Public School Construction in Utah

September 11, 2001

A Report to the Executive Appropriations Committee of the Utah State Legislature

Prepared by
Office of the Legislative Fiscal Analyst

Kevin Walthers

Executive Summary

Equity is a difficult concept to define. Several states must revamp school funding programs to meet court ordered mandates to provide equitable and adequate school facilities.[1] Courts have found funding patterns that result in substandard schools for children violate state laws and constitutions. The driving force in these decisions has been the quality of facilities as perpetuated by each state's funding system. Although it has been more than twenty-five years since the state last performed a comprehensive study of school facilities, anecdotal evidence suggests that Utah public schools are of a high quality. However, the funding mechanism to build schools may impose a heavy burden on those districts with high rates of growth – especially those districts located in the rural parts of the state.

Facility issues pit statewide wealth against local control. As local districts seek additional state resources, they resist the imposition of centralized control. As part of its mission, the Utah State Office of Education must provide oversight for local construction issues. In some cases, requirements may be too specific, may not provide optimum equity, or may not provide enough information for legislative decision making. To address these issues, the Analyst offers the following recommendations in this report:

- The Legislature should consider streamlining approval of construction projects.
- The Utah State Board of Education should work with local boards and superintendents to re-examine the Capital Outlay Foundation Program to answer the following question: *Is the Capital Foundation Formula weighted too heavily on input resources and not enough on resource allocation requirements?*
- The Legislature should consider the creation of a facility database that will track the condition of all public school buildings.
- The Legislature should consider directing the Utah State Board of Education to develop a plan by which the state could create and manage an interest free (or low cost) revolving loan fund to assist school districts with the construction of new buildings. The plan could be patterned on existing state loan programs and should contain estimates for initial levels of funding. The Board should report its findings to the Legislature in a timely manner.

[1] Education Commission of the States. (July, 1998). Finance: Making better decisions about funding school facilities. Denver, CO: Education Commission of the States. www.ecs.org

Background

Items thirty-five and thirty-seven in HJR 16 – Master Study Resolution – called for a report on public school facility needs. Item thirty-five asked for a study to determine the "cost efficiency of building schools on a statewide level or changing how schools fund the construction and maintenance of buildings." Item thirty-seven requested a study to determine "the way the state funds the building of schools, specifically the inequities which occur when growth happens in areas least able to fund the buildings." This report attempts to address these issues as specifically requested in HJR 16 and also will answer related questions that were part of the master study resolution request or were key issues relating to capital funding during the 2001 General Session.

Introduction

Thirty-eight states provide some form of state support to assist local districts with school funding. Some offer "flat grants" that can be used for a number of programs, including capital. Other states offer "basic support" based on district wealth, regardless of facility needs. Utah's Capital Foundation Program is similar to equalization programs offered in twenty-one other states that seek to address equity problems between rich and poor districts. Other states offer need-based grants based on a district's ability to pay, rather than based on property wealth. The following table details which states are offering these programs. Some states offer more than one type of assistance and Utah provides assistance by guaranteeing school district debt.

How States Address School Facility Needs

Flat Grants	Basic Support	No Direct Funding	
Alabama	Arizona	Idaho	Nevada
Indiana	Arkansas	Iowa	North Carolina
Kentucky	Colorado	Louisiana	North Dakota
S. Carolina	Tennessee	Michigan	Oklahoma
Virginia		Missouri	Oregon
		Nebraska	South Dakota

Equalized Funding		Need Based Grants	Full State Funding
Alabama	New Mexico	Alaska	Arizona
Connecticut	New York	Arizona	Hawaii
Delaware	Ohio	California	
Georgia	Pennsylvania	Florida	
Illinois	Rhode Island	Georgia	
Kansas	Texas	Minnesota	
Kentucky	Utah	Mississippi	
Maine	Virginia	New Hampshire	
Marylannd	Washington	New Jersey	
Massachussetts	Wisconsin	New Mexico	
Montana	Wyoming	Vermont	
		West Virginia	

