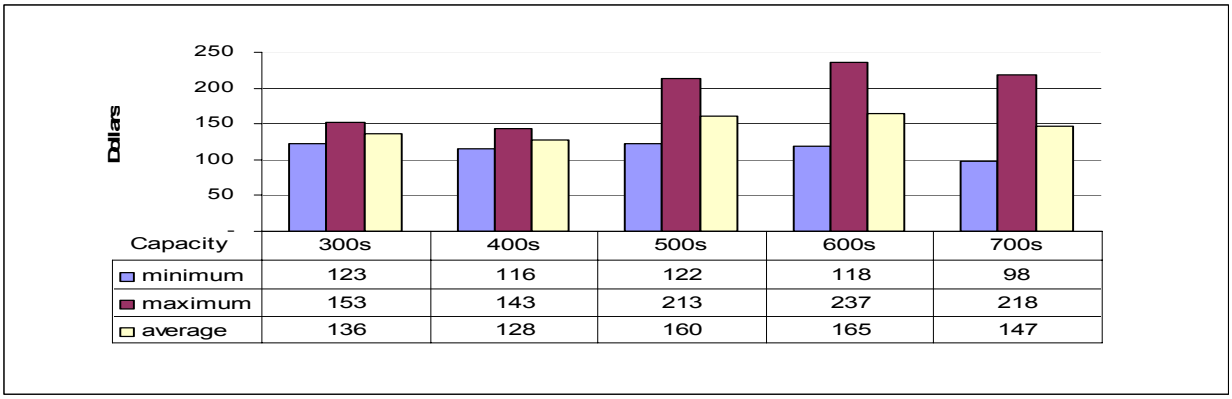
Source: Staff calculations of KDE BG-1 construction documents.

There is significant variation in the relative size and cost of elementary schools constructed or scheduled for construction over the past five and a half years.

Table 2.8 shows that there is significant variation in the relative size and cost of elementary schools constructed or scheduled for construction over the past five and a half years. Cost per square foot estimates range from $98 to $237, and cost per capacity ranges from $9,627 to $29,645. Gross square foot per student ranges from a low of 95 square feet to 155 square feet per student.

To examine whether there are cost and space differences among new school construction projects, Figures 2.C-2.F analyze items of interest by school capacity. In this analysis, all schools with 325- to 360-student capacity were combined and averaged, as were schools with student capacities from 400 to 450, 600 to 650, and 700 to 750. The LaRue, Rockcastle, and Scott County elementary schools are all 500-student capacity schools. The Allen County elementary school was not included in the analysis because it is the only 800-student capacity school in the sample.

Figure 2.C
Randomly Selected Elementary Schools 2000-2005:
New Construction Cost Per Gross Square Foot



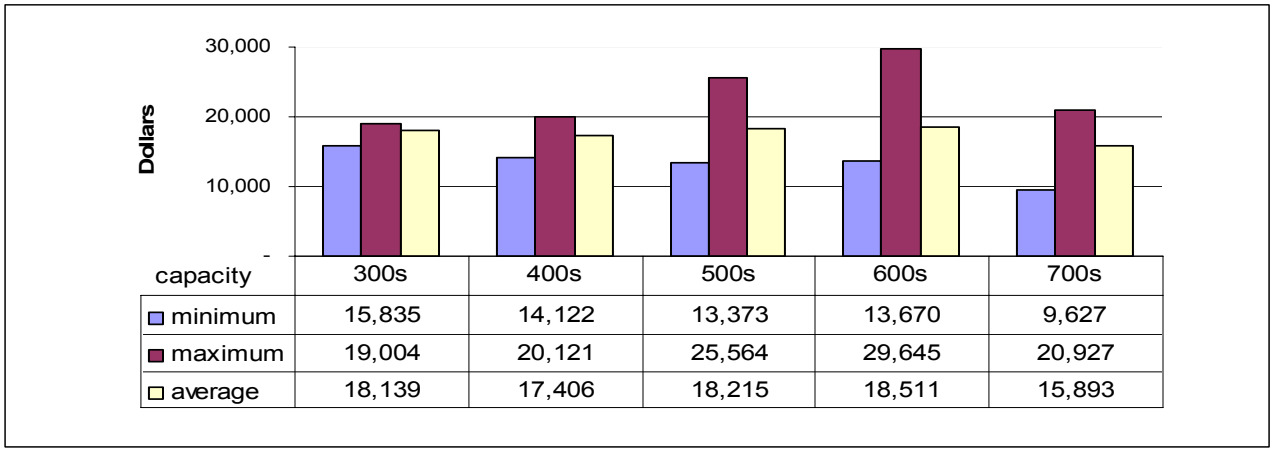
Capacity	300s	400s	500s	600s	700s
minimum	123	116	122	118	98
maximum	153	143	213	237	218
average	136	128	160	165	147

Source: Staff calculations of KDE construction documents.

There is little variation in square foot cost for schools with capacities in the 300 and 400 levels. For schools with capacities of 500 and larger, however, the variation among schools is much greater.

As Figure 2.C illustrates, there is little variation in square foot cost for schools with capacities in the 300 and 400 levels. For schools with capacities of 500 and larger, however, the variation among schools is much greater. New construction costs an average of $136 per square foot for schools with 325- to 360-student capacity, compared to an average of $128 per square foot for capacities in the 400s; $160 in the 500s; $165 in the 600s; and $147 in the 700s. Costs per square foot for the three largest-capacity levels ranged from $122 to $213 per square foot for schools with 500-student capacity. The range is $118 to $237 for 600-level schools and $98 to $218 for schools in the 700 level.

Figure 2.D
Randomly Selected Elementary Schools 2000-2005
Cost Per Student Capacity



capacity	300s	400s	500s	600s	700s
minimum	15,835	14,122	13,373	13,670	9,627
maximum	19,004	20,121	25,564	29,645	20,927
average	18,139	17,406	18,215	18,511	15,893

Source: Staff calculations of KDE construction documents.

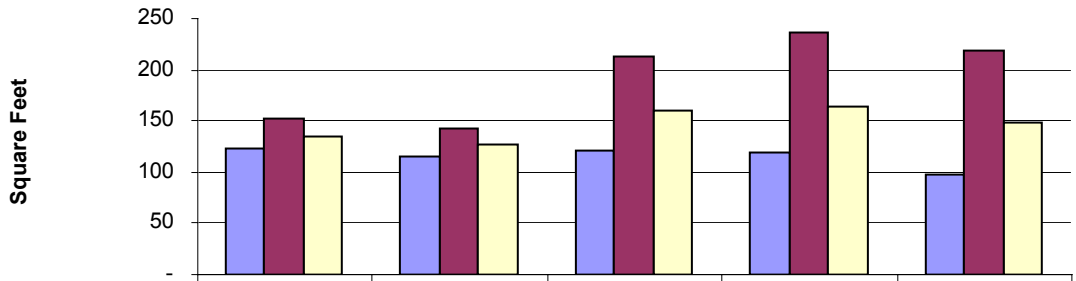
Figure 2.D shows a similar pattern for cost per student capacity. Smaller schools have less variation, as shown by the relatively small differences in the minimum, maximum, and average costs. Average cost per student capacity for 300- level schools was $18,139, compared to an average cost of $17,406 for 400-level schools.

Schools with 500- and 600-student capacity show higher costs per student and greater variation between minimum and maximum costs.

Schools with 500- and 600-student capacity show higher costs per student and greater variation between minimum and maximum costs. Schools with 500-student capacity ranged from $13,373 to $25,564 per student, while 600-level capacity schools ranged from $13,670 to $29,645 per student. Average costs were very close, however, at $18,215 for 500-student capacity and $18,511 for 600-student capacity schools. Average cost per student for the largest schools was $15,893, which is the lowest of all capacity levels.[7]

[7] This analysis uses nominal dollars. The patterns are similar when inflation-adjusted real dollars are used. However, the variation in cost per student for 500-level schools, shown in Table 2.D, flattens using real dollars. The variation in 400-level schools, which is fairly minimal using nominal dollars, increases significantly with inflation-adjusted dollars.

Figure 2.E
Selected Elementary Schools 2000-2005
Square Foot Per Student Capacity



Capacity	300s	400s	500s	600s	700s
minimum	123	116	122	118	98
maximum	153	143	213	237	218
average	136	128	160	165	147

Source: Staff calculations of KDE construction documents.

Districts' construction costs are generally well above KDE's maximum project budget. In addition, larger-capacity schools tend to have both costs that are relatively higher than KDE's allowance and greater overall variation in costs, compared to the maximum project budget allowance.

Figure 2.E reports the relative size of the elementary schools and shows a pattern very different from that of the cost comparisons. Average square footage per student is 134 for 300-level schools; 136 for 400-level; 113 for 500-level; 112 for 600-level; and 108 for 700-level schools.

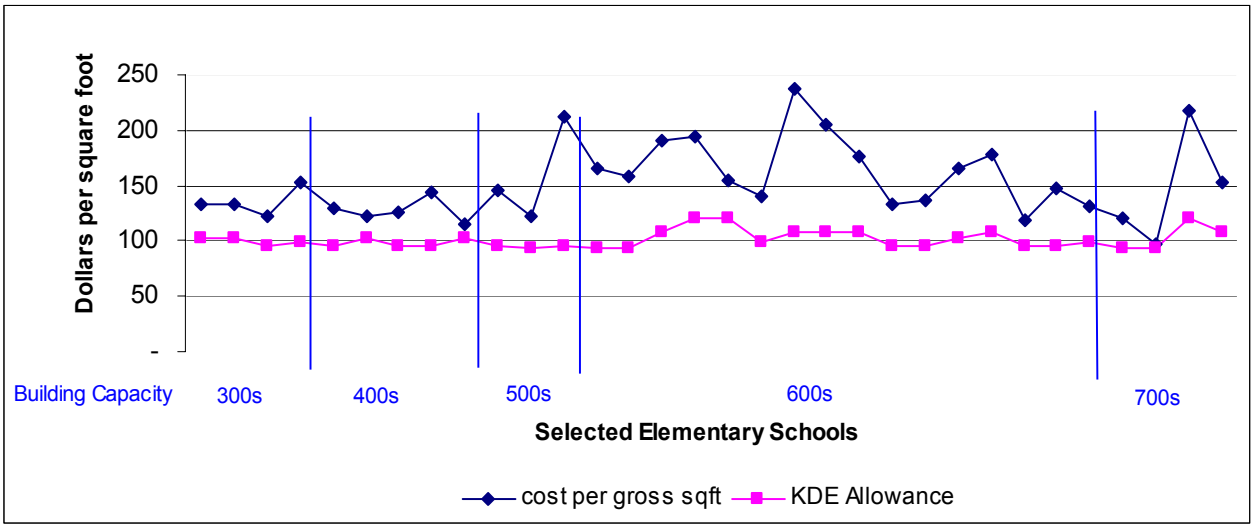
A comparison of cost per square foot reported on the BG-1 documents to the cost allowance used by KDE, reported in Figure 2.F, shows that districts' construction costs are generally well above KDE's maximum project budget. In addition, larger-capacity schools tend to have costs that are relatively higher than KDE's allowance and have greater overall variation in costs, compared to the maximum project budget allowance.

If a district chooses to spend far more than average on one facility, that district is using funds that could potentially be used to meet other district needs.

When districts build schools that are significantly more expensive than the average cost for the type of school and student capacity, the district must fund the difference between the maximum project allowance set by KDE and the actual project cost. Another issue related to higher than average construction costs pertains directly to equity among districts. School districts may spend as much on new construction as their local revenue permits, pending approval of the local school board and planning committee. However, if a district chooses to spend far more than average on one facility, that

district is using funds that could potentially be used to meet other district needs. Compare this situation to one in which a district with similar local revenue spends about the state average to build a new school and commits the rest of its available facility revenue to other district needs. The second district is reducing its unmet facility needs (and will therefore receive a lower SFCC offer of assistance), while the first is building one new school but not reducing the district's other facility needs (and will receive a higher SFCC offer).

Figure 2.F
Randomly Selected Elementary Schools 2000-2005
Cost Per Square Foot and KDE Cost Allowance



Source: Staff calculations of KDE construction documents.

While the analysis illustrates variation among schools regarding cost per square foot and cost per student, it is not possible to compute regional cost variations using this sample.

Unfortunately, it is not possible to compute regional cost variations using this sample of randomly selected districts. While the sample itself was representative of all regions of Kentucky, not all districts in the sample had new construction projects during the time period under review. There are very few sample projects in the western and eastern regions of the state compared to districts in central and northern Kentucky regions. In addition, most of the projects have not been completed. It is impossible to know whether the variation in cost per square foot among schools, and in actual costs compared to KDE's allowance, will increase once final costs are in.

A final issue with regard to variations in estimated construction costs relates to the edition of the *Means Building Construction Cost Data* publication used by KDE. The publication is updated annually, and new projects are added and outdated projects are removed from the project database. The 2006 edition of the cost

publication was available October 1, 2005. The cost estimates in the 2006 edition are based on project data as of January 2005.

By the time school districts receive an SFCC offer of assistance, the cost per square foot allowance for new construction and renovation is almost two years old.

The 2005 Kentucky unmet facility need calculation was computed by KDE on October 15, 2005, and used the national 3/4 cost estimate in the 2005 publication, which was based on project data as of January 2004. By the time school districts receive an SFCC offer of assistance in December 2005, the cost per square foot allowance for new construction and renovation is almost two years old.

Currently, SFCC's funding formula does not allow for differentiation among districts due to specified needs or conditions.

Funding for Schools in the Poorest Condition. The General Assembly requested that the Office of Education Accountability examine SFCC's ability to address the facility needs of school districts with buildings in the poorest condition. Currently SFCC's funding formula does not allow for differentiation among districts due to specified needs or conditions.

In 2003 the General Assembly appropriated debt service to fund $110,014,835 for new construction and renovation for schools ranked by KDE as category 5 facilities. There were 24 projects in 21 districts covered by the funding. Another round of urgent need bonding authority totaling $91,535,948 was approved in 2005, earmarked for 16 projects in 15 school districts. Through these two appropriations, a total of 35 school districts received funding for schools in the poorest condition.[8] Chapter 1 explained the eligibility criteria for urgent need or category 5 funding. Although the program operates outside the SFCC program, SFCC sells bonds on behalf of districts receiving the urgent need funds.

KDE has upgraded the category rankings of 28 of these projects on the current facility condition list because initial construction documents have been approved. Twenty-six funded schools are still listed as category 5 schools, as no action has been taken on the projects. The most current school condition ranking prepared by KDE reported a total of 33 category 5 schools, including these 26 funded projects and seven schools that did not receive urgent need funding.

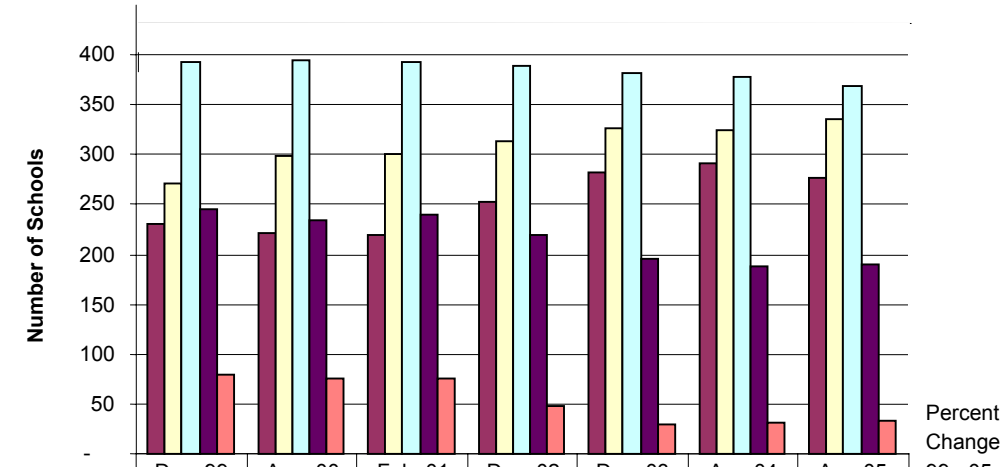
Kentucky has made significant progress in eliminating schools in the poorest condition. From 1999 to 2005, the number of category 4 buildings decreased by 23 percent, and the number of category 5 buildings decreased by 61 percent.

Kentucky has made significant progress in eliminating schools in the poorest condition, as Figure 2.G illustrates. From 1999 to 2005, the number of category 4 buildings decreased by 23 percent, and the number of category 5 buildings decreased by 61 percent. It is important to emphasize that the category rankings were never intended as a funding mechanism. According to DFM staff, the

[8] Casey County received urgent need funding in both years.

purpose of the rankings was to provide policy makers with a snapshot of school facility conditions and to offer school officials a planning tool. [9]

Figure 2.G
Condition of Kentucky School Buildings 1999-2005



	Dec. 99	Aug. 00	Feb. 01	Dec. 02	Dec. 03	Apr. 04	Apr. 05	Percent Change 99 - 05
1-Excellent	231	221	220	252	283	291	276	26%
2-Good	272	298	301	313	326	325	336	19%
3-Average	393	395	393	389	382	378	368	- 4%
4-Fair	245	234	239	219	195	188	190	-23%
5-Poor	79	75	75	48	30	31	33	-61%
TOTAL	1,220	1,223	1,228	1,221	1,216	1,213	1,203	- 1%

Source: KDE Division of Facilities Management.

School districts were required by House Bill 267 in 2003 and House Bill 269 in 2005 to meet three criteria in order to qualify for urgent need funding. They had to have a project or projects on their approved DFP that KDE had designated as category 5, and the school(s) must have enrollment based on best practices as outlined in 702 KAR 1:001. The enrollment provision was

[9] KDE has updated the category rankings since this report was written and now lists 17 category 5 schools. The reduction is primarily due to upgrading the rankings of schools that received urgent need funding. However, it does not appear that schools with category 4 rankings that may have recently become category 5 facilities because of a combination of age and condition have been reevaluated.

interpreted by KDE as requiring the following enrollment minimums: 300 enrollment in elementary schools; 400 enrollment in middle schools; and 500 enrollment in high schools.

A review of districts and schools receiving urgent need funding found one high school with an enrollment of about 360 students, well under the best practice enrollment standard.

A review of districts and schools receiving urgent need funding found one high school with an enrollment of about 360 students, well under the best practice enrollment standard. All the other projects funded through the urgent need program appear to meet the best practice enrollment requirement as interpreted by KDE. However, three funded projects met enrollment criteria through projecting enrollments from redistricting after the new school was built.