Source: Education Commission of the States

School construction in Utah is funded primarily by local school districts. State financial involvement is restricted to a limited amount of funds appropriated through the Capital Foundation program and to a clause in the State Constitution that allows local districts to use the state's "full faith and credit" when issuing long term debt. Even though funding mechanisms are fairly limited at the state level, there is a great deal of oversight from the State Office of Education for local school construction. This report defines the current funding and regulatory environment in Utah, compares Utah's funding system with that of other states and offers policy alternatives for future funding patterns. The following questions will be addressed:

- What is the current state of public school construction funding in Utah?
- What laws govern public school construction?
- Are Capital Foundation funds distributed in the most efficient manner?
- Would a statewide department for construction, operation and maintenance of public schools provide efficiencies?
- Should the state create a new revenue stream to equalize capital outlay across school districts?
- Should the State provide assistance to school districts with high debt levels?

What is the current state of public school construction funding in Utah?

Utah's 40 school districts manage 795 individual school facilities with an insured value approaching $6 billion.[2] As noted in the following table, more than half of these facilities are elementary schools.

Utah School Composition	
Elementary	472
Middle	37
Junior High	94
Combined Junior/Senior High	23
High Schools	84
Special/Alternative	85
Total	**795**

Data prepared by the State Office of Education show that new school construction over the last five years averaged 11 new schools per year at a combined cost of more than $76 million per year.

[2] State Division of Risk Management. See Appendix for district specific calculations.

Utah Annual New School Construction 1997-2001			
Statewide Averages	*Built*	*Avg. Cost*	*Total*
Elementary School	7.8	$5,929,819	$46,252,588
Junior High School	2.2	$7,913,636	$17,409,999
High School	0.8	$15,500,000	$12,400,000
Annual Average	**10.8**	**$7,042,832**	**$76,062,587**

Local Districts outpace State in capital improvement spending

From 1997 to 2001, local districts average expenditures totaled more than $140 million on new construction, capital improvements, upgrades and repairs. During these five years, the Capital Foundation Fund provided an average of $27.7 million for local capital projects – creating an 80/20 ratio of local to state funding for all school construction. Over the same five years, the state spent just over $161 million *total* on alterations, repairs and improvements for a building inventory valued at approximately $4 billion.[3] The value of local school facilities is approximately one and a half times greater than that of state buildings, but from 1997 to 2001 local school districts out spent the state on capital improvements by a four to one margin.

What laws govern public school construction?

Statute charges the Utah State Office of Education (USOE) with oversight of local school construction. This charge includes assisting local districts with design, planning and location of district educational facilities. The table on page five details USOE statutory responsibilities:

[3] As used in this report, "State spending" refers to state tax funds allocated by the Legislature for state agencies and institutions of higher education.

53A-20-102	School Building Plans	(1) If the total annual accumulative building project costs for any contract for construction or alteration of a school building exceed $100,000, the superintendent of public instruction or the superintendent's designee must approve and endorse the plans and specifications prior to the commencement of construction or alteration.
53A-20-103	Planning, design and construction of public school buildings	The State Board of Education has the following duties: (1) It shall adopt codes to govern the preparation of plans and specifications for public school buildings. The codes shall include minimum standards for: (a) construction, heating, ventilation, sanitation, lighting, plumbing, structural safety, protection from fire, panic and other danger; (b) promotion of the safety, health, and comfort of the occupants; and (c) providing functional adaptability including suitable facilities for handicapped;
	Formulation of Planning Procedures	(3) It shall establish planning procedures for school districts to determine the need for school plant facilities. The procedures shall include definitions of methods, criteria, and other pertinent information necessary to determine the type, size, location, and cost of school plant facilities eligible for state financial participation. (8) It shall provide school districts with findings regarding school designs, including flexibility of design and modular planning, new methods of construction, and new material.
	Standards for Educational Specifications	(5) (USBE) shall prepare a guide for use by school districts in formulating educational specifications for individual building projects.
	Annual Reporting	(9) It shall prepare an annual school plant capital outlay report of all school districts, including tabulations of facilities available, number and size of projects completed and under construction, and additional facilities required.
53A-20-104.5	Creation of Construction and Inspection Manual	(1) The State Board of Education, through the state superintendent of public instruction, shall develop and distribute to each school district a school building construction and inspection resource manual.
53A-21-102	Administration of Capital Outlay – Foundation Program	(1) There is established a capital outlay foundation program, which shall include an emergency school building needs program through June 30, 2001, to provide revenues to school districts for the purposes of capital outlay bonding, construction, and renovation.
	Administration of Capital Outlay - Loan Program	(2) There is established a capital loan program to provide short-term help to school districts to meet district needs for school districting construction and renovation.
53A-22-101-106	Oversight of Construction Required by New Industrial Plant	It is the purpose of this chapter to provide school districts with the ability to raise funds for necessary new school construction, including additions to existing school buildings caused by the development of industrial plants that require large numbers of workers for their construction and operations.

USOE Role is important

At first glance, the State Office's role in approving plans may seem to be overly bureaucratic and unnecessary. However, the program seems to be an effective means to ensure that local schools are properly situated for traffic patterns, provide energy efficiency and are appropriately sized to meet an educational mission.

The Legislature should consider streamlining the program by adopting a new standard that relies on construction procedure rather than a set dollar value. Currently, any construction over $100,000 must be approved by the State Office. Recently the Legislature increased approval limits of state agencies to $250,000 because it felt that $100,000 no longer constitutes a level of capital outlay that needed additional bureaucratic approval.

Recommendation #1

The Legislature should consider streamlining approval of construction projects. The Analyst recommends that they consider the following options to improve current practice:

- Adopting a new amount that reflects current costs that can be escalated each year according to DFCM cost estimates;
- adopting a square footage standard that required any new construction or remodel that impacted more than 5,000 square feet to be approved; or,
- requiring the USOE to enact rules that outline minimum levels for approval of new construction and major remodeling projects.

Are Capital Foundation funds distributed in the most efficient manner?

Capital Foundation Program based on Average Tax Yield per ADM

One mandate worth additional consideration is the administration of the Capital Outlay formula. The formula is designed to disperse some $28 million to school districts based on a ratio of tax yield to average daily membership (ADM). The formula is based on a model that compares property tax base across districts on a per pupil basis. Districts with low property values and high student ADM receive funds to offset costs associated with construction of facilities to house all students. From Fiscal Year 1997 to 2001 the Capital Outlay Foundation included an amount to offset "emergency" needs. Beginning with FY 2002, the entire program is based on the core foundation formula with no set aside for emergencies.

Capital Foundation assists only a few Districts

The core foundation formula is based on the notion that districts with large student populations and relatively low property tax base are disproportionally impacted in their ability to raise funds for capital construction.

The Capital Outlay Foundation program is designed to provide a more level playing field across the state. Property rich districts such as Park City receive per pupil tax yields in excess of $2,300. Property poor districts such as Tintic recover less than $200 per student for capital needs. Funds are distributed from the capital formula to school districts based on tax yield per student. As shown in the table below, the current plan distributes more than half of all funds to just three of forty districts and nearly 85 percent of all funds to just six districts. Furthermore, there is no way to determine "full funding" under the current system. As money is added to the program, the formula increases the number of eligible districts and local award amounts, but there is no mechanism to determine an ultimate amount that would equal full funding.

Capital Foundation Formula
FY 2002 Preliminary Distribution Estimate

District	Allocation	Pct.
Davis	$6,690,257	23.6%
Alpine	6,337,513	22.3%
Weber	3,724,649	13.1%
Nebo	3,042,123	10.7%
Jordan	2,135,756	7.5%
Cache	2,064,954	7.3%
Tooele	880,087	3.1%
Duchesne	684,729	2.4%
So. Sanpete	585,301	2.1%
Ogden	552,124	1.9%
Box Elder	548,137	1.9%
San Juan	545,446	1.9%
No. Sanpete	343,835	1.2%
Sevier	77,779	0.3%
Piute	73,538	0.3%
Tintic	71,770	0.3%
Total	**$28,358,000**	

Capital Foundation may be too focused on inputs

In defining what constitutes equitable growth funding, the Legislature set up the Capital Foundation Program to adjust for resource availability per student (tax revenue) within each district. It seems that the formula maybe missing two key components in that it does not set a high enough bar for effort (tax rates) nor does it take into account expenditures for capital. Districts with high growth rates have expenditure requirements that preclude any discretionary decision making. By focusing on input resource availability (tax base value divided by number of students), the Capital Foundation Program formula may be penalizing smaller districts that are more severely impacted by growth but have a smaller total tax base than Wasatch Front school districts.