The Office of Education Accountability also reviewed districts with category 5 schools that did not receive urgent need funding. None of these nonfunded schools meets the best practice enrollment criteria. However, one district with an approved facility plan dated October 9, 2003, indicated its intention to consolidate the high school with the K-8 facility. This district would have been required to amend its DFP to place the consolidation in line with that of funded districts. As written, the plan called for moving high school facilities to the K-8 site, but separate areas such as cafeterias and gymnasiums would have been maintained. To qualify for urgent need funds, the consolidation should have established common facilities. However, since KDE has recently assisted this district in amending its plan consistent with these criteria, it is unclear why it did not do so when the urgent need program was funded.

The condition ranking for two schools receiving urgent need funds changed rapidly from category 3 to category 5.

Among those districts that received urgent need funding, there is an additional issue to consider. Table 2.9 presents the changes in condition ranking from 1999 through 2005 for three funded schools. As the table demonstrates, the condition ranking for elementary schools in districts B and C changed rapidly from category 3 to category 5.

Table 2.9
Selected Urgent Need Funded Districts: Changes in Category Ranking 1999-2005

District	Project	Year Funded	Condition Category By Year						
			1999	2000	2001	2002	2003	2004	2005
District A	Elementary School	2005	4	4	4	4	4	4	4.5
District B	Elementary School	2005	3	3	3	3	3	5	5
District C	Elementary School	2005	3	3	3	4	5	5	5

Source: KDE Division of Facilities Management.

One school was never ranked as a category 5, according to KDE documents.

According to an October 12, 2005, phone interview with staff at the district B school, the funded elementary school was built in 1966 and thus will not be a 40-year-old building until 2006. Similarly, in an October 18, 2005, interview, staff of district C indicated that the funded project was built in 1956 but its last major renovation was in 1986, which included a wing of six new classrooms, expanded kitchen, an electrical room, and a first aid room. As noted in Chapter 1, the criteria for a category 5 ranking is a functional age of over 40 years, which means either the actual age or the number of years since the last major renovation. In addition, the elementary school in district A was never ranked as a category 5, according to KDE documents supplied by the DFM.[10]

The most recently updated category ranking on KDE's Web site shows facilities in Robertson County that have moved from a 3.5 ranking last April to a category 5 ranking.

DFM staff will respond to requests from districts to inspect schools and to make appropriate changes in condition rankings. In fact, the most recently updated category ranking on KDE's Web site shows facilities in Robertson County that have moved from a 3.5 ranking last April to a category 5 ranking.[11] This becomes important when project funding is tied to category rankings because ad hoc inspections increase the possibility that similar districts will be treated differently. In addition, the lack of a formal appeals process for districts that disagree with their rankings—which only becomes important when funding is tied to the rankings—also increases the potential for bureaucratic error and for inequitable treatment of school districts.

The urgent need program is inequitable by definition since most school districts are not eligible to participate and since the process of assigning category rankings leaves room for subjective judgment.

The urgent need program is inequitable by definition since most school districts are not eligible to participate and since the process of assigning category rankings leaves room for subjective judgment. However, equity within the group of districts with category 5 schools is diminished when all schools are not treated the same. It appears that with regard to urgent need funding, there were some cases in which funded districts apparently failed to meet all eligibility criteria, and one case in which a nonfunded district's intention to consolidate appears to render it quite similar to some districts that received funding.

[10] The DFP listed major renovations for the funded elementary school in district A until December 2004, when KBE approved an amended plan that indicated a new school was to be constructed. The district's local planning committee and board of education met in October 2004, and according to the local board of education minutes, the board voted to "place [the] elementary school as a Category 5 school and to proceed ...with new construction." It is unclear why the district believed it could change a school ranking since DFM is responsible for condition rankings. The Office of Education Accountability could find no documentation that the condition of the facility was reevaluated by DFM prior to being certified for urgent need funding.

[11] DFM uses a ". 5" evaluation ranking for internal purposes only.

Conclusions

This chapter has reviewed the impact on school capital funding of non-SFCC programs and discussed the impact of these programs on SFCC's ability to distribute funds in an equitable manner. The general impact these programs have had on the distribution of facility funding is also reviewed. Major conclusions are as follows.

- State funds currently make up 56 percent of total local and state revenue for school facilities. Of that amount, SFCC debt service accounts for 22 percent.

Targeted non-SFCC state facility funding includes growth nickel equalization, urgent need funding, recallable nickel equalization, and equalized facility funding. Most districts are not eligible for these funds.

- Targeted non-SFCC state facility funding includes growth nickel equalization, urgent need funding, recallable nickel equalization, and equalized facility funding. Most districts are not eligible for these funds, and the proportion of total facility funding represented by these programs will grow as more districts use their urgent need funding. In FY 2005, targeted programs accounted for about 18 percent of total local and state facility revenue.

A simulation allowing non-SFCC state funds to flow through SFCC shows that replacing targeted state funds with equitable distribution through SFCC increases equity and increases the facility revenue of districts with limited bonding potential.

- A simulation in which non-SFCC state funds were allowed to flow through the SFCC is reported in Appendix C. The analysis shows that replacing the targeted state funds for which most districts are ineligible with equitable distribution through SFCC increases equity and increases the facility revenue of districts with limited bonding potential.

KDE does not enforce the MEFP, and it is unclear how many school districts review their facility conditions and needs on an annual basis.

- Districts are required to update their DFPs every four years, although those districts in which conditions have not changed may seek KDE approval to keep their existing DFPs for an eight-year period. If conditions change, districts may seek KDE approval to amend their DFPs. Current regulation requires districts to engage in an annual review of their Master Education Facility Plan, which includes a required review of all district facilities. KDE does not enforce the master plan requirement, and thus it is unclear how many school districts review their facility conditions and needs on an annual basis.

There are inconsistencies in KDE's descriptions of projects that can be included in the four priority listings. In addition, SFCC makes no distinction between projects in priority 1 and 2. This creates the potential for variations in how DFPs are written and in the ways in which SFCC funds are used.

- For purposes of SFCC funding, facility plans list and prioritize capital construction and renovation needs within four priorities. However, there are inconsistencies in KDE's descriptions of projects that can be included in the various priority listings. In addition, SFCC makes no distinction between projects in priority 1 and 2. This creates the potential for variations in how

DFPs are written and in the ways in which SFCC funds are used.

A review of 49 randomly selected school districts' construction and renovation projects from July 2000 through September 2005 revealed a number of instances in which funds were used for projects that appear to be ineligible.

- In a review of 49 randomly selected school districts' construction and renovation projects from July 2000 through September 2005, a number of instances were identified in which funds were used for projects that appear to be ineligible. These include SFCC funds used for projects funded out of priority order and funds used for nonmajor renovations. In addition, although not directly related to SFCC funding, the review found that KDE permitted FSPK funds to be used for nonmajor renovations and for land acquisitions that were not a direct construction expense. The current practice of allowing some districts to use SFCC and other facility funding for ineligible projects creates inequity within the established system of facility funding.

An inconsistency exists between the statute and regulation prescribing the treatment of refinanced SFCC bonds.

- There is an inconsistency between the statute and regulation prescribing the treatment of refinanced SFCC bonds. KRS 157.622 requires savings that occur due to refinancing to be applied to the school district's account with SFCC to be used toward the district's next priority. However, under 750 KAR 1:010 (10), when savings generated through refinancing are low enough that SFCC's debt can be maintained at the same level after the refinancing, the savings and any accrued interest are credited directly to the district. In addition to the inconsistency, the practice of crediting the savings directly to the district can result in the use of these funds for projects ineligible for SFCC funding.

A review of new construction projects for 49 randomly selected districts from July 2000 through September 2005 shows that almost all Kentucky projects cost more than the 3/4 cost estimate used by KDE.

- KDE establishes a maximum project budget for new construction and renovations listed on districts' facility plans. Costs are determined using the *Means Building Construction Cost Data* publication. RSMeans calculates cost per square foot based on a nationwide sample of more than 11,000 projects. KDE uses a 3/4 cost allowance, in which 75 percent of the sample projects had lower square footage costs and 25 percent had higher costs. However, a review of new construction projects for 49 randomly selected districts from July 2000 through September 2005 showed that almost all Kentucky projects cost more than the 3/4 cost estimate.

KDE does not make adjustments for regional variations in cost; although RSMeans does provide regional cost multipliers.

KDE does not make adjustments for regional variations in cost; although RSMeans does provide regional cost multipliers. The review of sample districts' new construction costs showed significant variation in cost per square foot and in square foot

per student. It is not possible to compute regional cost variations using this sample because there are few projects in eastern and western portions of the state compared to projects in central and northern Kentucky.

If a district constructs a school that is far more costly than the average for the type of school and student capacity, that district is using funds that could potentially be used to meet other district needs.

- If a district constructs a school that is far more costly than the average for the type of school and student capacity, that district is using funds that could potentially be used to meet other district needs. This can be compared to a district with similar local revenue that spends about the state average on a new school and commits the rest of its available facility revenue to other district needs. The second district is reducing its unmet facility needs (and will therefore receive a lower SFCC offer of assistance), while the first is building one new school but not reducing the district's other facility needs (and will receive a higher SFCC offer).

The ranking system by which district facilities qualified for the urgent need program was not intended to be used as a funding mechanism. DFM staff cannot visit every school building to verify its ranking and equity is diminished when the schools are treated differently.

- The urgent need program is inequitable by definition since most school districts are not eligible to participate. In addition, the ranking system by which district facilities qualified for the program was not intended to be used as a funding mechanism. Since the DFM staff cannot visit every school building to verify its ranking, it is likely that the ranking system is a close but not perfectly accurate picture of school conditions. Moreover, equity within the group of districts with schools in the poorest condition is diminished when the schools are treated differently. The review also found evidence that a few districts received urgent need funding although their schools failed to meet the program criteria, while several of the nonfunded schools have larger student enrollments than some of the funded schools. One of the nonfunded school's DFP listed a planned consolidation that appears to be no different from the school consolidations of funded projects.

The next section of this study will report the results of a survey of school superintendents who were asked to comment on school facility policies and issues. The final section will offer recommendations for strengthening SFCC for the General Assembly's consideration.

Chapter 3

Findings of the Survey of School Superintendents

Introduction

Chapter 3 presents the results of an online survey of school superintendents concerning SFCC and other facility issues.

The objective of Chapter 3 is to report the results of a survey of Kentucky's school superintendents regarding school construction and renovation. SFCC operates within a larger school facility system, and its ability to address school facility needs adequately and equitably is impacted by issues beyond its direct scope of operation. For this reason, the survey questions reflect issues directly related to SFCC as well as funding mechanisms and procedures outside SFCC.

Organization of the Chapter

An overview is provided of superintendents' responses regarding how the current system of financing and regulating school construction and renovation impacts local districts. Superintendents representing growth districts, districts with limited financial resources, districts with declining enrollments, and districts with a high proportion of category 4 and 5 schools offer different perspectives on the challenges and opportunities of the current system.

In many instances, a clear picture emerges of the perceptions of a majority of superintendents; although in a few cases, respondents' views are sharply divided, particularly with regard to the question of whether specific district conditions or needs should be factored into the SFCC funding formula.

The Office of Education Accountability conducted an online survey of school superintendents to better understand the experiences and perceptions of superintendents regarding the financing of school construction and renovation. The response rate was 81 percent.

Responses to closed-end questions are presented in Appendix F, along with a copy of the survey and a list of responding districts. Superintendents also provided detailed comments to open-ended questions, which are available upon request from the Office of Education Accountability.

Highlights of Survey Results

The Office of Education Accountability conducted the online survey of school superintendents from October 14 through November 10, 2005. The purpose of the survey was to better understand the experiences and perceptions of superintendents

regarding the financing of school construction and renovation. Respondents were asked about the impact of various programs, procedures, and requirements of the current school construction system on districts' ability to adequately address facility needs. Through a series of open-response questions, superintendents were also given the opportunity to make recommendations for strengthening SFCC and for providing detailed comments on areas of concern. One hundred forty-three superintendents or their representatives completed the survey, for a response rate of 81 percent.[1]

Generally, superintendents commented positively about the importance of SFCC in addressing facility needs, and nearly 75 percent stated that SFCC should be the primary source of state funding. However, many indicated that individual offers of assistance are not sufficient to fund major renovation or construction projects. Respondents suggested that increased SFCC funding and consistent offers each biennium would improve the effectiveness of the SFCC program.

Generally, superintendents commented positively about the importance of SFCC in addressing facility needs, and nearly 75 percent stated that SFCC should be the primary source of state funding. However, many respondents noted the need for increased SFCC funding and consistent offers in each biennium.

More than 75 percent of the superintendents responded that they agreed with the rating given to the facilities in their districts. Of those who disagreed with their districts' facility ratings, many indicated that the ratings were generally too high. They stated that when one section of an older building is renovated, it is important to understand that the overall building may still be in poor condition. Currently, a major renovation, even to just part of a facility, can result in the facility receiving an improvement in its facility rating.

Almost 60 percent of respondents believed SFCC should be permitted to escrow offers of assistance on behalf of districts for a period of eight years. While past budget language authorized extensions on the ability to escrow offers, the statute limits escrowed offers to four years. A number of superintendents in districts with low bonding potential indicated they would like to see offers remain available until they are used. The primary reason cited for extending the escrow period beyond eight years is a need to save offers until enough bonding potential is accumulated to fund more costly renovation or new construction projects. Superintendents from districts with limited bonding potential indicated that given the current amount of SFCC offers, districts

Almost 60 percent of respondents believed SFCC should be permitted to escrow offers of assistance on behalf of districts for eight years.

[1] Three districts submitted two survey responses. In each case, the highest-ranking official in the district was considered the valid respondent. In two districts this was the superintendent, and in the third it was the assistant superintendent.

must choose between utilizing the funds to take care of smaller projects or saving offers in order to complete larger construction needs.

Forty percent of superintendents indicated they are prevented from offering instructional programs they would otherwise provide because of current school facility limitations.

Forty percent of superintendents indicated that they are prevented from offering instructional programs they would otherwise provide because of current school facility limitations. The programs most often mentioned include preschool, all-day kindergarten, science and technology labs (particularly at the middle school level), and arts and humanities programs. In addition, many superintendents noted that installation of modern technology wiring is difficult to accomplish in older facilities. Respondents also noted that extra-curricular programs and physical education programs are hampered by facility limitations.

A majority of superintendents, 57 percent, indicated the SFCC funding formula should include a factor that takes into consideration specific local conditions. However, responses were divided about which conditions should receive the weighting.

A majority of superintendents, 57 percent, indicated the SFCC funding formula should include factors that take into consideration specific local conditions. However, responses were divided about which conditions should receive the weighting. Superintendents indicated that growth, low property assessments and bonding capacity, and condition of facilities should be factored into offers. Regarding the condition of facilities, superintendents suggested two approaches. Some respondents indicated that emphasis should be placed on aging buildings in poorer condition. Other superintendents indicated that while facility condition is important, the funding formula should reflect districts' efforts to maintain school facilities.

When asked what factors prevented districts from giving top priority to the facility needs of category 4 or 5 schools, most superintendents cited lack of funding and the need to address the immediate facility problems of other schools.

Most districts have maintenance plans for major building systems, but a majority of superintendents said they cannot fully fund their maintenance programs.

Most districts have maintenance plans for major building systems, including electrical, HVAC, plumbing, and structural upkeep and repairs. However, a majority of superintendents said they cannot fully fund their maintenance programs. Beyond maintenance, most superintendents said their districts do not have replacement plans for these systems. Of those that do, most indicated that they are unable to fund replacement plans. The exception is HVAC replacement, where a slight majority has a plan in place, but almost 60 percent are unable to fund it, with another 34 percent indicating they can partially fund their HVAC replacement plan.

Superintendents reported finding the planning and financing of new construction and renovations to be complex and said they would benefit from additional training in these areas. About 75 percent of respondents understand how SFCC offers are calculated.

Superintendents reported finding the planning and financing of new construction and renovations to be complex and said they would benefit from additional training in these areas. More than 70 percent said they would benefit from training in preparing District Facility Plans and Master Education Facility Plans. Training also was requested on allowable expenditures for capital outlay and the building fund. Superintendents said general overview training would be useful on how to best utilize all sources of funding to meet the districts' needs.

While about three-quarters of responding superintendents said they understand how SFCC offers of assistance are calculated, 25 percent indicated they do not understand the process. Almost 50 percent of those responding either rarely or never review the KDE determination of unmet need for their district. Such information is critical and should be reviewed for accuracy, as it is the basis for offers made by SFCC.

Other areas in which respondents said more information and assistance is needed include restricting local available revenue in order to receive SFCC offers, an overview of the bonding process, and regular training for staff and board members in facilities planning and funding. Superintendents would like to receive more assistance in the technical aspects of building construction and renovation and required KDE building forms and processes. Other assistance was requested in the renovation of old facilities, information on contracting with and using architects, and incorporating technology into new buildings.

Respondents were divided about the impact of a requirement that a building be 30 years old to qualify for a major renovation. Some superintendents said it will have little impact but others said it will limit the ability to provide adequate building maintenance.

Respondents were asked to comment on the impact of a recent modification to the School Facility Planning Manual establishing the minimum age of a building required for major renovation. The regulation now requires a building to be 30 years old to qualify for major renovation, increased from the prior requirement of 20 years. In order to use FSPK funds for major renovation, KDE requires a building to meet the age requirement in addition to the replacement of three building systems.

Superintendents with older facilities indicated the policy change would not impact their ability to address facility needs. Many other respondents said that some major building systems will not last for 30 years; therefore, they will be restricted from using certain funds to replace systems that fail prior to the 30-year requirement. Many also expressed concerns about the requirement that major renovations include three building systems. They said this may limit their ability to provide adequate building systems, especially

when one major system, such as a roof, is all that requires replacement.

More than 90 percent of superintendents said districts should be allowed to pay for land through FSPK regardless of when it is acquired, as long as it is earmarked for school construction.

Currently, districts can use SFCC, FSPK, or capital outlay to pay for land acquisition if it is a direct construction cost, which requires the land costs and construction costs to be submitted on one construction application approval form, or BG-1. If districts wish to buy land prior to starting the construction process, cost of the land purchase is usually required to be made out of the general fund. More than 90 percent of superintendents indicated that districts should be allowed to pay for land through FSPK regardless of when the land is acquired if the land is earmarked for construction of a new school.

Besides increasing SFCC and capital outlay funding, the most common suggestion superintendents made was for the legislature to permit all districts to levy an additional nickel without recall, up to a 10-cent equivalent rate. They also suggested greater flexibility in the use of capital outlay and FSPK. Some indicated equalization funds have been targeted to districts with relatively greater resources, while others said the funds are needed and, therefore, are equitable.

In addition to providing comments and suggestions regarding SFCC, respondents were given the opportunity to comment on all other funding mechanisms. Superintendents indicated a need to increase both capital outlay and SFCC funds. In general, the most common other suggestion was for the legislature to give all districts the ability to levy an additional 5-cent equivalent tax without recall. Superintendents also asked for greater flexibility in the use of capital outlay and FSPK, which in the past has been allowed through budget language, but not allowed in current statute. Superintendents' comments were divided regarding the impact of growth nickel and recallable nickel equalization and equalized facility funding. Some indicated that equalization funds have been targeted to districts that already have relatively greater facility resources. Other superintendents said districts believe the funds distributed through these sources are needed and, therefore, are equitable.

Conclusions

Eighty-one percent of Kentucky's superintendents responded to an online survey about school facilities construction and renovation issues. They reported being satisfied with the management of SFCC, and said the program plays an important role in facility funding. However, the majority of respondents indicated the need for more consistent funding for the program and said current SFCC funding levels are not sufficient to meet construction and renovation needs.

Superintendents supported a change in statute to allow SFCC to escrow offers of assistance for up to eight years. While a majority, 57 percent, said the SFCC funding formula should include weights for specific local conditions, the specific factors preferred by

respondents depended upon the type of district represented by the superintendents. Among the local conditions superintendents said should be factored into the SFCC formula were student growth, limited bonding potential, and buildings in poor condition. However, no weighting factor received a majority of respondents' support.

Survey respondents indicated the need for more training in the facility planning process. In addition, districts report that they are unable to fund maintenance and replacement plans for major building systems and also indicated a need for more flexibility in paying for maintenance expenses with capital outlay.

The primary new policy supported by a majority of superintendents was the ability to levy an additional 5-cent equivalent tax, not subject to recall, for facilities.

Chapter 4

Recommendations for Strengthening SFCC and the School Construction and Renovation System

Introduction

Chapter 4 makes recommendations for strengthening SFCC and the school construction and renovation system.

The objective of Chapter 4 is to provide recommendations for strengthening SFCC and the school construction and renovation system. Because SFCC operations and procedures are impacted by conditions within a larger school facility system, the study recommendations reflect issues directly related to the agency as well as funding mechanisms and procedures outside SFCC.

Recommendations

Studies on the financing and administration of school facility construction programs suggest that the most important contributor to a successful state facilities program is an adequate and consistent funding source.

Studies on the financing and administration of school facility construction programs suggest that the most important contributor to a successful state facilities program is an adequate and consistent funding source (Building Educational Success Together). The ability of school districts to address facility needs varies widely, as do the local needs themselves. In response, 44 states including Kentucky have established state programs that distribute facility funding based on a combination of factors, including local wealth, the number of students served, and facility needs (U.S. Department of Education).

As superintendents surveyed for this study indicated, the SFCC program is managed well and is a strong force in improving Kentucky's school buildings. Since its inception in 1986, SFCC has provided $93.6 million in debt service payments on behalf of school districts, on bonding authorization of more than $1 billion.

The recommendations included in this report are based on the research and analysis that is reported in earlier sections of the study and that is consistent with the study proposal approved by the Education Assessment and Accountability Review Subcommittee. Where appropriate, it reflects information provided by superintendents. In addition, the Office of Education Accountability provided SFCC and KDE with the opportunity to make suggestions for strengthening SFCC and the school construction and renovation system. A number of their recommendations are incorporated in this report. The official responses of KDE and SFCC to this report are included in

Appendix G. In addition, when this study was reported to the Education Assessment and Accountability Subcommittee, other interested parties provided testimony that the subcommittee requested staff to include in the study. This testimony is also included in Appendix G.

SFCC Funding. The General Assembly has expressed its intention that SFCC remain the primary state source of facility funding. However, in response to economic and other conditions, in recent years the General Assembly has authorized targeted facility funding programs operating outside the SFCC distribution formula. As this study has demonstrated, equity is diminished by these non-SFCC funds.

Weights within the SFCC formula to address unique district needs would significantly reduce the ability of SFCC offers to address unmet facility needs and the formula would no longer be equitable.

The Office of Education Accountability has considered the use of weights within the SFCC formula to address unique district needs regarding growth, low facility resources, and building conditions. At current funding levels, however, such weights would significantly reduce the ability of SFCC offers to address unmet facility needs because the weights would lower many districts' offers. In addition, the formula would no longer be equitable.

Through budget language, SFCC is allowed to escrow offers of assistance on behalf of school districts for eight years. KRS 157.622 limits the escrow period to four years. Through review of past SFCC restricted offers of assistance, it appears that the extended escrow time has been important in allowing many districts with low bonding potential to accumulate sufficient funds to complete facility projects. The superintendents responding to the study survey confirm the usefulness of the escrow extension.

Recommendation 1

Amend KRS 157.622 to allow SFCC to escrow district offers for up to eight years.

Amend KRS 157.622 to allow SFCC to escrow district offers for up to eight years.

Definition of District Growth. KRS 157.621 establishes the criteria by which districts experiencing student population growth may levy an additional 5-cent equivalent tax for facilities. The criteria include growth of at least 150 students in average daily attendance and a 3 percent overall growth in the preceding five years; bonded debt equal to 80 percent of capital outlay and local and state FSPK; current enrollment in excess of available classroom space; and a certified DFP. The statute stipulates that when state FSPK is fully funded, the growth nickel provision will expire. However, the General Assembly, through budget language

has allowed the opportunity to levy the growth nickel and authorized a second growth nickel in 2003.

In 2003, the General Assembly also authorized equalization of the first growth nickel for those districts that have levied the second nickel. A number of superintendents indicated in survey responses that the growth levy and equalization funds have been important in helping their districts address facility needs associated with growth. The Office of Education Accountability's review of growth districts indicated that the growth nickels are meeting their intended purpose. On average, the ratio of unmet facility need to total need in the 26 growth districts (of which 18 have also levied the second growth nickel) is 58 percent, according to KDE's FY 2006 unmet need calculation. For nongrowth districts, average unmet need to total facility need is 90 percent.

There are several issues the General Assembly may wish to consider regarding growth criteria. First, this study found no evidence that the requirement that current enrollment exceed available classroom space is being verified by KDE. In addition, while the current growth criteria have worked to identify growth districts, the rapid increase in student population in a few districts suggests that their needs be more timely addressed.

Similarly, student increase is a variable that impacts districts differently, depending upon local conditions, facilities, and available local revenue. Incorporating additional students into existing schools creates a different level of facility need for districts with different circumstances. For smaller districts with fewer buildings, the impact of rapid growth—even at levels less than 150 students—can be more significant than in a larger district where the growth is more widely dispersed or the growing student population can be absorbed into the current facilities through various means, including redistricting. A single growth formula applied to school districts with varying characteristics may not be the best way of achieving the policy goal of addressing student growth.

Recommendation 2

Eliminating the sunset provision of the first growth nickel and authorizing the second growth nickel in KRS 157.621 would increase the consistency of this funding source.

If the General Assembly chooses to continue authorizing the growth levy, eliminating the sunset provision of the first growth nickel in KRS 157.621 and including authorization of the second growth nickel in statute would increase the consistency of this funding source.

Recommendation 3

Additional criteria should be added to address the needs of districts experiencing rapid growth in student enrollments.

The criteria for determining growth districts established in KRS 157.621 should remain in place. Additional criteria should be added to address the needs of faster-growing districts that have a significant annual increase in student population. The Office of Education Accountability recommends permitting the growth levy for districts with a 5 percent average increase in student enrollment, excluding students on contracts, over two years, while meeting the other current requirements regarding bonding levels, student population in excess of classroom space, and certified facility plans.

Recommendation 4

KDE should develop a documented method for confirming enrollment in excess of available classroom space.

KDE should have a documented method for confirming the growth criterion that enrollment exceed available classroom space.

Maintenance of School Buildings. As the survey of superintendents illustrated, districts are struggling to adequately maintain their school facilities. In recent budget language, the General Assembly provided flexibility in the use of capital outlay for maintenance and insurance. Previously, districts had to fund maintenance expenditures out of the general fund.

However, a review of KDE regulation and practice regarding maintenance showed the need for better guidance and oversight in this area. Currently, KDE provides no oversight and requires no best practices in regard to maintenance. In addition, there is no clear definition of what constitutes maintenance expenditures, which has led to inconsistent use of available funds.

Recommendation 5

KDE should develop, implement and monitor maintenance best practice guidelines.

KDE should develop, implement, and monitor maintenance best practice guidelines. In developing these guidelines, the department should define maintenance expenditures.

Additional flexibility in the use of capital outlay funds would permit districts to address facility maintenance needs while freeing general fund dollars for instructional purposes.

Recommendation 6

The General Assembly should consider revising KRS 157.420 to allow capital outlay funds to be used for maintenance and insurance, land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings including replacement of flooring, and replacement equipment, that results in the acquisition of fixed assets or additions to fixed assets, which have benefits for more than 10 years.

At times, districts face situations where the facility needs of a building are not such that they meet the requirements in place for major renovation. An example would be where an HVAC system or roof must be replaced. Flexibility in addressing these concerns is needed. However, equity and fairness require that deviations from standard policies be handled in a transparent manner.

Recommendation 7

KDE should develop and implement a transparent and uniform waiver system to accommodate special facility needs.

KDE should develop a transparent and uniformly implemented waiver system to accommodate special facility needs. This waiver system should allow for documented exceptions to be made to the requirement that SFCC funds and FSPK funds must be used on major renovations.

Ranking of School Buildings. KDE's system of categorizing school buildings provides a good indication of the overall condition of Kentucky's schools. However, for any particular school, the ranking is only an approximation of condition based upon age of the building and a fairly broad definition of deterioration. The criteria used do not consider other factors such as instructional needs and compliance with the Americans with Disabilities Act. In addition, if the General Assembly chooses to increase districts' ability to fund maintenance as suggested in Recommendation 6, it may wish to examine changes over time in category rankings as a method of determining the impact of enhanced maintenance programs on building conditions. The ranking criteria needs to be more specific in order to inform policy questions.

Recommendation 8

KDE should improve the school building condition-ranking system.

Review and revision of the ranking system is suggested in order to provide reliable data to inform policy.

District Facility Plans. The determination of Kentucky's facility needs begins at the district level with the local planning committee. Unless districts develop DFPs in a consistent manner, the process will be inherently inequitable. In addition, facility needs will be misestimated unless plans reflect current district conditions.

In developing its facility plan, the district's local planning committee is required by 702 KAR 1:001 to include the most critical building needs of the district, taking into consideration the district's financial situation. About 88 percent of superintendents surveyed stated that they include needs on the plan that are beyond the district's financial capacity. It is unclear how the provision requiring consideration of the districts financial situation plays a role in development of the DFP.

Facility plan requirements are addressed in 702 KAR 1:001. However, there are inconsistencies in the regulation with regard to the prioritizing of projects, and many superintendents have expressed a need for better guidance and training in how to develop facility plans. In addition, while districts are required to prepare a Master Education Facility Plan and to conduct an annual review of this plan with regard to facility conditions and needs, KDE does not enforce the MEFP requirement.

Currently, districts are required to update their DFPs every four years but may request a waiver for an additional four years. This waiver provision in combination with the lack of enforcement of the MEFP requirement means that it is impossible to know how well districts are planning for facility needs.

Recommendation 9

KDE should amend 702 KAR 1:001 to require DFPs to be updated by districts every two years, with a waiver period of two years.

In order to assure that the most up-to-date facility needs are known and that SFCC offers are based on accurate unmet need calculations, KDE should amend 702 KAR 1:001 to require DFPs to be updated by districts every two years, with a waiver period of two years.

Recommendation 10

KDE should simplify 702 KAR 1:001 with regard to the MEFP and DFP process and enforce annual review of MEFP.

KDE should simplify and clarify 702 KAR 1:001 with regard to the MEFP and DFP process, and it should enforce the annual review provision of this regulation. In addition, KDE should provide clarification on the types of projects that are appropriate for inclusion in the project priorities listed on the facility plan. KDE should also provide clarification as to how

the LPC is to apply the requirement that the district's financial situation be considered in development of the DFP.

Construction and Renovation Cost Estimation. As demonstrated in the study's review of new construction costs, the RSMeans cost allowance currently used by KDE results in allowable project budgets that are lower—and in some cases, significantly lower—than actual construction costs. As a result, districts' unmet needs are underestimated, and SFCC funding levels are not based on a true estimate of what projects will actually cost.

KDE has been reluctant to increase cost allowances because this would result in a significant one-time increase in the estimation of total state facility needs. DFM staff indicated that although the cost allowances are low, they are uniformly applied and thus all districts are similarly impacted.

However, the impact of underestimating construction costs may not be consistent across districts. For example, one district has indicated that actual costs for a recently approved new construction project will be significantly higher than the KDE project budget based on the RSMeans allowance, and the district does not have the local revenue needed to make up the difference. Thus, districts with limited resources may be put at a disadvantage when project allowances are underestimated because SFCC funding is based on artificially low cost estimates.

Recommendation 11

KDE should revise procedures for estimating project costs using RSMeans unit cost data.

KDE should use the most current RSMeans data. In addition, KDE should apply an inflation adjustment to accommodate the fact that the RSMeans allowances are based upon year-old data.

Recommendation 12

KDE should consider using the RSMeans regional cost indexes when calculating construction cost.

KDE should consider utilizing the regional cost indexes available through RSMeans in calculating the cost of construction.

Recommendation 13

KDE should use a factor to cover costs not included in the RSMeans calculation.

KDE should include a factor, when utilizing the RSMeans cost calculation, to cover expenses that are not included in the cost estimation, such as architect and engineer fees, bond sale costs, and contingencies.

Recommendation 14

KDE should include preschool enrollments when calculating project cost allowances.

When determining minimum enrollments for the purpose of calculating facility project allowances, KDE should include preschool enrollment.

The review of SFCC's budget history has shown wide variations in appropriation levels. The most consistent survey response by superintendents with regard to SFCC is the need for consistent and adequate funding. Both KDE and SFCC have provided a recommended funding range. Once changes are made in KDE's calculation of district unmet need so that it more accurately reflects actual construction and renovation costs, SFCC budget requests that cover a specific percentage of state unmet need would result in a more systematic approach to SFCC's budget process. Since unmet need is currently underestimated, it is not possible to suggest a reasonable percent at this time.

Recommendation 15

SFCC should develop its biennial budget request with specific goals that address state unmet facility need levels.

SFCC should develop its biennial budget request with specific goals that address state unmet facility need levels.

If a district constructs a school that is far more costly than the state average for the type of school and student capacity, that district is using funds that could potentially be used to meet other district needs. This can be compared to a district with similar local revenue that spends about the state average on a new school and commits the rest of its available facility revenue to other district needs. The second district is reducing its unmet facility needs (and will therefore receive a lower SFCC offer of assistance), while the first is building one new school but not reducing the district's other facility needs (and will receive a higher SFCC offer).

Recommendation 16

The General Assembly may consider amending KRS 157.620 to adjust the unmet needs of those districts whose construction costs significantly exceed maximum project budgets.

If the General Assembly adopts Recommendations 11-14, KDE's maximum project budget will be brought in line with actual construction costs. The General Assembly may also wish to amend KRS 157.620 to direct that school districts that construct buildings with total costs in excess of 25 percent of KDE's maximum project budget will have 75 percent of the excess cost deducted from their future unmet needs over the next three budget cycles.

Unmet Need Calculations. Under current requirements, districts' unmet facility needs should be calculated as of June 30 in odd years. In order to receive an SFCC offer of assistance, districts must restrict unexpended funds from capital outlay and FSPK as of June 30. By statute, SFCC offers are to be based on KDE's June 30 calculation of unmet need in the odd year.

Current practice has not always followed these timelines. For the past several budget cycles, KDE has not adhered to the odd-year June 30 date. Instead, the department has used more current figures, reflecting data as of the fall the following fiscal year. Since the Office of Education Accountability brought the deviation to KDE's attention in the course of this study, the department reported that it has reverted to the June 30 statutory requirements for the FY 2006 unmet need calculation.

In addition, when budgets were not passed in 2002 and 2004 legislative sessions, SFCC made the decision to base offers made in December 2003 and 2005 on the most current unmet need figures. While this action is understandable because it resulted in offers of assistance that reflect more accurately districts' financial status and facility needs, it is a deviation from statute.

In addition, KDE currently calculates local bonding potential as of June 30. This calculation assumes that all debt service being paid by school districts has a 20-year repayment schedule. The practice underestimates local available revenue because much of the debt service districts hold will be paid off in a shorter time period.

Recommendation 17

The General Assembly may consider amending KRS 157.620 to clarify that SFCC may use more current data to allow SFCC to better reflect district need and remain in compliance with statute.

KDE should continue to follow the June 30 of the odd-year deadline for calculating unmet need. The General Assembly may wish to amend KRS 157.620 to clarify that SFCC may use more current data. In doing so, SFCC could better reflect district need and remain in compliance with statute if similar circumstances warrant.

Recommendation 18

KDE should determining districts' local available revenue using actual repayment terms for outstanding debt.

KDE should adjust its procedures for determining districts' local available revenue by using actual repayment terms for outstanding debt in calculating current bonding potential.

Per KRS 157.620, the Kentucky Board of Education is required to certify districts' unmet need and eligibility to participate in SFCC

by October 15. However, KBE has been unable to meet this deadline and has certified eligibility and unmet need statements at its December meeting.

Recommendation 19

The General Assembly may consider amending KRS 157.620 to permit KBE to certify districts' eligibility and unmet need statements by December 15.

The General Assembly may wish to amend KRS 157.620 to permit KBE to certify districts' eligibility and unmet need statements by December 15.

SFCC Bond Refinancing. SFCC is to be commended for seeking opportunities for savings through the refinancing of its bonds. However, there is a conflict between regulation and statutory language on this issue. Per KRS 157.622 (6), when SFCC bonds are refinanced and savings occur, SFCC is required to apply the savings to the district's account to be used toward the district's next priority project. Language in 750 KAR 1:010 (10) stipulates that when the savings generated through refinancing are low enough that SFCC's debt service can be maintained at the same level after the refinancing, the savings, including any accrued interest, is credited directly to the district.

In addition to the inconsistency between statute and regulation, the effect of returning refinancing savings directly to districts is to lower the districts' annual debt service payments by the amount of the total savings. In this case, funds generated by the savings may be used by the district for projects ineligible for SFCC funding.