Capital Outlay requires a balance of inputs vs. allocation effort

By focusing on inputs, key factors may be left out that impact capital outlay needs. On the input side the minimum tax levy required to qualify for full program funding may be set too low. Furthermore, the complete reliance on property value as a measure of wealth may ignore other wealth attributes that affect school quality. If the USOE were to factor in the amount of income tax paid by local residents they might be able to create a measure of local ability to pay that would suggest alterations in the formula.

Capital Outlay
Factors Affecting Input vs. Effort

Input	*Effort (Resource Requirements)*
	Debt Service
Tax Levy (.0024 for Foundation)	Cash Capital Outlay
Average Daily Membership	Deferred Maintenance
Property Value	Class Size Reduction
	Classroom Space
	Operation and Maintenance

Districts have the authority to tap four tax sources to generate funds for capital outlay and debt service.[4] With its focus on minimal inputs some districts may have to create larger levies to manage growth while other districts can rely on Capital Outlay Foundation funds to cover gaps caused by lower levies. Many smaller, rural districts have tax burdens that exceed the .0024 Foundation minimum by more than double, yet are left out or are at the bottom of the list for Foundation grants.[5]

The Capital Foundation Program may not reward maximized building utilization

If the Legislature wants to provide additional capital outlay funds to local districts, the Analyst believes there should be some consideration for providing funds in a way that allows all districts to address aging infrastructure. If a measure for effort (i.e., expenditures, tax rate and utilization is added to the formula) there may be a way to provide a system that approaches equalization of funding without penalizing property rich districts. Such a system may allocate funds in a manner that provides incentives for districts to maximize building utilization by factoring in usable square footage per pupil. As useable square footage per pupil rises, the amount of funding decreases. In this system, districts employing year round schooling would be rewarded for maximizing capital spending. The formula might also contain a provision that limits the cost per square foot of new construction and remodeled space.

[4] Laing, Steven O. (September 2000) Utah School Finance Reference Manual, p A-4. Salt Lake City, UT: Utah State Office of Education. See Appendix IV for list of available levies.
[5] See Appendix V for total capital tax levies by district.

State goal should be adequate facilities

The State Office of Education could monitor construction costs and set up a reasonable range above the median cost that would result in a funding cap if a district chose to spend more on a facility than is reasonably called for. The plan described here would provide funds for crowded schools while suppressing what may be a desire to overbuild. The plan would also impact a concern of some legislators that some school districts may be building "Cadillac" schools when a "Chevy" will accomplish the task. Not only would overbuilt districts see decreased eligibility for funding, districts would have an incentive to take advantage of standardized facilities and cost effective materials when building new facilities.

Recommendation #2

The Analyst believes that the Utah State Board of Education should work with local boards and superintendents to re-examine the Capital Outlay Foundation to answer the following question: *Is the Capital Outlay Foundation Formula weighted too heavily on input resources and not enough on resource allocation effort?*

Should the state create a new revenue stream to equalize capital outlay across school districts?

Many states have dedicated specific revenue sources to fund schools and school construction. In Utah, income tax revenue is dedicated to public and higher education and makes up more than half of the total state budget. Other states have passed large state funded bonds, raised fees for hazardous waste, or instituted a lottery to pay for school construction. Creating a "revenue stream to equalize capital outlay" poses three problems:

- Programs and spending priorities compete within the budget;
- Competition for new funds poses statewide problems.
- There are limited sources of new revenue.