Recommendation 20

If legislative intent is that savings generated from refinancing be used on behalf of districts in ways that adhere to SFCC requirements, the General Assembly may direct that the regulation be made consistent with statute.

The conflict between KRS 157.622 and 750 KAR 1:010 should be resolved. If legislative intent is that the savings generated through refinancing be used on behalf of districts in ways that adhere to SFCC requirements, the General Assembly should direct that the regulation be made consistent with statute.

In its review of KDE policy regarding the implementation of Federal bond credits provided through the Qualified Zone Academy Bond program, staff found no written criteria for selecting eligible school districts.

Recommendation 21

KDE should have a written policy, including an application process, for the distribution of federal QZAB credits.

KDE should have a written policy, including an application process, for the distribution of federal Qualified Zone Academy Bond credits.

School districts that have sufficient bonding potential to purchase land at the same time that construction is approved are permitted to pay for land with SFCC, building fund, or capital outlay funds. However, most districts must purchase land in anticipation of school construction because they do not have sufficient bonding potential to acquire land and begin construction immediately. This puts districts with limited bonding potential at a disadvantage because they cannot use facility funds for land and must finance land with general fund dollars. In addition, this contributes to an inequitable treatment of districts.

Recommendation 22

KDE should allow land costs to be paid out of capital outlay, building fund, and SFCC if clearly tied to new or expanded facility.

KDE should allow land costs to be paid out of capital outlay, building fund, and SFCC if clearly tied to a documented need for a new or expanded facility.

A majority of superintendents responding to the study survey indicated they need additional training in planning for, financing, and implementing school facilities construction and renovation.

Recommendation 23

KDE should offer training for facility planning, funding, and construction.

KDE should offer specific training to district superintendents, finance officers, and facility managers. The training topics should include developing required facility plans; appropriate use of facility funding; and general training on DFM's building process, including building and ground forms and best practices in contracting and using engineers and architects in planning and building.

Works Cited

Building Educational Success Together.. "Recommended Policies for Public School Facilities." Washington, DC: 21st Century School Fund. <http://www.21csf.org/csf-home/publications/modelpolicies/FacilitiesFundingSectionMay2005.pdf> (accessed Aug. 10, 2005).

Culpepper, Kristi, and Mike Clark. Legislative Research Commission. Memorandum to the Capital Planning Advisory Board. Aug. 26, 2005.

Kentucky Department of Education. Issues Brief - Facilities, presented to the Kentucky Board of Education. June 2003. <http://www.education.ky.gov/KDE/Administrative+ Resources/Kentucky+Board+of+Education/Kentucky+Board+of+Education+Issues+ Briefs.htm> (accessed July 1, 2005).

National Conference of State Legislatures. Education Finance Database. <http://www.ncsl.org/programs/educ/ed%5Ffinance/index.cfm#test> (accessed Dec. 2, 2005).

RSMeans. *Means Building Construction Cost Data*, 2005. 63rd ed.

Ryles, Mark. Personal interviews. June 23 and 28, 2005.

Schneider, Mark. *Do School Facilities Affect Academic Outcomes?* Washington DC: National Clearinghouse for Educational Facilities. <www.edfacilities.org/pubs/ outcomes.pdf> (accessed Aug. 10, 2005).

Tarvin, Robert. Personal interview. June 16, 2005.

Tennessee Office of Education Accountability. *School Capital Funding: Supplementary State Profiles*. August 2002. <http://www.comptroller.state.tn.us/orea/reports/ schcapsupp.pdf (accessed Dec. 2, 2005).

U.S. Department of Education. National Center for Education Statistics, National Forum on Education Statistics. *Planning Guide for Maintaining School Facilities*. NCES 2003-347, prepared by T. Szuba, R. Young, and the School Facilities Maintenance Task Force. Washington, DC: 2003.

Appendix A

Summary of Statutes and Regulations Governing SFCC

Statutes

KRS 157.611 expresses the legislative intent that SFCC distribute funds equitably to help schools meet construction needs.

KRS 157.611 expresses the intent for establishing the School Facilities Construction Commission (SFCC) to help meet school construction and technology needs in an equitable manner. The statute allows SFCC to issue bonds to finance new school construction or lease agreements with local boards of education.

The powers and duties of SFCC are set forth in KRS 157.617.

KRS 157.617 establishes the name, powers, and duties of SFCC, which is authorized to act as a quasi-independent agency subject to limits and liabilities under KRS Chapter 13A. It consists of the secretary of the Finance and Administration Cabinet, and eight members appointed by the governor. SFCC employs a director and staff to manage the program.

KRS 157.620 lists criteria school districts must meet to participate in SFCC.

KRS 157.620 establishes the requirements for participation in the SFCC funding program. To participate in the SFCC program, a district must have unmet facility needs as defined by KRS 157.615 and must meet the following eligibility criteria: commit at least an equivalent tax rate of 5 cents to debt service, new facilities, or major renovations defined by KRS 157.440. On July 1 of odd-numbered years, the district shall restrict all available local revenue as defined by KRS 157.615 for school construction. The statute details the process for how and when offers of assistance are made.

KRS 157.420 defines the restrictions governing expenditures of capital outlay funds.

Facility Support Program requirements are established in KRS 157.440.

KRS 157.440 establishes requirements for participation in the Facilities Support Program of Kentucky (FSPK).

Starting the school year beginning after July 1, 1990, the local board of education may levy an equivalent tax rate as defined in KRS 160.470, which will produce up to 15 percent of the revenues in SEEK. Starting in the 1990-91 school year, revenue generated by this levy is equalized by the state at 150 percent of the statewide average per-pupil assessment.

To participate in FSPK, the local district boards of education must commit at least an equivalent tax rate of 5 cents to debt service, new facilities, or for major renovations of existing school facilities. The 5-cent tax is in addition to the 30-cent tax required under SEEK.

The first growth nickel levy is authorized in KRS 157.621.

KRS 157.621 establishes criteria to determine whether a school district may levy a growth nickel to address the needs generated by student population growth. Local school districts that have experienced student population growth during a five-year period, along with other established criteria, may levy an additional 5-cent tax that is not subject to recall and is not equalized by state.

Definitions pertaining to SFCC offers of assistance are listed in KRS 157.615.

KRS 157.615 defines the relevant terminology used in determining SFCC's offers of assistance.

Procedures and uses of SFCC offers of assistance are defined in KRS 157.622.

KRS 157.622 defines the procedures that SFCC must follow to provide offers of assistance and the process for handling unused offers of assistance and credit and savings from refinancing.

SFCC will compute districts' unmet needs based on certified statements from KBE. Offers of assistance are given in proportion to the districts' share of the state's total unmet need, and the funds are to be use by the district in priority order as listed on the district's most current approved facility plan.

A separate fund for tax receipts earmarked for the purchase of land for school construction, new construction, and major renovations is established in KRS 160.476.

KRS 160.476 establishes a special school building fund tax for the purchase and use of land for school construction; for the erection and complete equipping of school buildings and physical education and athletic facilities; and for the major alteration, enlargement, and complete equipping of existing buildings and physical education and athletic facilities. The special fund will be kept in a separate account designated as "school building fund." All expenditures from this fund are solely for the purposes of approved school facility construction. No district board of education can levy a tax at a rate that exceeds the compensating tax rate. The chief state school officer certifies the compensating tax rate to the district board of education.

KRS 162.060 defines the process by which district facility plans are approved and places limits on the contracting activities of local boards of education.

KRS 162.060 defines the chief state officer's duties to approve school facility construction or renovation plans and places restrictions on local boards of education in awarding construction contracts.

KRS 162.070 mandates all school projects that cost more than $7,500 go through a competitive bidding process. It also describes the requirements and authority of local school boards.

Regulations

702 KAR 1:001 defines regulations and guidelines for facility construction and renovation. It is known as the "Kentucky School Building Planning Manual."

702 KAR 1:001 defines the regulations and guidelines for school facility construction and renovation projects and is referred to as "The Kentucky School Facilities Planning Manual." School districts must develop a local facility plan every four years in accordance with this regulation and the "Master Educational Facility Plan Guidelines," June 2004. The facility plan may be amended, but all changes must be approved by KBE. It is the responsibility of the chief state school officer and SFCC determine whether a district is financially capable to undertake a project.

An emergency loan fund is established in 702 KAR 4:100 for districts that have experienced loss of or damage to facilities due to fire or natural disaster or untimely receipt of local tax

702 KAR 4:100 provides for an emergency loan for school districts experiencing a loss of physical facilities due to fire or natural disaster or a failure of timely receipt of local tax revenues. Included in this regulation are the procedures to apply for the loan and the necessary requirements to safeguard the loan.

The capital construction process is described in 702 KAR 4:160.

702 KAR 4:160 describes the capital construction process and specifically addresses in detail the following sections:

1. Construction Project Application
2. Local Board Oversight Responsibilities
3. Architectural Services
4. Construction Management Services
5. Plans and Specifications
6. Construction Bidding and Contracting
7. Contract Change Orders
8. Construction Contract Retainage
9. Construction Dispute Resolution
10. Construction Contract Close-out Process
11. Penalties for Malfeasance or Nonfeasance

Programming and construction criteria for healthy, comfortable, and safe school buildings are set forth in 702 KAR 4:170.

702 KAR 4:170 establishes facility programming and construction criteria to make school buildings healthy, comfortable, and conducive to learning. This regulation prescribes the various architectural, structural, mechanical, electrical, sanitary, heating, and ventilation design specifications to ensure functional and safe facilities that are also economically efficient.

Procedures for making offers of assistance and the allocation of savings from bond refinancing are established in 750 KAR 1:010.

750 KAR 1:010 establishes the procedures SFCC uses to determine district eligibility, participation levels, district credits, and the allocation of savings from refinancings.

Appendix B

School District Participation in Facility Funding Programs

	Local Funds			State Funds		Federal Funds	
District Name	Growth Levy	2nd Growth Levy	Recallable Nickel Levy	Equalized Facility Funding	Urgent Need or Category 5 Funds	Qualified Zone Academy Bond	Emergency School Repair & Renovation
Adair County					X		X
Allen County				X			
Anchorage Independent				X			
Anderson County	X	X					
Ashland Independent							
Augusta Independent							X
Ballard County			X		X		
Barbourville Independent							
Bardstown Independent	X	X				X	
Barren County	X	X				X	
Bath County					X		
Beechwood Independent				X			
Bell County						X	X
Bellevue Independent							
Berea Independent			X			X	
Boone County	X	X				X	
Bourbon County							
Bowling Green Independent							
Boyd County						X	
Boyle County							X
Bracken County				X			
Breathitt County							
Breckinridge County							
Bullitt County	X	X					
Burgin Independent							
Butler County					X	X	
Caldwell County							
Calloway County							
Campbell County	X			X			
Campbellsville Independent							
Carlisle County						X	
Carroll County							
Carter County							X
Casey County					X		X
Caverna Independent							X
Christian County							
Clark County							
Clay County						X	
Clinton County						X	
Cloverport Independent							X

DISTRICT NAME	Growth Levy	2nd Growth Levy	Recallable Nickel Levy	Equalized Facility Funding	Urgent Need or Category 5 Funds	Qualified Zone Academy Bond	Emergency School Repair & Renovation
Corbin Independent	X			X			
Covington Independent							X
Crittenden County							
Cumberland County						X	X
Danville Independent							
Daviess County	X			X			
Dawson Springs Independent							
Dayton Independent							
East Bernstadt Independent							
Edmonson County						X	X
Elizabethtown Independent			X				
Elliott County						X	X
Eminence Independent							
Erlanger-Elsmere Independent							
Estill County					X	X	X
Fairview Independent							
Fayette County							
Fleming County							
Floyd County					X		X
Fort Thomas Independent	X			X	X		
Frankfort Independent							X
Franklin County			X		X		
Fulton County							
Fulton Independent							
Gallatin County	X			X	X		
Garrard County	X	X					
Glasgow Independent					X		
Grant County	X	X					
Graves County							
Grayson County							
Green County					X		
Greenup County						X	
Hancock County					X		
Hardin County					X		
Harlan County					X		
Harlan Independent							X
Harrison County							
Harrodsburg Independent							
Hart County					X		X
Hazard Independent							
Henderson County						X	
Henry County						X	
Hickman County					X	X	
Hopkins County					X	X	
Jackson County						X	
Jackson Independent						X	
Jefferson County						X	X

District Name	Growth Levy	2nd Growth Levy	Recallable Nickel Levy	Equalized Facility Funding	Urgent Need or Category 5 Funds	Qualified Zone Academy Bond	Emergency School Repair & Renovation
Jenkins Independent							
Jessamine County	X	X					
Johnson County						X	X
Kenton County	X	X			X		
Knott County						X	
Knox County					X	X	X
LaRue County					X	X	
Laurel County							
Lawrence County							X
Lee County							
Leslie County					X		X
Letcher County						X	X
Lewis County							
Lincoln County							
Livingston County					X		
Logan County							
Ludlow Independent							
Lyon County							
Madison County	X	X					
Magoffin County					X		
Marion County							
Marshall County							
Martin County							
Mason County					X	X	
Mayfield Independent				X			
McCracken County							
McCreary County						X	X
McLean County					X		X
Meade County	X			X			
Menifee County						X	X
Mercer County							
Metcalfe County						X	X
Middlesboro Independent						X	
Monroe County				X		X	X
Montgomery County	X	X					X
Monticello Independent					X	X	
Morgan County					X	X	X
Muhlenberg County					X	X	
Murray Independent	X	X					
Nelson County	X			X		X	
Newport Independent						X	X
Nicholas County							
Ohio County						X	
Oldham County	X	X	X				
Owen County				X			X
Owensboro Independent							X
Owsley County						X	

District Name	Growth Levy	2nd Growth Levy	Recallable Nickel Levy	Equalized Facility Funding	Urgent Need or Category 5 Funds	Qualified Zone Academy Bond	Emergency School Repair & Renovation
Paducah Independent							
Paintsville Independent						X	
Paris Independent							X
Pendleton County	X	X					
Perry County					X		X
Pike County					X	X	X
Pikeville Independent							
Pineville Independent							X
Powell County						X	
Providence Independent							X
Pulaski County						X	
Raceland Independent							
Robertson County						X	
Rockcastle County							
Rowan County						X	
Russell County			X			X	
Russell Independent							
Russellville Independent							
Science Hill Independent						X	
Scott County	X	X					
Shelby County	X	X					
Silver Grove Independent						X	
Simpson County					X	X	
Somerset Independent							
Southgate Independent							
Spencer County	X	X					
Taylor County							
Todd County							
Trigg County						X	
Trimble County							
Union County							
Walton Verona Independent						X	
Warren County	X	X					
Washington County							
Wayne County					X	X	X
Webster County							
West Point Independent							
Whitley County					X	X	X
Williamsburg Independent							X
Williamstown Independent						X	
Wolfe County					X	X	X
Woodford County	X			X			
Total	**26**	**18**	**6**	**15**	**35**	**56**	**42**

Appendix C

Equity Simulation

To explore further the impact that non-SFCC sources of state funding have had, study staff conducted a simulation comparing a commonly used measure of equity under the current distribution of state facility revenue to the revenue districts would have received if certain non-SFCC state funds had been distributed through SFCC. In the simulation, urgent need funds, growth nickel and recallable nickel equalization, and equalized facility funding were redistributed through SFCC based on district percent of unmet need. This analysis found that facility revenue was increased for poorer districts and that overall equity increased.

Rationale of the Simulation. Through its support for the SFCC, the General Assembly has indicated its intention to promote the equitable distribution of facility funding. However, the legislature has also targeted facility funding to select districts in order to address specific policy concerns, and in doing so, equity has been impacted because equity is reduced by funding sources that are restricted to a limited number of districts. Specifically, the urgent need and equalized facility funding programs and state equalization funding for the growth nickel and the recallable nickel are targeted funding sources for which most districts do not qualify.

The simulation permits policy makers to view the impact on equity of holding constant the level of funding the General Assembly has earmarked for facilities but allowing non-SFCC state funds to flow equitably through SFCC. The primary rationale for the simulation is to see if it is possible to increase the equitable distribution of facility funding through increased use of SFCC. The simulation is not intended to suggest the elimination of any particular program. In addition, it should be noted that the analysis does not examine whether districts receiving urgent need funding would be able to replace or renovate their schools in the poorest condition without the targeted urgent need funding they received.

For the simulation, facility revenue data for fiscal years 2004 and 2006 are examined. Fiscal year 2004 calculations are based on KDE data as of June 30, 2003. The FY 2006 analysis is estimated based on KDE data as of June 30, 2005. Adjustments to the 2006 data were made to include equalized facility funding and recallable nickel equalization.

Prior to reporting on the simulation, a brief review is provided of current procedures for determining the revenues available to districts for facility construction and renovation. School districts' SFCC offers of assistance are calculated based on their total facility needs, as reflected on the DFPs certified by KBE, minus local available revenue. Local available revenue consists of unexpended revenue as of June 30 of the previous year in the following accounts: capital outlay, FSPK, escrowed SFCC offers, and prior year restricted balances. [1] Local available revenue, when combined with a district's SFCC offer, is the total revenue available to the district for new facility construction and renovation, or "total facility revenue."

[1] By statute, SFCC offers of assistance should be calculated based on local available revenue as of June 30 of odd-numbered years. Since no budget was approved and offers were not made in FY 2002 and 2004, SFCC decided to base offers on local available revenue as of June 30 in 2003 and in 2005.

In order to compare total facility revenue across districts, adjusted average daily attendance is used to compute districts' per-pupil facility revenue. Total per-pupil facility revenue is then reviewed by dividing the school districts into five groups, or quintiles. The quintiles are determined by ranking school districts' per-pupil facility revenue from lowest to highest and using average daily attendance to separate school districts into groups, each containing approximately one-fifth of the state's students. Quintile 1 includes approximately 20 percent of Kentucky students in districts with the least facility revenue, and quintile 5 includes approximately 20 percent of students in districts with the highest facility revenue. Table C.1 reports the number of districts and students represented and the average per-pupil facility revenue of quintiles 1 through 5 for 2004 and 2006.

Table C.1
Per-pupil Facility Revenue by Quintile

Quintile	Number of Districts	Number of Students	Average Per-pupil Facility Revenue
FY 2004			
1	35	112,959	$378
2	15	111,727	$686
3	50	118,984	$1,059
4	50	115,332	$2,063
5	26	114,986	$4,721
FY 2006			
1	26	84,023	$250
2	30	146,688	$605
3	35	113,128	$1,076
4	49	115,914	$2,040
5	36	117,551	$4,552

Quintiles contain approximately one-fifth of Kentucky's students, ranked from lowest to highest by per-pupil facility revenue.
Source: Staff calculations of KDE data.

Simulation Methodology. The simulation examines two different methods of distributing districts' facility revenue and compares a commonly used measure of equity for these two distribution methods in FY 2004 and 2006. Under the current revenue distribution method in FY 2004, the funds for category 5 projects and state equalization of the growth nickel flow only to those districts eligible to participate in these programs.[2] For FY 2006, the current revenue distribution includes category 5 funding, equalized facility funding, and state equalization of the growth nickel and recallable nickel. In the simulations, the amount of revenue the General Assembly appropriated for these programs is subtracted from the facility revenue of the districts that originally received them. Adjustments to districts' unmet need calculations are made, and these funds are added to the SFCC's total bonding potential and distributed to all eligible districts as offers of assistance based on districts' percent of total state unmet need.

[2] For both FY 2004 and 2006, the current and simulated revenue distribution also includes capital outlay, local and state FSPK, SFCC offers, and escrowed SFCC offers. The 2006 SFCC offer is estimated based on an assumption of $100 million in SFCC bonding authority, using KDE's October 15, 2005, calculation of districts' unmet facility need.

A commonly used measure of equity, the Gini Coefficient, is calculated for each distribution method and compared to see the extent to which equity changes under the simulated conditions.[3] The coefficient ranges between 0 and 1; the closer the value is to 0, the more equitably the revenue is distributed. Table C.2 presents results of the simulation for FY 2004, and Table C.3 reports simulation results for FY 2006.

Table C.2
FY 2004 Per-pupil Facility Adjusted Revenue Simulation

Quintiles	Current Facility Revenue Distribution Method			Simulated Facility Revenue Distribution Method*		
	Minimum	**Maximum**	**Average**	**Minimum**	**Maximum**	**Average**
Quintile 1 (Lowest)	$3	$607	$378	$3	$690	$446
Quintile 2	$620	$739	$686	$729	$958	$861
Quintile 3	$751	$1,430	$1,059	$959	$1,565	$1,239
Quintile 4	$1,458	$3,134	$2,063	$1,574	$2,685	$2,087
Quintile 5 (Highest)	$3,150	$13,524	$4,721	$2,713	$6,248	$3,817
Gini Coefficient (equity = 0)		**0.22**			**0.16**	

*In the simulation, urgent need funds and growth nickel equalizations are distributed through SFCC offers of assistance.
Source: Staff calculations of KDE data.

The data presented in these tables compare the current facility revenue distribution to the simulated conditions that result from allowing non-SFCC facility revenue to flow through SFCC to school districts based on unmet facility need. The tables show the relative changes in the distribution of per-pupil facility revenue by quintile and the change in equity as measured by the Gini Coefficient. In both years, equity is improved through the simulation.

Table C.3
FY 2006 Per-pupil Facility Adjusted Revenue Simulation

Quintiles	Current Facility Revenue Distribution Method			Simulated Facility Revenue Distribution Method*		
	Minimum	**Maximum**	**Average**	**Minimum**	**Maximum**	**Average**
Quintile 1 (Lowest)	$20	$321	$188	$71	$708	$415
Quintile 2	$326	$493	$397	$709	$894	$795
Quintile 3	$498	$1,254	$837	$904	$1,292	$1,128
Quintile 4	$1,291	$2,635	$1,815	$1,298	$1,963	$1,610
Quintile 5 (Highest)	$2,656	$8,270	$4,090	$1,968	$8,675	$3,253
Gini Coefficient (equity = 0)		**0.26**			**0.04**	

*In the simulation, urgent need funds, equalized facility funding, growth nickel and recallable nickel equalizations are distributed through SFCC offers of assistance.
Source: Staff calculations of KDE data.

[3] The Gini Coefficient measures the difference between the actual distribution of per-pupil facility revenue and a perfectly equitable revenue distribution. For example, if all students receive an equal amount of facility revenue, then 20 percent of students in Kentucky should receive 20 percent of the funding, and 40 percent of students should receive 40 percent of the funding.

As shown in Table C.2, per-pupil facility revenue increases for all quintiles except the highest revenue quintile in FY 2004, and the Gini Coefficient measure of equity is improved by the simulation. It changes from .22 in the current distribution to .16 in the simulation. The FY 2006 estimates shown in Table C.3 are similar and show that equity improves from .26 in the current distribution to .04 in the simulation. This is to be expected since the FY 2006 simulation flows more state funding through SFCC than does the FY 2004 simulation. Per-pupil facility revenue is increased through the FY 2006 simulation for quintiles 1 through 3, and quintile 4 receives slightly less revenue. The simulation reduces facility revenue for quintile 5 by 19 percent in both years.

The primary lesson to be learned by the simulation is that it is possible to increase the equitable distribution of facility funding through increased reliance on SFCC. The simulation is not intended to suggest the elimination of any particular program. However, the General Assembly has indicated its intention to cease equalized facility funding and urgent need funding for category 5 facilities. The simulation provides an estimate of the improvement in equity and the gain in facility revenue by quintiles that would occur if the legislature chose to maintain the level of funding it has previously targeted for equalization of restricted programs and for urgent need funding but to distribute the support through SFCC.

Equity Simulation Methodology

Overview

Staff investigated the impact on equity of distributing to all eligible districts through SFCC the funds that selected districts currently receive from growth nickel and recallable nickel equalization, equalized facility funding, and urgent need funding.

Current funding formula

Districts are able to fund capital projects based on the amount of their total available revenue, which is made up of several revenue sources. The calculations below define the components that make up school districts' total available revenue. The district's total available revenue is determined by summing the district's local bonding potential, its offer of assistance, and any urgent need funds it receives for category 5 schools.

Local bonding potential = *revenue sources* – existing debt service

Unmet need = facility need – local bonding potential

District's share of unmet need = unmet need ÷ state total unmet need

Offers of assistance = district share of unmet need × SFCC authorized debt service

Total available revenue = local bonding potential + offer of assistance + urgent need funds

Alternative funding formula

The alternative funding formula distributes more of the state's facility funding based on unmet need. The alternative formula is as follows:

Local bonding potential = *revenue sources* - debt service

Unmet need = facility need – local bonding potential

District's share of unmet need = unmet need ÷ state total unmet need

Offers of assistance = district need estimate × (authorized debt service + additional authorized debt service)

Additional authorized debt service is derived from the growth nickel equalization + recallable nickel equalization + facility funds equalization + urgent need funds

Total available revenue = local bonding potential + offer of assistance

The alternative funding formula differs from the current formula in that the growth nickel and recallable nickel equalizations, equalized facility funding, and urgent need funding are removed from the district's local bonding potential and distributed as SFCC offers of assistance.

Two Periods Modeled. KDE and SFCC data for the fiscal years 2004 and 2006 are used to calculate districts' total available revenue under both funding formulas for separate two periods designated as 2004 and 2006. SFCC was authorized to make $8.7 million in offers of assistance or given $101 million of bonding authority for the 2004-06 biennium. This amount of assistance is used in the 2004 funding formulas. As of the writing of this report, data for 2006 offers of assistance are not available. For the 2006 funding formula, it is assumed that SFCC has $8.4 million of assistance or $100 million bonding authority. Since the recallable nickel, its equalization, and the facility funding equalization were not available until after 2004, they are not included in the 2004 facility funding formulas; however, they are included in the 2006 funding formula.

Rejected Offers. There were eight school districts that rejected their 2004 offers of assistance. Any district that rejected its offer of assistance in 2004 is given no offer of assistance in the 2004 funding formulas. This adjustment is made in order to hold districts' behavior constant. Data on rejected offers in 2006 are not available. In the 2006 funding formulas, all districts are assumed to accept their 2006 offers of assistance.

Refinements to Need Estimates. The total available revenue in both funding formulas is determined using districts' facility needs that existed prior to notification of urgent need awards. The DFM made various adjustments to districts' facility needs that reflect urgent need awards. To avoid allowing the urgent need program to affect districts' facility needs, the amounts subtracted by DFM for the urgent need program are added back to the districts' need estimates.

This change converts the districts' needs back to their original levels before the notification of the urgent need awards.

Comparison. Once the districts' total local available revenues are determined with both the current and alternative funding formulas, their distributions are compared by quintiles to determine if one distribution is more equitable than another. The distributions also were compared using a widely accepted equity statistic known as the Gini Coefficient. The Gini Coefficient measures the degree a distribution deviates from a perfectly equitable distribution. Any difference is then converted into an index that ranges from 0 to 1. The closer the index is to zero the closer a distribution is to being perfectly equitable. A Gini Coefficient equal to zero indicates perfect equity, and a Gini Coefficient equal to 1 indicates perfect inequity.

Appendix D

Methodology for Selection of Random School Districts

A stratified random sample of 49 school districts was drawn using congressional districts as the strata. A random number table was used to select sample districts from within each congressional district. The number of sample school districts per strata was proportional to the total number of school districts within each stratum.

Following are the sample districts:

Allen County
Anchorage Independent
Augusta Independent
Barbourville Independent
Bardstown Independent
Boone County
Bourbon County
Breckinridge County
Calloway County
Carroll County
Corbin Independent
Covington Independent
Cumberland County
Dawson Springs Independent
Elliott County
Fayette County
Frankfort Independent
Gallatin County
Graves County
Grayson County
Greenup County
Hardin County
Hart County
Jenkins Independent
Letcher County
Lewis County
Madison County
Mason County
McCreary County
McLean County
Menifee County
Montgomery County
Monticello Independent
Murray Independent
Oldham County
Owen County
Owensboro Independent
Paintsville Independent
Powell County
Providence Independent
Rockcastle County
Rowan County
Russell County
Russellville Independent
Simpson County
Spencer County
West Point Independent
Williamsburg Independent
Wolfe County

Appendix E

Procedures Followed by the Kentucky Department of Education for Calculation of Maximum Construction Project Budget

This appendix illustrates the procedures followed by KDE in calculating a maximum project budget for new construction or major renovations.

The chief state school officer computes the building efficiency in determining the maximum project budget for proposed school construction and assessing approval of any project. Building efficiency is calculated by taking the sum of all individual program spaces of an addition or new facility compared to the total square footage. The remainder space is referred to as the unassigned space percentage. This space includes stairways, corridors, lobbies, and similar spaces. The square footage allocation shall be calculated with the following space percentages.

Elementary and support buildings	74% assignable space 26% unassignable space
Middle and Junior High Schools	71% assignable space 29% unassignable space
High Schools	68% assignable space 32% unassignable space

The square footage allocation equation for new construction and major renovation is as follows:

$$\frac{\text{Sum of Programmed spaces x 100}}{\text{\% of assignable space}}$$

For example, if a district wanted to add three classrooms and one art room to its elementary school, the square footage calculation would be:

$$\frac{3(800) + 800 \text{ x } 100}{74}$$

Total square feet allocation = 4,324

In calculating the maximum project budget for individual projects and total financing need, the square foot cost is determined using the ¾ Means Facilities Unit Cost. The actual calculation of priority maximum project budget shall be:

(Square foot allocation x ¾ Means Facility Unit cost) + Renovation Cost – SFCC Allocations for Previous Phases

In calculating the maximum project budget for remodeling and renovation as listed in the priority project, Unit Cost criteria provided by the RSMeans company shall be utilized and adjusted by a 135 percent factor to account for renovation costs, fees, and contingencies. For SFCC funding, the maximum budget for renovation shall not exceed 80 percent of the replacement cost.

Once the maximum project budget has been exceeded, it is the responsibility of the local board of education to fund any amounts above the budget. If, however, a district designs the program spaces in accordance with the program space allotments and due to circumstances beyond the district's control (such as excessive site acquisition, site development and utilities, or abatement

of asbestos in a renovation project), the total cost of the acceptable included items exceed the project budget, it may apply to the chief state school officer for an increase of the project's maximum budget up to 10 percent based upon the actual costs. Any request from a district that exceeds 10 percent requires approval by the KBE. For a district to be eligible to apply for additional maximum project budget monies, it must show local funds are inadequate to complete projects within program spaces. It is the responsibility of the local district and its design professional to construct the project within the project budget. If it appears that the project cost will exceed the budget, KDE must provide assistance in making changes in the plans and specifications to reduce the projected cost or the district must increase the budget funding available. Following is the maximum project budget for a typical elementary school:

Program Space	**Elementary School Enrollment**			
	300	**400**	**500**	**600**
Number of standard classrooms @ 800 sf	12	16	20	24
Standard Classroom Net Area Subtotal:	**9,600**	**12,800**	**16,000**	**19,200**
Special Education (self-contained)	825	825	825	825
Elementary resource rooms @ 400 sf	1,600	2,000	2,400	2,400
Preschool classrooms @ 825 sf	825	825	1,650	1,650
Elementary art classroom	800	800	80	800
Elementary music classroom	800	800	800	800
Elementary computer classroom	800	800	800	800
Allowance for SBDM instructional programs	1,500	2,000	2,500	3,000
Total Classroom Net Area:	**16,750**	**20,850**	**41,870**	**29,475**
Library/Media Center	2,100	2,600	3,125	3,650
Kitchen	2,200	2,200	2,200	3,000
Cafeteria	3,000	3,000	3,000	4,600
Physical Education	5,500	5,500	5,500	5,500
Administrative area	1,720	1,720	1,720	1,870
Family Resource area	300	300	300	300
Custodial Receiving	250	250	250	250
Total Net Area:	**31,820**	**36,420**	**41,870**	**48,645**
Elementary building assignable space – 74%				
Total Gross Area (SFA):	**43,000**	**49,216**	**56,581**	**65,736**
2004 elementary school unit cost - $108/sf				
Maximum Project Budget:	**$4,644,000**	**$5,315,328**	**$6,110,748**	**$7,099,488**
Area (square feet) per pupil	143	123	113	110
Cost per pupil	$15,480	$13,288	$12,222	$11,833

Source: 702 KAR 1:001

Appendix F

Survey Results and Responding Districts

This appendix lists the responding districts, contains the superintendent survey, and provides responses to the closed-ended survey questions. Responses to open-ended questions are available from the Office of Education Accountability.

Responding Districts

Allen County
Anchorage Independent
Anderson County
Augusta Independent
Ballard County
Barbourville Independent
Bardstown Independent
Barren County
Bath County
Bell County
Bellevue Independent
Berea independent
Boone County
Bourbon County
Bowling Green Independent
Boyd County
Boyle County
Bracken County
Breathitt County
Bullitt County
Burgin Independent
Butler County
Caldwell County
Calloway County
Campbell County
Campbellsville Independent
Carlisle County
Carroll County
Carter county
Casey County
Caverna Independent
Christian County
Clinton County
Cloverport Independent
Corbin Independent
Covington Independent
Crittenden County
Cumberland County
Daviess County
Dawson Springs Independent
Dayton Independent
East Bernstadt Independent
Edmonson County
Elizabethtown Independent
Erlanger-Elsmere Independent
Estill County
Fairview Independent
Fayette County
Fleming County
Floyd County
Fort Thomas Independent
Franklin County
Fulton County
Fulton Independent
Gallatin County
Garrard County
Glasgow Independent
Grant County
Grayson County
Greenup County
Hancock County
Hardin County
Harlan Independent
Harrison County
Harrodsburg Independent
Hart County
Hazard Independent
Henderson County
Henry County
Hickman County
hopkins County
Jackson Independent
Jefferson County
Jenkins Independent
Jessamine County
Johnson County
Kenton County
Knox County
Laurel County
Lawrence County
Lee County
Leslie County
Letcher County
Lewis County
Lincoln County
Logan County
Ludlow Independent
Madison County
Magoffin County
Marion County
Marshall County
Martin County
Mason County
Mayfield Independent
McCracken County
McCreary County
McLean County
Meade County
Menifee County
Metcalfe County
Monroe County
Muhlenberg County
Murray Independent
Nelson County
Newport Independent
Ohio County
Oldham County
Owen County

Owensboro Independent
Owsley County
Paducah Independent
Paintsville Independent
Paris Independent
Pendleton County
Perry County
Pike County
Pikeville Independent
Pineville Independent
Powell County
Pulaski County
Raceland-Worthington Independent
Robertson County
Rockcastle County
Rowan County
Russell County
Russell Independent
Science Hill Independent
Scott County
Shelby County
Silver Grove Independent
Southgate Independent
Spencer County
Todd County
Trigg County
Trimble County
Union County
Walton-Verona Independent
Warren County
Wayne County
Webster County
West Point Independent
Whitley County
Williamstown Independent

Office of Education Accountability
Review of the School Facilities Construction Commission
Survey of Superintendents

The Kentucky General Assembly has directed the Office of Education Accountability (OEA) to conduct a review of the School Facilities Construction Commission and to make appropriate recommendations for strengthening this program. The purpose of this survey is to better understand the experiences and perceptions of superintendents regarding the financing of facilities construction and renovation. Individual districts will not be identified when results are reported. We appreciate your assistance in helping OEA to study the SFCC and to better understand facility financing issues.

We estimate the survey will take about 20 minutes to complete. Please consult with your Finance and Facilities Officers as needed as you complete the survey and return the survey by October 28, 2005 to allow OEA to complete its work before the 2006 session of the General Assembly. The "Submit" button is at the bottom of this form. If you have any questions as you complete this survey you may call Pam Young or Sabrina Olds at 502-564-8167.

KDE uses a 5 point rating system for all school buildings in Kentucky. Building assessments explain the relative building conditions for each facility using the following descriptors:
1 - Excellent (functional age of 1 to 10 years, no apparent deterioration, basically new)*
2 - Good (functional age of 10-20 years, minor deterioration, no improvements needed)
3 - Average (functional age of 20-30 years, some deterioration, no improvements needed within the next 5 years)
4 - Fair (functional age 30-40 years, deteriorated, needs improvement or possible replacement)
5 - Poor (functional age over 40 years, deteriorated to the point of replacement, needs immediate attention, required systems are non-existent)
**Functional age means actual age or age since last major renovation*

1. I agree with the Facility Evaluation Rating (KDE's 1-5 rating system for the condition of school buildings) for each school in my district.
   Yes
   No
   I don't know the ratings for each school building in my district

2. If you do not agree with your schools' ratings, please indicate which school ratings you question, why you disagree, and indicate what your rating would be.