Programs Compete within the budget: Using existing revenue stream poses zero-sum difficulty

Within the bounds of the State Constitution, the Legislature has the power to dedicate any state derived revenue source for any program as it sees fit. However, any existing revenue stream that is diverted to public school capital outlay will result in reductions to other parts of the state budget. Given tight funding constraints of a small state, such a change could have a significant impact, especially if full funding were sought. Second, any new revenue stream created could mean that some segment of the population would pay more in taxes. It may be possible to restructure income and property taxes in a way that the net impact to all taxpayers is zero, but it seems unlikely that every taxpayer would see a net zero impact in their personal tax expenditures.

Programs Compete for new revenue: General Fund is not growing fast enough

A concern raised by the Analyst last year in its Five Year Projections is the slow rate at which new general fund revenue is growing (about four percent) compared to escalating costs for state government:

> *(Structural deficits) must be offset through the transfer of General Fund out of Higher Education (to be) replaced with Income Tax revenues. Ultimately, the General Funds within Higher Education will be insufficient for transfer. The State should continue to monitor this issue and be prepared for corrective actions as needed. Those actions may include:*
>
> *1. Repealing the earmarking of Income Tax revenues with a constitutional amendment*
> *2. Expansion of the Sales Tax base*
> *3. Repeal of sale tax exemptions*
> *4. Base budget reductions*[6]

All government agencies will compete for any new source of revenue to offset the pending crisis within the General Fund. With Public and Higher Education claiming sixty-two percent of all spending in state tax funds[7] there will be significant pressure to dedicate any new revenue source to other core functions of state government.

There are limited sources of new revenue streams

A newly created revenue stream may help offset costs, but current local expenditures exceed $215 million – an amount equal to ten and a half percent of all income tax collections in FY 2001. To generate such a large amount on an annual basis – or even a portion of that amount to fund equalization - significant funds would need to be generated.

Other State Actions

Several states have passed large bond referendums, increased fees for disposal of hazardous waste or instituted a lottery to fund statewide education issues.

Illinois provides state bonds as matching funds

Since 1998, the Illinois Legislature issued $1.397 billion in bonds to provide matching funds for local school districts. The funds are made available to all but the wealthiest one percent of school districts to remediate disaster damage, address growth, reorganize districts, fix life safety hazards or provide ADA access. Local districts may receive from thirty-five to seventy-five percent of construction costs based on local wealth. To date, Illinois has provided grants to 578 schools through its program,[8] but there is not much authorization left in the program.

---

[6] Massey, John and Wilko, Andrea (January 2001). Five Year Budget Projections: FY 2002-2006, p. 4. Salt Lake City, UT: Office of Legislative Printing. http://www.le.state.ut.us/lfa/reports/5yearrev.pdf

[7] Massey, John. (June, 2001). 2001-2002 Appropriations Report, p. 5. Salt Lake City, UT: Office of Legislative Printing.

[8] Robinson, Kim and McGee, Glenn. (November, 2000) School Construction Program: Progress Report, Fiscal Years 1998-2000. Springfield, IL: Capital Development Board

South Carolina taxes hazardous waste

The State of South Carolina began taxing hazardous waste in Fiscal Year 1996 and has collected more than $300 million since that time. The state sets aside ninety-five percent of the funds for higher education and provides a five percent return to the county where the landfill is located.

Lottery revenue is increasingly unstable

Lotteries are often cited as a source of stable and quick revenue whenever school funding issues are raised. However, Lotteries nationwide are not generating revenue as fast as they once were, leaving schools and governments in the 38 states that rely on them scrambling to make ends meet.[9] Furthermore, there is no guarantee that lotteries will provide a financial windfall for education. "Despite an initial infusion of classroom cash, states with lotteries targeted for education spent less per capita after implementing the lottery than did states that have never adopted an education lottery."[10]

Equalization not a new policy issue

The debate on equalization is not a new one in Utah. In 1979 the Public Education Committee appointed a research team to analyze school building equalization. Legislative staff, the State Office of Education and the Utah Education Association worked with a legislative study committee to analyze the state's equalization program. At that time, the committee recommended that local school districts "continue to decide the type and size of school buildings which will best meet their educational objectives"[11] and to provide local funding for those programs. At the same time, the committee recommended that the state continue to fund an equalization plan that ensured that facility needs would not be hampered by the taxing ability (or lack thereof) of a local school district.