3. My district would benefit from additional training in:
   Strongly Agree
   Agree
   Disagree
   Strongly Disagree
   Don't Know
   (a) Preparing our District Facility Plan
   (b) Preparing our Master Educational Facility Plan

(c) Understanding what are allowable expenditures for Fund 310 (Capital Outlay)
(d) Understanding what are allowable expenditures for Fund 320 (Building Fund)

4. If you agreed that additional training is needed, please indicate other training topics you believe would be helpful.

The Kentucky School Facilities Planning Manual, 702 KAR 1:001 states, "Capital construction priorities shall include the most critical building needs of the district, taking into consideration the district's financial condition. Construction projects shall be listed in priority order as determined by the local planning committee. It is imperative that the most critical building needs of the district be given the highest priority. For example, classroom spaces would be a higher priority than replacement of a gymnasium."

5. If your district has needs that are beyond the district's current financial capacity, are they listed on the District Facility Plan?
   Yes
   No
   Don't know

6. My district verifies KDE's determination of our district unmet need as listed on KDE's Web site.
   In each Biennium
   Sometimes
   Rarely or Never
   Don't Know

7. I understand how my district's SFCC offer of assistance is determined.
   Strongly Agree
   Agree
   Disagree
   Strongly Disagree

KDE uses a national construction cost guide in determining a maximum project budget for all construction projects. For 2005, the rate for new construction is: High Schools: $136 per square foot; Middle and Elementary Schools: $120 per square foot.

8. Is the cost per square foot used to calculate the maximum project budget for purposes of determining a district's unmet need:
   too low
   about right
   too high
   don't know

SFCC funds must be utilized on projects in the order of priority that they are listed on the District Facility Plan. For example, all projects in Priority 1 must be completed prior to utilizing funds on Priority 2 projects. Priority 5 projects are not included in the unmet need calculation and SFCC funds cannot be used for these projects.

Priority 1: New construction or major renovation for projects to begin within the biennium.
Priority 2: New construction or major renovation for projects not scheduled within the biennium.
Priority 3: Non-educational additions or expansions such as cafeterias, auditoriums and gymnasiums.
Priority 4: Management support areas such as central offices or bus garages.
Priority 5: Discretionary projects including extracurricular facilities such as field houses, stadiums and sports fields.

9. KDE calculates each district's total facility needs based upon all projects listed in Priority 1 - 4 on the District Facility Plan. Do you agree with this policy?
   Yes
   No
   Don't know

10. If you responded no to question 9, which priority projects should be used in calculating "Total Needs?"

11. Should the SFCC be the primary source of state funding for school facility construction?
   Yes
   No

Please explain your answer

12. SFCC offers are based solely on a district's percent of total state unmet need and are distributed on a pro rata basis. Do you believe this funding formula should include specific characteristics or needs of school districts?
   Yes
   No

13. If you answered yes to Question 12, what factors should be included when SFCC offers are calculated?

Recently, the Kentucky Board of Education modified language in the School Facility Planning Manual establishing the minimum age of a building required for major renovation. The regulation now requires a building to be 30 years old to qualify for major renovation, increased from the prior requirement of 20 years. In order to use Building Fund money for major renovation a building must not only meet this age requirement but also must replace three building systems. For the purpose of constructing major renovations paid for out of Fund 320, "building systems" are defined as "foundations, exterior walls, roofing, ceilings, structural,

mechanical (HVAC), electrical (including lighting), plumbing, sewage, doors and hardware, windows, floor coverings, technology and fixed equipment."

14. How will the change in the definition of function age from 20 years to 30 years impact your district's ability to meet your facility needs?

15. How does the definition of major renovation impact your district's ability to meet your facility needs?

16. Currently districts can use the Building Fund to pay for land acquisition if it is "a direct construction cost," which requires the land cost and construction costs to be submitted on one BG-1. Should districts be allowed to pay for land acquisition out of the Building Fund regardless of when the land is acquired if the land is earmarked for construction of a new school?
    Yes
    No
    Don't know

17. What factors prevent your district from giving top priority on the District Facility Plan to your Category 4 or 5 buildings? (Do not include schools that are "transitional centers").
    My district does not have any Category 4 or 5 buildings.
    The factors that prevent us from giving top priority to Category 4 or 5 schools are:

18. For how many years should SFCC be permitted to escrow offers of assistance on behalf of school districts?
    4 years (as set forth in statute)
    6 years
    8 years (as permitted by budget language)
    other

19. If your school board has declined any SFCC offers for which it was eligible since you have been superintendent, what factors led to this decision?
    We have not declined our SFCC offers.
    We declined our offer(s) because:

20. Have school facility conditions prevented your district from offering instructional programs you would otherwise provide?
    Yes
    No

21. If you answered yes to Question 20, what are the facility limitations in your district and what instructional programs have you been prevented from offering?

22. Districts frequently use mobile units (relocatable units) to accommodate student populations or programs that exceed current building capacity. How many relocatable units are currently being used in your district and for what purposes?

Instructional units - students placed in unit due to overcrowding, no current ability to build additional classrooms.
Instructional units - students placed in unit during construction or renovation.
Instructional units - other (please describe use)
Non-instructional units - (please describe use)

23. Does your district have - and can your district fund - maintenance and replacement plans for major building systems in your schools?

	Have Plan?		Fund Plan?		
	Yes	No	Totally	Partially	Not at all
Maintenance Plans:					
(a) Electrical					
(b) Mechanical (includes HVAC)					
(c) Plumbing					
(d) Structural					

	Have Plan?		Fund Plan?		
	Yes	No	Totally	Partially	Not at all
Replacement Plans.					
(a) Electrical					
(b) Mechanical (includes HVAC)					
(c) Plumbing					
(d) Structural					

School facilities are currently funded by the state through a 3-pronged approach, based on student count (Capital Outlay), wealth (FSPK state equalization), and need (SFCC offers of assistance).

24. Do you have any comments or suggestions for improvement in these three funding mechanisms?

Capital Outlay:

FSPK equalization:

SFCC Offers of Assistance:

Since 1994, districts meeting certain criteria have been permitted to levy a five cent equivalent tax for student growth. Since 2003, districts that remain eligible in terms of growth have been permitted through budget language to levy a second growth nickel. The 2003 budget also permitted districts to levy a five cent equivalent tax subject to recall for facilities construction and major renovation. In 2003 and 2005, eligible districts with category 5 schools received funding through the Urgent Need Trust Funds.

25. Through budget language the General Assembly indicated its intention to cease new funding through the Urgent Needs Trust Fund as of June 30, 2006 (although districts already participating will continue to receive funding through the life of their bonds). In your judgment, should the SFCC funding formula be modified to include targeted assistance to districts with facilities in the poorest condition?
    Yes
    No
    Don't know

    Please explain your answer

26. Should the SFCC funding formula be modified to replace the state equalization of the growth nickel with targeted assistance within SFCC to districts that have facility needs due to growth?
    Yes
    No
    Don't know

    Please explain your answer

Other state assistance for facilities has come in the form of state equalization funds, including:
--equalization of the first growth nickel for districts that levy the second growth nickel;
-- retroactive equalization of the recallable nickel;
-- equalized facility funding for districts that have committed a ten cent equivalent tax for facilities, or have debt service of at least a ten cent equivalent, and have received no other equalization except FSPK.

27. Do you have any comments or suggestions regarding the state equalization funding mechanisms (not including FSPK)?

28. Are there any other comments or suggestions you would like to make regarding facilities funding issues?

We appreciate your candid response and remind you that districts will not be identified when the survey results are reported. However, to insure single entries per district and to allow follow-up clarification of your responses, please complete the information below.

School District Name:
School District Number:
Name:
Title:

Survey Responses

This section reports the responses to closed-response survey questions. Superintendents' answers to open-response questions are available upon request from the Office of Education Accountability.

1. I agree with the Facility Evaluation Rating (KDE's 1-5 rating system for the condition of school buildings) for each school in my district.

Response	Frequency	Valid Percent
No	23	16.1
Yes	109	76.2
Don't know	11	7.7

2. My district would benefit from additional training in:
   a. *Preparing our District Facility Plan*

Response	Frequency	Valid Percent
Strongly agree	22	16.5
Agree	74	55.6
Disagree	35	26.3
Strongly disagree	3	1.5

   b. *Preparing our Master Educational Facility Plan*

Response	Frequency	Valid Percent
Strongly agree	23	16.9
Agree	76	55.9
Disagree	33	24.3
Strongly disagree	2	1.5

   c. *Understanding what are allowable expenditures for Fund 310 (Capital Outlay)*

Response	Frequency	Valid Percent
Strongly agree	24	17.0
Agree	75	53.2
Disagree	39	27.7
Strongly disagree	3	2.1

   d. *Understanding what are allowable expenditures for Fund 320 (Building Fund)*

Response	Frequency	Valid Percent
Strongly agree	25	17.9
Agree	74	52.9
Disagree	38	27.1
Strongly disagree	3	2.1

3. If your district has needs that are beyond the district's current financial capacity, are they listed on the District Facility Plan?

Response	Frequency	Valid Percent
No	14	9.8
Yes	126	88.1
Don't know	3	2.1

4. My district verifies KDE's determination of our district unmet need as listed on KDE's Web site.

Response	Frequency	Valid Percent
In each biennium	58	40.8
Sometimes	43	30.3
Rarely or never	27	19.0
Don't know	14	9.9

5. I understand how my district's SFCC offer of assistance is determined.

Response	Frequency	Valid Percent
Strongly agree	18	12.7
Agree	87	61.3
Disagree	36	25.4
Strongly disagree	1	0.7

6. Is the cost per square foot used to calculate the maximum project budget for purposes of determining a district's unmet need:

Response	Frequency	Valid Percent
Too low	83	58.0
About right	39	27.3
Too high	4	2.8
Don't know	17	11.9

7. KDE calculates each district's total facility needs based upon all projects listed in Priority 1 - 4 on the District Facility Plan. Do you agree with this policy?

Response	Frequency	Valid Percent
No	26	18.2
Yes	110	76.9
Don't know	7	4.9

8. Should the SFCC be the primary source of state funding for school facility construction?

Response	Frequency	Valid Percent
No	37	26.1
Yes	105	73.9

9. SFCC offers are based solely on a district's percent of total state unmet need and are distributed on a pro rata basis. Do you believe this funding formula should include specific characteristics or needs of school districts?

Response	Frequency	Valid Percent
No	61	43.0
Yes	81	57.0

10. Currently districts can use the Building Fund to pay for land acquisition if it is "a direct construction cost," which requires the land cost and construction costs to be submitted on one BG-1. Should districts be allowed to pay for land acquisition out of the Building Fund regardless of when the land is acquired if the land is earmarked for construction of a new school?

Response	Frequency	Valid Percent
No	6	4.2
Yes	130	90.9
Don’t know	7	4.9

11. For how many years should SFCC be permitted to escrow offers of assistance on behalf of school districts?

Response	Frequency	Valid Percent
4 years	31	22.0
6 years	10	7.1
8 years	84	59.6
other	16	11.3

12. Have school facility conditions prevented your district from offering instructional programs you would otherwise provide?

Response	Frequency	Valid Percent
No	85	60.3
Yes	56	39.7

13. Districts frequently use mobile units (relocatable units) to accommodate student populations or programs that exceed current building capacity. How many relocatable units are currently being used in your district and for what purposes?

    a. *Instructional units – students placed in unit due to overcrowding, no current ability to build additional classrooms.*

Response	Frequency	Valid Percent
0	40	41.2
1	10	10.3
2	18	18.6
3	7	7.2
4	4	4.1
5	3	3.1
6	3	3.1
7	1	1.0
8	1	1.0

9	2	2.1
10	1	1.0
12	2	2.1
14	2	2.1
15	1	1.0
34	1	1.0

b. Instructional units – students placed in unit during construction or renovation.

Response	Frequency	Valid Percent
0	44	77.2
1	4	7.0
2	2	3.5
3	2	3.5
4	1	1.8
5	1	1.8
8	1	1.8
10	1	1.8
11	1	1.8

c. Instructional units – other.

Response	Frequency	Valid Percent
0	41	71.9
1	8	14.0
2	3	5.3
3	3	5.3
5	1	1.8
14	1	1.8

d. Non-instructional units.

Response	Frequency	Valid Percent
0	34	44.2
1	17	22.1
2	15	19.5
3	6	7.8
4	2	2.6
5	2	2.6
6	1	1.3

14. Does your district have - and can your district fund - maintenance and replacement plans for major building systems in your schools?

a. Maintenance Plans:

Does your district have an electrical maintenance plan?

Response	Frequency	Valid Percent
No	49	36.8
Yes	84	63.2

Can you fund your electrical maintenance plan?

Response	Frequency	Valid Percent
No	32	26.4
Yes -- partially	60	49.6
Yes -- totally	29	24.0

HVAC Plan

Does your district have an HVAC maintenance plan?

Response	Frequency	Valid Percent
No	30	22.4
Yes	104	77.6

Can you fund your HVAC maintenance plan?

Response	Frequency	Valid Percent
No	35	28.0
Yes -- partially	59	47.2
Yes -- totally	31	24.8

Plumbing Plan

Does your district have a plumbing maintenance plan?

Response	Frequency	Valid Percent
No	51	38.6
Yes	81	61.4

Can you fund your plumbing maintenance plan?

Response	Frequency	Valid Percent
No	33	27.7
Yes -- partially	60	50.4
Yes -- totally	26	21.8

Structural Plan

Does your district have a structural maintenance plan?

Response	Frequency	Valid Percent
No	51	40.2
Yes	76	59.8

Can you fund your structural maintenance plan?

Response	Frequency	Valid Percent
No	44	37.9
Yes -- partially	50	43.1
Yes -- totally	22	19.0

b. Replacement Plans:

Does your district have an electrical replacement plan?

Response	Frequency	Valid Percent
No	73	55.3
Yes	59	44.7

Can you fund your electrical replacement plan?

Response	Frequency	Valid Percent
No	69	59.0
Yes -- partially	41	35.0
Yes -- totally	7	6.0

Does your district have an HVAC replacement plan?

Response	Frequency	Valid Percent
No	59	44.0
Yes	75	56.0

Can you fund your HVAC replacement plan?

Response	Frequency	Valid Percent
No	71	59.2
Yes -- partially	41	34.2
Yes -- totally	8	6.7

Does your district have a plumbing replacement plan?

Response	Frequency	Valid Percent
No	73	56.6
Yes	56	43.4

Can you fund your plumbing replacement plan?

Response	Frequency	Valid Percent
No	71	60.7
Yes -- partially	41	35.0
Yes -- totally	5	4.3

Does your district have a structural replacement plan?

Response	Frequency	Valid Percent
No	68	52.3
Yes	62	47.7

Can you fund your plumbing replacement plan?

Response	Frequency	Valid Percent
No	75	66.4
Yes -- partially	34	30.1
Yes -- totally	4	3.5

15. Through budget language the General Assembly indicated its intention to cease new funding through the Urgent Needs Trust Fund as of June 30, 2006 (although districts already participating will continue to receive funding through the life of their bonds). In your judgment, should the SFCC funding formula be modified to include targeted assistance to districts with facilities in the poorest condition?

Response	Frequency	Valid Percent
No	49	34.5
Yes	67	47.2
Don't know	26	18.3

16. Should the SFCC funding formula be modified to replace the state equalization of the growth nickel with targeted assistance within SFCC to districts that have facility needs due to growth?

Response	Frequency	Valid Percent
No	48	33.8
Yes	42	29.6
Don't know	52	36.6

School Facilities Construction Commission
Finance and Administration Cabinet
229 W. Main Street, Suite 102
Frankfort, Kentucky 40601
(502) 564-5582
(502) 564-3412 Fax

ERNIE FLETCHER
Governor
Robbie RUDOLPH
Secretary

BERNARD J. SANDFOSS
Chairman
ROBERT E. TARVIN
Executive Director

February 13, 2006

Marcia Seiler, Deputy Director for
Office of Education Accountability
475 Coffee Tree Road
Frankfort, Kentucky 40601

Dear Ms. Seiler:

We are pleased that the Education Assessment and Accountability Review Subcommittee has requested an official response from the School Facilities Construction Commission regarding your recent study on our agency. The following is our response:

Chairmen Westwood and Moberly and members of the Subcommittee I am pleased to have this opportunity on behalf of the Commission to offer a few remarks regarding the recent Office of Education Accountability (OEA) study on facilities. Mr. Bernie Sandfoss is with me today. He is chairman of the School Facilities Construction Commission, and has served on the Commission since 1992. The Commission is composed of eight citizens appointed by the Governor along with the Secretary of Finance and Administration, making it a nine member group. At the present time it is composed of three members who have served for more than five years with five members having recently become a part of the Commission. This mix of experience and continuity along with the infusion of new ideas has been important as the OEA study was reviewed.

Because the Commission has spent considerable time as individuals and as a group reviewing this document I thought it might be of benefit to actually put a face on the Commission. Also, I hope Mr. Sandfoss's presence will represent the fact that what I have to say today is not just my opinion but the thoughts and consideration of this group of citizens, who are very concerned about the school facilities or lack there of which are available to Kentucky's children.

In general terms we are pleased that the General Assembly decided to allocate the resources so that this important area of education could be reviewed, and we were very pleased with the quality and thoroughness put forth in the finished product that was produced by OEA. On a personal note I was pleased to see to that the authors of the study concluded that the ".. SFCC program is managed well and is a strong force in

improving Kentucky's school buildings", and that this conclusion was also confirmed by the superintendents' survey part of the study.

Chapter 3 of the report somewhat understates the challenges existing in such a study as this when it sets forth that:

> "Superintendents representing growth districts, small districts with limited financial resources, districts with declining enrollments, and districts with a high proportion of category 4 and 5 schools offer different perspectives on the challenges and opportunities of the current system."

This statement captures the complexity of the problem which you as Legislators and we as an agency wrestle in trying to serve the best needs of students in our Commonwealth. Moreover, we believe this study served the stakeholders of the enterprise well.

We will put forth our thoughts on the report's recommendations along the topical lines followed in Chapter 4.

SFCC Funding.

Recommendation 1: Amend KRS 157.622 to allow the SFCC to escrow district offers for up to 8 years.

The Commission supports this idea for all the reasons stated.

Paragraph one of this section also makes a conclusion which the Commission certainly endorses, when it states:

> "The General Assembly has expressed its intention that SFCC remain the primary state source of facility funding. However, in response to economic and other conditions, in recent years the General Assembly has authorized targeted facility funding programs operating outside the SFCC distribution formula. As this study has demonstrated, equity is diminished by these non-SFCC funds."

Within your packet you will find two charts which we presented to the OEA investigators that are worth our discussion. The first is titled "SFCC Construction Offers". The second is "Facility Funding from the 2005 General Assembly".

From the first chart one can see a very inconsistent trend line in terms of new money support to the SFCC. A consistent, adequate source of new funding is needed each biennium to keep the construction pipeline flowing smoothly. Also, it is important to understand that because of the way in which the SFCC offers are actually utilized by the districts, it takes four years for the full cost of the amounts stated each biennium to be incurred by the state.

On the second chart one can see that in the current budget the SFCC received 19% of the total new bonding money made available for school construction and renovation. It is our perception that most people are not aware of the amount of bonding capacity that went to selective programs in various forms of equalization.

Therefore, one can see why the Commission supports the above stated conclusion.

In addition to support of these study recommendations, the Commission would also suggest two additional ideas for consideration:

> First, the SFCC would support the right for a local board of education to commit an equivalent tax rate not to exceed five cents in addition to the taxes levied in KRS 157.440(1)(b) for the purpose of debt service, new construction and/or major renovations with the levy not subject to recall.

This same concept has been used successfully two different times for "growth" districts in the last decade, and the OEA study indicates that it is meeting its intended purpose. Often it is mentioned that this measure without state equalization would not be good policy and is therefore, not considered. However, the first time it was implemented for the "growth" districts it did not carry state equalization. If one holds that the equalization is a necessity the Legislature could certainly consider phasing in the equalization over several years just as it did originally for the first state FSPK that was ever awarded.

It may be suggested that for many districts our current system elicits the feelings expressed on the OEA survey by one respondent who stated it is, "Totally unfair to a small district. This is a rich get rich and the poor pray for Category 5 mentality. I think if you would allow a funded non-recallable nickel in a non-growth district you would eliminate your problem and restore sense of pride in small districts that have to beg for assistance."

> Second, the SFCC recognizes that with the variety of needs among the districts that there may still be a need for the Legislature to target funding for special needs (ie category 5 or 4's). When that is the case the SFCC recommends that a separate budget line item be added to the SFCC need and not taken from the regular offers that the SFCC has available for all districts.

Definition of district growth.

The Commission felt these recommendations were under the prerogative of the Kentucky Department of Education (KDE). The Commission reviewed recommendations 2 through 4 favorably.

Maintenance of school buildings.

The Commission considered recommendations 5 and 6 important and again believed they were under the prerogative of KDE. There was also a recognition that there could be additional cost in the implementation, but believed that the investment would be worth it in reducing future building needs.

In regards to Recommendation 7 the Commission directed its Executive Director, regarding SFCC funds, to work with KDE in developing procedures that would be reviewed and approved by the Commission for implementation of the recommendation.

> Recommendation 7: KDE should develop a transparent and uniformly implemented waiver system to accommodate special facility needs. This waiver system should allow for documented exceptions to be made to the requirement that SFCC funds and FSPK funds must be used on major renovations.

Ranking of school buildings and District Facility Plans.

The SFCC believes that all the recommendations in these two areas (8-10) are under the prerogative of KDE.

Construction and renovation cost estimation.

The SFCC believes that recommendations 11 through 14 in this area are important considerations, but are under the prerogative of KDE.

Recommendation 15 is directed to the SFCC and is one with which the SFCC does not disagree, and it will attempt to implement.

> Recommendation 15: SFCC should develop its biennial budget request with specific goals that address state unmet facility need levels

The SFCC strongly supports recommendation 16.

> Recommendation 16: If the General Assembly adopts Recommendations 11 - 14, KDE's maximum project budget will be brought in line with actual construction costs. The General Assembly may also wish to amend KRS 157.620 to direct that school districts that construct buildings with total costs in excess of 25 percent of KDE's maximum project budget will have 75 percent of the excess cost deducted from their future unmet needs over the next three budget cycles.

Unmet needs calculations.

> Recommendation 17: KDE should continue to follow the June 30 of the odd year deadline for calculating unmet need. The General Assembly may wish to amend KRS 157.620 to clarify that SFCC may use more current data. In doing so SFCC could

better reflect district need and remain in compliance with statute if similar circumstances warrant.

While the SFCC does not disagree with the recommendation if clarity is needed, it does not believe that its current practice is a deviation from statute.

Recommendations 18 and 19 are under the prerogative of KDE. The SFCC would be able to work with them.

SFCC bond refinancing.

Recommendation 20: The conflict between KRS 157.622 and 750 KAR 1:010 should be resolved. If legislative intent is that the savings generated through refinancing be used on behalf of districts in ways that adhere to SFCC requirements, the General Assembly should direct that the regulation be made consistent with statute.

The SFCC does not disagree with the recommendation as written, if one accepts the OEA's legal rendering of the statute. However, because the SFCC was eminently involved in the creation of the statute in question and created the regulation discussed, it feels the regulation as implemented accomplishes what was intended with the passage of the statute in 1998 and is not inconsistent.

Other Recommendations.

Recommendations 21 and 23 are under the prerogative of KDE.

The SFCC accepts recommendation 22 and has directed its Executive Director to meet with KDE to develop procedures for its consideration that are transparent to this process.

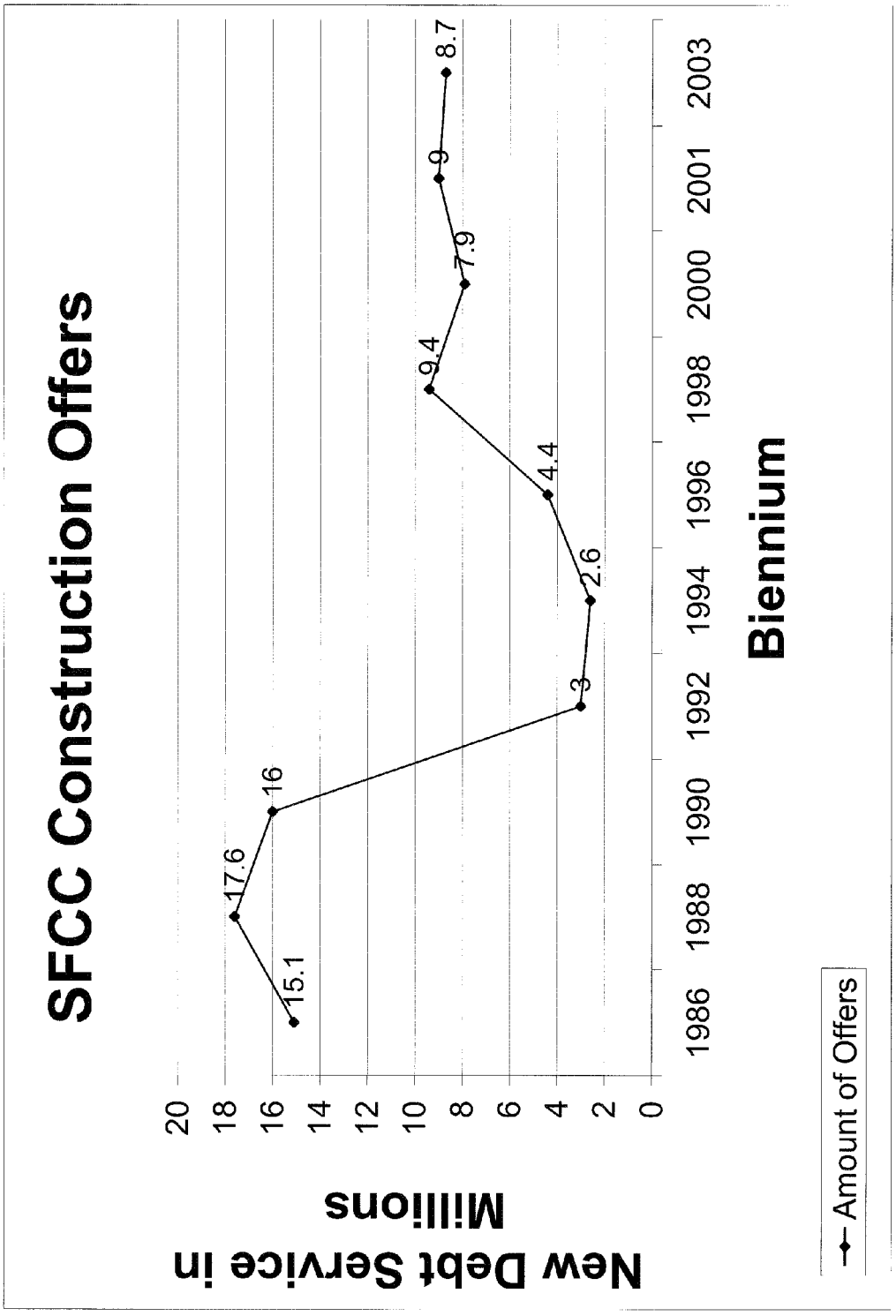
Recommendation 22: KDE should allow land costs to be paid out of capital outlay, building fund and SFCC if it is clearly tied to a documented need for a new or expanded facility.

We thank you for this opportunity and look forward to working with you to better the school facilities in our state.

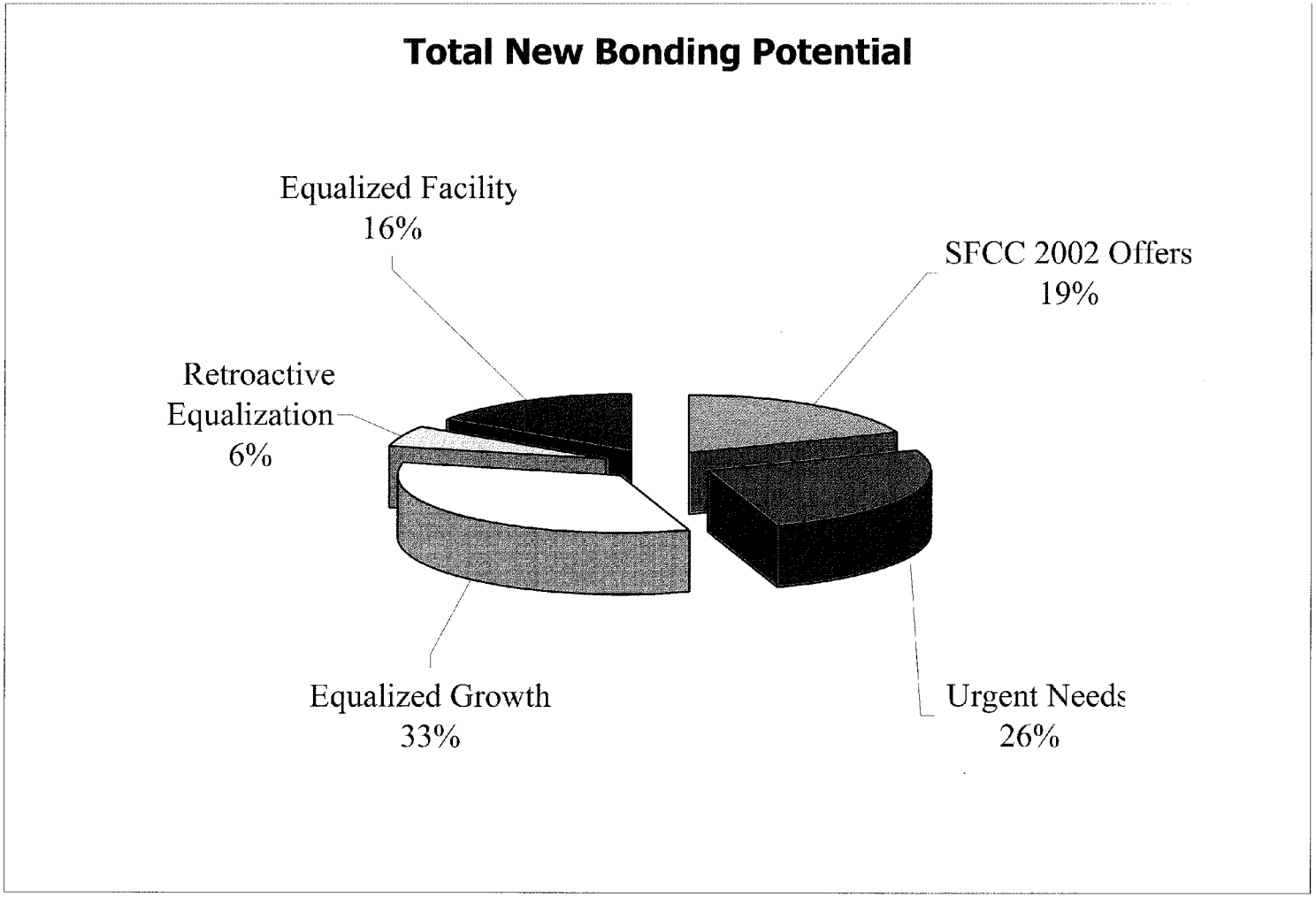
Sincerely,

R. E. Tarvin

Robert E. Tarvin
Executive Director
School Facilities Construction Commission


SFCC Construction Offers
New Debt Service in Millions
Biennium
Amount of Offers
15.1
17.6
16
3
2.6
4.4
9.4
7.9
9
8.7
0
2
4
6
8
10
12
14
16
18
20
1986
1988
1990
1992
1994
1996
1998
2000
2001
2003
School Facilities Construcion Commission
July 2005

Facility Funding from 2005 General Assembly



EDUCATION CABINET
DEPARTMENT OF EDUCATION

Ernie Fletcher
Governor

Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601
Phone: 502-564-4770
www.education.ky.gov

Gene Wilhoit
Commissioner of Education

February 9, 2006

The Honorable Harry Moberly, Co-Chair
Education Assessment and Accountability Review Subcommittee
House of Representatives
Room 366 B, Capitol Annex
Frankfort, KY 40601

The Honorable Jack Westwood, Co-Chair
Education Assessment and Accountability Review Subcommittee
The State Senate
Room 230, Capitol Annex
Frankfort, KY 40601

Dear Representative Moberly and Senator Westwood:

I thank you for the opportunity to respond to the recent OEA study of the School Facilities Construction Commission (SFCC). I applaud the work of the OEA. My staff and I find the report to be very thorough, professional and fair.

In an effort to respond to many of the recommendations, staff in the Office of District Support Services will seek the input of local school district superintendents, finance officers and facility managers by constituting a Facilities Advisory Committee. Work with the group will begin immediately following the 2006 Session of the General Assembly so that we may address any additional legislative issues.

The Kentucky Department of Education (KDE) response to each of the recommendations is as follows:

- **Recommendation 1: Amend KRS 157.622 to allow the SFCC to escrow district offers for up to 8 years.**

In recent years, the need for the SFCC to escrow district offers for up to 8 years has been handled through budget language. KDE agrees with the recommendation to amend KRS 157.622 for this purpose.

- **Recommendation 2: If the General Assembly chooses to continue authorizing the growth levy, elimination of the sunset provision of the first growth nickel in KRS 157.621 and including authorization of the second growth nickel in statute would increase the consistency of this funding source.**

The recommendation is a Kentucky Board of Education (KBE) legislative priority to be considered by the 2006 Session of the Kentucky General Assembly.

- **Recommendation 3: The criteria for determining growth districts established in KRS 157.621 should remain in place. Additional criteria should be added to address the needs of faster growing districts that have a significant annual increase in student population. OEA recommends permitting the growth levy for districts with a 5% average increase in student enrollment, excluding students on contracts, over 2 years, while meeting the other current requirements regarding bonding levels, student population in excess of classroom space, and certified facility plans.**

KDE agrees that a few growth districts have extraordinary circumstances. We support the review of criteria for growth districts and will include the review in the work of the Facilities Advisory Committee. Recommendations will then be presented to the Education Assessment and Accountability Review Subcommittee (EAARS).

- **Recommendation 4: KDE should have a documented method for confirming the growth criterion that enrollment exceed available classroom space.**

KDE has a documented method to calculate capacity, but will ask the Facilities Advisory Committee to evaluate the calculation for possible changes and for ways to accurately and efficiently confirm district reporting.

- **Recommendation 5: KDE should develop, implement and monitor maintenance best practice guidelines. In developing these guidelines the department should define maintenance expenditures.**

KDE is supportive of Best Practice Guidelines published by the National Council of Educational Facilities (NCEF). Using this clear concept of maintenance, KDE will review Best Practice Maintenance Guidelines and budgeting with the Facilities Advisory Committee and report findings to EAARS. In terms of direct monitoring, KDE does not have adequate resources to directly monitor school district facility maintenance. However, we will consider development of a monitoring process to be used by school districts.

- **Recommendation 6: The General Assembly should consider revising KRS 157.420 such that the definition of capital outlay is consistent with the following: "An expenditure for maintenance and insurance, land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings including replacement of flooring, and replacement equipment, that results in the acquisition of fixed assets or additions to fixed assets, which have benefits for more than ten years."**

This recommendation raises concerns with us. However, we will survey other states to determine acceptable definitions. Adequate revenue is not currently provided for school facilities. KDE does not recommend that inadequate resources be further diluted for maintenance expenditures.

- **Recommendation 7: KDE should develop a transparent and uniformly implemented waiver system to accommodate special facility needs. This waiver system should allow for documented exceptions to be made to the requirement that SFCC funds and FSPK funds must be used on major renovations.**

We will ask the Facilities Advisory Committee to consider a waiver system to accommodate special facility needs. Recommendations will then be presented to EAARS.

- **Recommendation 8: Review and revision of the ranking system is suggested in order to provide reliable data to inform policy.**

The ranking system was developed at the urging of the General Assembly to provide information about the relative condition of school facilities in Kentucky, NOT for funding purposes. Given the way the system has been used in recent years, KDE agrees the system should be reviewed and will ask for consideration by the Facilities Advisory Committee. Results of the review will be presented to EAARS.

- **Recommendation 9: In order to assure that the most up to date facility needs are known and that SFCC offers are based on accurate unmet need calculations, the General Assembly should consider amending KRS 157.420 to require DFPs to be updated by districts every two years, with a waiver period of two years.**

The facility planning effort is very labor intensive, costly and time-consuming. KDE and local school districts do not have adequate resources to meet two-year cycles, nor does KDE believe two-year cycles are necessary or beneficial. Needs assessments are updated

biennially for inflation. We will consider additional areas for more frequent updating. Further, if a district needs to update its plan more frequently than the four-year cycle, they may do so by amendment as provided in 702 KAR 1:001.

- **Recommendation 10: KDE should simplify and clarify 702 KAR 1:001 with regard to the MEFP and DFP process, and it should enforce the annual review provision of this regulation. In addition, KDE should provide clarification on the types of projects that are appropriate for inclusion in priorities one through five. KDE should also provide clarification as to how the LPC is to apply the requirement that the district's financial situation be considered in development of the DFP.**

The Facilities Advisory Committee will consider revisions to 702 KAR 1:001 to simplify and clarify the Master Educational Facilities Plan and District Facilities Plan process. Recommendations will then be presented to EAARS.