Perception of Equalization varies among districts

The problem with an equalization program is that it must choose to cap funding or to take funding from one area and give it to another. For example, the state may choose to fully fund an equalization program by funding all districts at a level that will result in a per-student yield equal to the yield in the wealthiest district. This could mean that one district would determine funding for the entire state. Most states, including Utah, that used an equalization program chose an appropriate level of funding and added funds to districts below a certain level and took funds away from those that exceed the level. Such a program resulted in equal resources, but at the expense of a local districts ability to enhance its program. Such a program may be equal, but to the districts that lose funding it will not be considered equitable.

---

[9] Hoffman, Lisa. (August 27, 2001). Most states losing the bet on lotteries as profits fall. The Commercial Appeal, page A1. Memphis, TN: The Commercial Appeal, Inc.

[10] Wherman, Jessica.. (August 28, 2001). States shy of jackpot lotteries. Scripps Howard News Service.

[11] Crandall, L., Fuller, H., Lloyd, C., Bishop, A., Bean, S., Merrell, R. and Ulmer, D. (December, 1979). 1979 Study of School Building Equalization: A Report to the Public Education Study Committee of the Utah Legislature. Salt Lake City, UT: Office of Legislative Printing. Page 55.

Would a state wide department for construction, operation and maintenance of public schools provide efficiencies?

Utah is not alone in its struggle to provide capital facilities for growing student populations. Record growth over the last five years pushed school enrollments nationally to 53 million students.[12] A report by the National Governor's Association found that six states have established an agency to oversee school construction within the state.[13] California's Office of Public School Construction oversees a construction and modernization program in which schools may get one to one dollar matches for new construction to house students and four to one matches to modernize aging facilities. The agency manages billions of state dollars – including funds from a 1997 bond initiative that raised $6.7 billion.

Utah's Construction Expenditures warrant consideration of a centralized construction department

Programs like the one in California (or Arizona's new program in which all school construction is funded and managed at the state level[14]) spend more on school construction in a single year than the State of Utah spends on its entire annual budget. Large states have enormous construction budgets that would dwarf any actual spending for a state the size of Utah when compared without the background of state population. These large state programs also exact some measure of local control in that local projects are forced to compete against statewide priorities. However, Utah is averaging approximately 11 new schools per year statewide, a figure that could be large enough to warrant a single oversight body.

From 1997 to 2001, Utah school districts combined to average approximately $76 million in annual new construction and an additional $64 million in capital improvements. Over the same period, the state averaged $91 million in new development – twenty percent more than public school expenditures – and $32 million in capital improvements.[15]

Average, 1997-2001	*DFCM*	*Public Schools*
New Construction	$91,000,000	$76,062,587
Capital Improvements	32,224,340	64,198,323
Total	**$123,224,340**	**$140,260,911**

[12] Sandham, Jessica L. (June 6, 2001). Building a new role: states and school facilities. Education Week Vol. 20 (39).
[13] Clark, Theresa (June 14, 2000). Building America's schools: state efforts to address school facility needs. Washington, D.C., National Governor's Association. http://www.nga.org/cda/files/000620SCHOOLNEEDS.pdf
[14] Arizona and Hawaii are the only two states that fund 100 percent of school construction. It should be noted that Hawaii has only one school district, which is maintained by the state.
[15] Legislative funding of capital improvements has more than tripled since 1995 and will continue to grow with inflation. FY 2002 appropriations for capital improvements totaled more than $43 million.

Statewide agency is feasible and may offer savings

To manage such levels of state construction, DFCM employs approximately thirty-five full time employees and manages a budget in excess of $3 million. With similar funding amounts for public school construction, it seems reasonable to assume that a statewide agency would need to be similar in size to DFCM to manage all projects.

A central state agency may be able to achieve savings of as much as ten percent of hard costs if annual projects were aggregated and bid together for construction. Such an agency could take advantage of volume discounts, standardized materials and uniform design. With such savings, it could be in the best interest of local districts to allow a centralized agency to provide construction management for all new school construction.

DFCM could serve as school construction consultant

An alternative (and potentially more cost-effective) to a state agency may be found in adding to DFCM's responsibility as the State Building Manager. The legislature may want to direct DFCM to offer consulting and management services to local districts for a fee. Such a program could allow DFCM to hire specialized staff to oversee construction activities and may even be able to assume the State Office of Education's responsibility for plan approval. As an optional program, larger districts could continue to use existing staff or outsource to DFCM while smaller (especially rural) districts could rely on the resources of a significant state agency to assist them in planning and constructing new school facilities.

A statewide agency could incorporate prototypes

Many school districts in the state already employ the use of prototypical design for elementary schools. Some are also building prototypical middle schools. Districts receive three key advantages from using prototypes:

- Prototypes reduce lead time to construction, meaning less staff time and more compact construction schedules.
- Common materials and fixtures reduce maintenance costs through standardization of procedures.
- Design costs are less for facilities that are replicated – although the savings can disappear quickly if modifications are needed to fit a proposed building on to a non-standard site.

The Texas Association of School Boards warns against assuming that prototypes offer a panacea – they note that misuse of prototypical design can lead to facilities driving educational missions rather than education dictating design.[16] Some districts – and the state of California – have created multiple prototypes that can solve an array of educational needs, thus allowing districts to choose facilities that can be built quickly with less staff involvement.[17]

DFCM could offer management services

In addition to construction oversight, DFCM could also offer operation and maintenance assistance to local school districts. DFCM already has more than 200 maintenance people located around the state and local school districts could contract with DFCM for preventative maintenance services. This could alleviate the need for districts to employ full time maintenance people, freeing up some funds for other needs. Even if districts did not want DFCM to provide full operations and maintenance services, there are other areas of expertise that DFCM manages and that local districts may find useful. The facility management arm of DFCM visits all state agencies to provide help with day to day operations. Part of the program includes a report card that provides objective grades for compliance with essential facility management functions. By participating in the program, local districts can get outside help to ensure that their facilities are properly maintained.

Updated assessment of public school facilities needed

In 1974 the Legislature requested a study of public schools to be conducted by the Utah State Building Board in cooperation with local school districts and the State Board of Education.[18] The study found that the condition of Utah schools overall was good – especially for classroom space. In the 26 years since publication of the study, nearly 250 schools added to the inventory but no further assessment has been done. It seems logical that before any statewide building initiative begins, the Legislature should have some knowledge of the condition of state buildings.

DFCM is currently managing an assessment program for all state and higher education buildings to create an ongoing database that will help in the management and prioritization of state assets. The current contract is averaging approximately nine cents per square foot. To extend the program to public education, DFCM would need an additional $5.2 million to evaluate the 58 million square feet contained within Utah's 795 schools.

Recommendation #3 The Analyst recommends that the Legislature consider the creation of a facility database that will track the condition of all public school buildings.

[16] Reynolds, Craig and Lamkin, Lisa. (June, 1998). Focus on Facilities: a look at prototype versus site-specific building design. Texas Lonestar Magazine, Vol. 16(5). Austin, TX: Texas Association of School Boards. www.tasb.org/texas_lonestar/1998/june/focus.shtml

[17] See California Office of Public School Construction: www.opsc.dgs.ca.gov/

[18] Swenson, Glen, et al. (1975). A Report of a Comprehensive Study of Public School Buildings in Utah. Salt Lake City, Utah: State of Utah.

Should the state provide assistance to school districts with high debt levels?

During the 2001 General Session, the Superintendent of Washington County Schools proposed that the state take over debt service for local school districts to allow them to use a "pay as you go" plan to fund capital needs. While the idea of pay as you go has a lot of merit (and is being pursued by the Legislature for buildings), the idea that the state should pay off local debt presents constitutional problems in addition to raising questions of equity and practicality.