- **Recommendation 11: KDE should use the most current RS Means data. In addition, KDE should apply an inflation adjustment to accommodate the fact that the RS Means allowances are based upon year old data.**

KDE has confirmed the RS Means data being used is, in fact, the most current available through the service to which we have subscribed. The allowances provide projections of cost and are not based on year old data. However, quarterly updates are available through another subscription service. We intend to further investigate the cost of the quarterly updates and will procure the service if it is deemed to meet our needs.

- **Recommendation 12: KDE should consider utilizing the regional cost indexes available through RS Means in calculating the cost of construction.**

KDE will ask the Facilities Advisory Committee to review the use of regional cost indexes available through RS Means and report the results of the review to EAARS.

- **Recommendation 13: KDE should include a factor, when utilizing the ¾ cost, to cover expenses that are not included in the RS Means calculation, such as architect and engineer fees, bond sale costs, and contingencies.**

KDE agrees a factor should be included, when utilizing the ¾ cost, to cover expenses that are not included in the RS Means calculation and will develop and implement said factor.

- **Recommendation 14: When determining minimum enrollments for the purpose of calculating facility project allowances, KDE should include preschool enrollment.**

The facility project allowances currently include preschool. However, the calculation is an allowance only and not based on enrollment. KDE will review this practice with the Facilities Advisory Committee and provide findings to EAARS.

- **Recommendation 15: SFCC should develop its biennial budget request with specific goals that address state unmet facility need levels.**

This recommendation would be best addressed by SFCC, and KDE will assist with the development of specific goals that address state unmet facility need levels.

- **Recommendation 16: If the General Assembly adopts Recommendations 11 - 14, KDE's maximum project budget will be brought in line with actual construction costs. The General Assembly may also wish to amend KRS 157.620 to direct that school districts that construct buildings with total costs in excess of 25 percent of KDE's maximum project budget will have 75 percent of the excess cost deducted from their future unmet needs over the next three budget cycles.**

KDE agrees there should be a disincentive to school districts that want to construct buildings with excess costs. However, this recommendation needs additional review and other options to reduce excesses need to be considered. KDE will ask the Facilities Advisory Committee to provide input on this recommendation and will report findings to EAARS.

- **Recommendation 17: KDE should continue to follow the June 30 of the odd year deadline for calculating unmet need. The General Assembly may wish to amend KRS 157.620 to clarify that SFCC may use more current data. In doing so SFCC could better reflect district need and remain in compliance with statute if similar circumstances warrant.**

KDE agrees and will continue to follow the June 30 of the odd year deadline for calculating unmet need. The rest of the recommendation is better addressed by the SFCC.

- **Recommendation 18: KDE should adjust its procedures for determining districts' local available revenue by using actual repayment terms for outstanding debt in calculating current bonding potential.**

Representative Harry Moberly
Senator Jack Westwood
February 9, 2006
Page 6

KDE agrees procedures should be adjusted for determining districts' local available revenue by using actual repayment terms for outstanding debt in calculating current bonding potential. We will ensure a new procedure is in place for the next calculation due October 15, 2007.

- **Recommendation 19: The General Assembly may wish to amend KRS 157.620 to permit KBE to certify districts' eligibility and unmet need statements by December 15.**

KDE supports changing the due date of the unmet need statements from October 15 to December 15 of the odd-numbered year. The change would provide the department with more time to ensure the accuracy of district data, thus the accuracy of the entire calculation.

- **Recommendation 20: The conflict between KRS 157.622 and 750 KAR 1:010 should be resolved. If legislative intent is that the savings generated through refinancing be used on behalf of districts in ways that adhere to SFCC requirements, the General Assembly should direct that the regulation be made consistent with statute.**

This recommendation would be best addressed by SFCC.

- **Recommendation 21: KDE should have a written policy, including application process, for distribution of federal Qualified Zone Academy Bond (QZAB) credits.**

KDE agrees there should be a written policy, including the application process, for distribution of federal Qualified Zone Academy Bond (QZAB) credits. We will move forward immediately with development of the policy.

- **Recommendation 22: KDE should allow land costs to be paid out of capital outlay, building fund and SFCC if it is clearly tied to a documented need for a new or expanded facility.**

KDE has concerns about the implementation of this recommendation, but will provide information to the Facilities Advisory Committee for review and will report findings to EAARS.

Representative Harry Moberly
Senator Jack Westwood
February 9, 2006
Page 7

- **Recommendation 23: KDE should offer specific training to district superintendents, finance officers and facility managers. The training topics should include developing required facility plans, appropriate use of facility funding, and general training on DFM's building process, including building and ground forms and best practices in contracting and utilizing engineers and architects in planning and building.**

KDE will explore avenues for expanded opportunities beyond training currently provided.

Sincerely,

Gene Wilhoit

GW/slnh

cc: Marcia Seiler
Bonnie Brinly
Kyna Koch

Ms. Marcia F. Seiler, Deputy Director
Kentucky Office of Education Accountability

Dear Deputy Director Seiler,

This email is a follow-up to the issues that were raised at the Education Assessment and Accountability Review Subcommittee meeting on Friday, February 10, 2006. Those issues involved inequities in the SEEK school funding formula and the determination of "wealth" for the purpose of allocating School Facilities Construction Commission funds to local school districts.

The attached information outlines some of the problems in the SEEK formula and offers more than enough justification for a thorough equity study of the SEEK school funding formula and a reconsideration of how school district "wealth" is determined. This study should involve grouping school districts by the amount of total state and local revenue that they receive per pupil and comparing those groups to determine the amounts and causes of inequities in funding.

Please consider this a formal request that such a study be done and that a new method of determining school district "wealth" be developed.

Sincerely,

Fred Bassett

Fred R. Bassett, Ed.D.
Superintendent
Beechwood Independent School District
50 Beechwood Road
Fort Mitchell, KY 41017
Phone: 859-331-3250
FAX: 859-331-7528
E-mail: fbassett@beechwood.k12.ky.us
Web Page: http://www.beechwood.k12.ky.us

INEQUITIES IN SCHOOL FUNDING IN KENTUCKY

The following is a review of some of the equity problems in school funding in Kentucky:
In 1990, the state legislature passed the Kentucky Education Reform Act (KERA). A key component of KERA was the new Support Education Excellence in Kentucky (SEEK) school funding formula. The new formula was supposed to insure equity in funding for Kentucky school districts and thereby Kentucky students. The problem is that this component has not worked as intended.

In the last school year under the old system of funding schools (1989/90), the lowest funded school district in Kentucky received $2,591 per pupil in total revenue (local, state, and federal), and the highest funded district received $5,506 per pupil. This gap in funding was decried as deplorable and very inequitable. In the latest school year that data is available from the Kentucky

Department of Education (2004/05), the lowest funded school district in Kentucky received $6,663 per pupil, and the highest funded district received $12,893 per pupil, and these latest revenue numbers do not include a category of revenue called "other" that may be significant in some districts.

Even though the gap in funding between the lowest funded school districts and the highest funded ones narrowed right after KERA was passed, this gap has been growing consistently since then, and the individuals and groups that have a vested interest in promoting KERA have refused to acknowledge that there is anything wrong. They continue to insist that a formula that ignores disparities caused by varying levels of district revenue from utility taxes, occupational taxes, payments in lieu of taxes from corporations, federal revenue in lieu of taxes, federal impact aid, direct funding of school projects by the state legislature, and add-on state and federal money for inflated numbers of at-risk students is an equitable one. And, to add insult to injury, the tests for equity that have been done in various reports have a design flaw in common that skews their results and acts to hide the level of inequity in the SEEK formula. That design flaw is a built-in assumption that "wealthy" districts are ones that have high property assessments per pupil and that "poor" districts are ones that have low property assessments per pupil. Using this assumption, all of these studies have grouped school districts by property assessments per pupil and compared the resulting groups to determine funding differences. The problem is that wealthy school districts are not school districts with high property values. They are, in fact, school districts that receive the largest amounts of money to educate their students. Conversely, poor school districts are not school districts with low property values. They are school districts that receive the smallest amounts of money to educate their students. Since school districts receive funding from a number of sources that have nothing to do with property, it makes little sense to try to determine the disparity between wealthy districts and poor districts by grouping them solely according to property assessments and comparing funding levels among those groups. To see the real disparities in funding, districts should be grouped by the amount of funding they actually receive and then compared.

With that said, the following is a list of inequities in school funding in Kentucky that should be corrected:

1) Kentucky school districts may levy two broad categories of taxes, property taxes and permissive taxes. Under the current school funding formula, only revenue from property taxes is equalized, and only property assessments are used to determine equalization funds for the Guaranteed SEEK Base level of funding. Differences in revenue among school districts from permissive taxes (utility and occupational taxes) are not equalized. This causes inequities in Kentucky school funding.

2) Additional sources of income for individual school districts such as funding from the state legislature outside the state school funding formula, payments in lieu of taxes from corporations, federal revenue in lieu of taxes, and federal impact aid are not counted when determining a district's "wealth" for equalization purposes. This causes inequities in Kentucky school funding.

3) Districts experiencing growth in existing property assessments at a rate greater than 4% are penalized by the SEEK formula. This is because House Bill 44 limits growth in local tax

revenues generated from existing property to 4% while the SEEK formula rolls back state funding in an amount based on the actual rate of assessment growth. That means that districts with assessment growth over 4% actually experience a drop in total combined local and state revenue while local taxpayers are paying more in taxes. For example, if property assessments on existing property go up 10%, then the SEEK funding formula assumes that local property tax revenue will go up 10%. Under the formula, state funding for the district is then reduced by an equivalent dollar amount. However, because of House Bill 44, local revenue really only goes up 4%, which results in the district actually getting less combined state and local funding than it did the previous year if the Guaranteed SEEK base level of funding does not change. This causes inequities in Kentucky school funding. * See below for additional information on this problem.

4) When a district imposes local taxes up to 15% greater than the minimum required, the SEEK formula provides for an equalized supplemental amount of funding in addition to the Guaranteed SEEK Base amount. (This is called Tier I funding.) However, equalizing funds are currently provided not just for the additional local tax revenues above the minimum, but are also provided for state supplemental funds. Because supplemental funds are state generated and already equitable, this causes inequities in Kentucky school funding.

5) Under the SEEK formula, school districts are allowed to raise local tax revenues above the Tier I amount, but these Tier II revenues do not get equalization funding from the state. By the law that instituted the SEEK formula, there is a limit set on the amount of Tier II funding a district may receive. The original purpose of that limit was to keep some school districts from getting too far ahead of other districts in their funding levels. However, by way of a "loophole" in the law, some districts have been able to circumvent their Tier II caps and impose much higher tax rates than other districts and realize much more in local revenue. This causes inequities in Kentucky school funding.

(Furthermore, there is a question about using caps on tax rates at all because the caps appear to be unconstitutional under the state constitution due to unequal treatment of taxpayers. Unequal treatment results when some taxpayers live in districts where their tax rates are capped by the state at rates much lower than what taxpayers living in other districts are forced to pay.)

6) Because there is no "cost of living" adjustment in the SEEK school funding formula, school districts in high cost areas cannot provide the same educational programs and facilities for their students that school districts in low cost areas can with the same amount of money. This causes inequities in Kentucky school funding.

7) Districts in high student population growth areas must allocate significantly larger portions of their revenue to building construction than districts in low growth areas, therefore districts in high growth areas have less money left to spend on educational programs for their students. This issue is not addressed in the SEEK school funding formula which results in inequities in Kentucky school funding.

8) Because a federal study estimated that nationally 29% percent of students who receive free and reduced price lunches do not really qualify for them and because Kentucky students who receive free and reduced price lunches are said to be "at-risk" and enable school districts to

receive additional state funding, it follows that some Kentucky districts receive more state revenue than they should because they have inflated numbers of students classified as "at-risk". This causes inequities in Kentucky school funding.
http://www.enquirer.com/editions/2002/05/28/loc_many_getting_free.html

*** INEQUITY IN THE SEEK SCHOOL FUNDING FORMULA CAUSED BY INTERACTION WITH HOUSE BILL 44**

The accompanying chart illustrates the inequity in Kentucky's SEEK school funding formula caused by the formula's interaction with Kentucky's House Bill 44 (which limits yearly increases in local property tax revenue to 4% without having the tax subject to recall). In the example given in the chart, 5 school districts are compared over a 2-year period. All 5 districts start with the same student enrollments, attendance rates, property assessments, and tax rates. They also have the same at-risk, home and hospital, exceptional child, transportation, and limited English proficiency needs. Under the SEEK school funding formula, during the first year, all 5 of these districts receive the same total amount of state and local funds. This amount is listed in column 13 as "Total Revenue".

At the beginning of the second year, all 5 school districts adopt tax rates under House Bill 44 that will generate 4% more local revenue. However, the property in each district has been reassessed, and now property assessments are no longer the same from district to district. Suddenly, even though all 5 school districts were exactly the same the first year and now during the second year have adopted tax rates that generate 4% more local revenue than the previous year, they are unexpectedly receiving very different "Total Revenue" amounts.

With no change in the Guaranteed SEEK Base or the state average property assessment per pupil and with a 4% increase in local revenue:
The district whose assessments rose by 10% is receiving $135.39 less per pupil in total revenue than it did the first year. This is due to the way the SEEK formula works and due to the fact that under House Bill 44 limitations, this district would not even raise enough local revenue to fully participate in Tier I funding. *
* However, since there is a provision in the law that allows districts to set their tax rates - without recall - at a rate high enough to fully participate in Tier I, this district, if it wished, would be able to set a tax rate that would generate more than a 4% increase in local revenue and could fully participate in Tier I. Yet, even with this additional local tax revenue above 4%, the district's loss in total revenue from the first year to the second year would still be $101.43 per pupil.

The district whose assessments rose by 4% is receiving the same amount per pupil as it did the first year.

The district whose assessments remained the same is receiving $67.63 more per pupil than it did the first year.

The district whose assessments dropped by 4% is receiving $135.07 more per pupil than it did the first year.

And, the district whose assessments dropped by 10% is receiving $236.69 more per pupil than it did the first year.

It is obvious from this example that the inequity caused by the interaction of House Bill 44 with the SEEK school funding formula affects all districts to varying degrees and that contrary to what one would think, as assessments in districts go up, funding goes down.
In this example, the funding gap between the highest funded district and the lowest funded district grew from $0 per pupil to $372.08 per pupil in one year simply because the districts' property assessments changed by different percentages. *
* The difference would be $338.12 per pupil if the first district raised its local revenues by more than 4% to fully participate in Tier I.

These figures have been verified by the Division of School Finance at the Kentucky Department of Education. These figures also show how the very portion of the SEEK formula that is responsible for equalizing funding among Kentucky's school districts fails miserably and causes major inequities in funding.

On top of that, when one considers (1) that permissive tax revenues add to the inequity of the school funding system because they are not equalized, (2) that motor vehicle assessments are property assessments and, therefore, contribute to the problems outlined in the example, (3) that new property becomes existing property after one year and, therefore, contributes to the problems outlined in the example, and (4) that inequity also occurs when some districts are allowed to exceed their Tier II tax rate caps while others are not, it becomes clear that Kentucky's school funding formula desperately needs to be fixed.

INEQUITY IN THE SEEK SCHOOL FUNDING FORMULA CAUSED BY INTERACTION WITH HOUSE BILL 44							
	(1) Per Pupil Assessment	(2) Property Tax Rate	(3) Property Tax Revenue	(4) Calculated Base SEEK	(5) Local Base SEEK	(6) State Base SEEK	(7) Total Tier 1
YEAR 1							
District A	$400,000	0.004227	$1,690.80	$4,800.00	$1,200.00	$3,600.00	$720.00
District B	$400,000	0.004227	$1,690.80	$4,800.00	$1,200.00	$3,600.00	$720.00
District C	$400,000	0.004227	$1,690.80	$4,800.00	$1,200.00	$3,600.00	$720.00
District D	$400,000	0.004227	$1,690.80	$4,800.00	$1,200.00	$3,600.00	$720.00
District E	$400,000	0.004227	$1,690.80	$4,800.00	$1,200.00	$3,600.00	$720.00
YEAR 2	**New Assessment**		**4% Increase Under HB 44**				
District A	$440,000 (10% increase)	0.003996	$1,758.43	$4,800.00	$1,320.00	$3,480.00	$584.42
District B	$416,000 (4% increase)	0.004227	$1,758.43	$4,800.00	$1,248.00	$3,552.00	$720.00
District C	$400,000 (no change)	0.004396	$1,758.43	$4,800.00	$1,200.00	$3,600.00	$720.00
District D	$384,000 (4% decrease)	0.004579	$1,758.43	$4,800.00	$1,152.00	$3,648.00	$720.00
District E	$360,000 (10% decrease)	0.004884	$1,758.43	$4,800.00	$1,080.00	$3,720.00	$720.00
$587,000 used as 150% of state average property assessment per pupil							

INEQUITY IN THE SEEK SCHOOL FUNDING FORMULA							
CAUSED BY INTERACTION WITH HOUSE BILL 44							
	(8) Local Tier 1 Percentage	(9) Local Tier 1	(10) State Tier 1	(11) Tier 1 Tax Rate	(12) Max Tier 1 Rate	(13) Total Revenue - columns 3+6+10	(14) Gain/ Loss from Year 1
YEAR 1							
District A	0.6814310	$490.63	$229.37	0.001227	0.001227	$5,520.17	
District B	0.6814310	$490.63	$229.37	0.001227	0.001227	$5,520.17	
District C	0.6814310	$490.63	$229.37	0.001227	0.001227	$5,520.17	
District D	0.6814310	$490.63	$229.37	0.001227	0.001227	$5,520.17	
District E	0.6814310	$490.63	$229.37	0.001227	0.001227	$5,520.17	
YEAR 2							
District A	0.7495741	$439.07	$146.35	0.001058	0.001227	$5,384.78	**-$135.39**
District B	0.7086882	$510.26	$209.74	0.001227	0.001227	$5,520.17	**$0.00**
District C	0.6814310	$490.63	$229.37	0.001227	0.001227	$5,587.80	**$67.63**
District D	0.6541737	$471.19	$248.81	0.001227	0.001227	$5,655.24	**$135.07**
District E	0.6132879	$441.57	$278.43	0.001227	0.001227	$5,756.86	**$236.69**
$587,000 used as 150% of state average property assessment per pupil							