Article X, section 5(5) allows the state to guarantee the debt of school districts:

> *(5) (a) The state may guarantee the debt of school districts created in accordance with Article XIV, Section 3, and may guarantee debt incurred to refund the school district debt. Any debt guaranty, the school district debt guaranteed thereby, or any borrowing of the state undertaken to facilitate the payment of the state's obligation under any debt guaranty shall not be included as a debt of the state for purposes of the 1.5% limitation of Article XIV, Section 1.*
>
> *(b) The Legislature may provide that reimbursement to the state shall be obtained from monies which otherwise would be used for the support of the educational programs of the school district which incurred the debt with respect to which a payment under the state's guaranty was made.*

This section was added to the Constitution in 1996 so that local districts could take advantage of the state's exceptional bond rating, not to allow the state to assume local district debt. In fact, section (b) states that if a district defaults on its obligation that the state may reimburse itself by reducing appropriations that the district would have normally received.

Beyond the guarantee described above, Article XIV, Section 6 prohibits the state from assuming local debt:

> *The state shall not assume the debt, or any part thereof, of any county, city, town or school district except as provided in Article X, Section 5.*

As of June 30, 2000, two school districts held no debt (Granite and Uintah) and five others held outstanding balances of less than $2 million. Districts with moderate to low debt may well feel that they are being treated inequitably if other districts receive windfalls that approach (and in three districts exceed) $100 million. Those who advocate state funding of debt service seek a definition of equity that focuses on equalizing the per-student amount of funding from the state, but it seems to overlook local management decisions that drive debt service.

Debt transfer would exceed state limit

As a practical matter, it would be difficult for the state to take over local debt due to constitutional limitations on outstanding debt. As of June 30, 2000 school district debt totaled $1.24 billion – and amount that exceeds state capacity by some $100 million. If the state were to take on this debt burden (less the amount that exceeded the cap), the Legislature would have no additional bonding capacity for roads, facilities or emergencies.

Interest payments are burdensome in some districts

Eleven of the forty Utah school districts account for more than eighty percent of outstanding indebtedness and approximately seventy-seven percent of enrollment. These numbers seem to support the assertion that enrollment and indebtedness go hand in hand, that does not necessarily lead one to the conclusion that the state should accept responsibility for local taxing authorities. While local bonding provides value to citizens by spreading costs across all users while offering an inexpensive form of capital for major development and expansion, it also results in enormous sums of money being spent on interest. In most cases, interest payments over the life of the bond could have funded the full cost of a new school.

No-cost or low cost loans could offer relief to local districts

The USOE currently manages the Capital Foundation Loan Program to provide emergency loans at low interest (negotiated at the time of borrowing) to school districts. The fund is not used as much as it might be because it has only $10 million to loan and because school districts need to get voter approval to borrow from the fund. If a district is going to have a referendum to take on debt, it seems unlikely that they will do so for a loan that would fit within the parameters of the Foundation Loan Program. To forge a compromise between local responsibility and the state's interest to maximize funds, the Analyst believes that an interest free loan program could be established to help those small districts that are highly impacted by growth. By adding funds to the Foundation Loan Program, the Legislature could make more capital available to districts without adding the burden of increased interest payments.

Recommendation #4

The Legislature should consider directing the Utah State Board of Education to develop a plan by which the state could create and manage an interest free (or low cost) revolving loan fund to assist school districts with the construction of new buildings. The plan could be patterned on existing state loan programs and should contain estimates for initial levels of funding. The Board should report its findings to the Legislature in a timely manner.

Conclusions and Recommendations

Equity is a difficult concept to define. Equitable policies do not always result in the equal treatment of equals or in the equal treatment of unequals.[19] Equalization programs are often criticized for hampering efforts of wealthier school districts by taking money away that is added through local effort. Schools with high growth believe that they are penalized as facility debt becomes and increasingly significant part of their budget. Schools with aging infrastructures believe that they are handicapped if they don't grow because they can not get further assistance from the state to take care of substantial needs. Even the creation of a unified, statewide system with no local control will not solve all equity problems.

It is clear that small districts with high growth have a more difficult time funding new facilities than do larger districts that have additional resources and space to absorb unexpected, short-term influxes. What is not clear is the role that the state should play in this problem. Local control implies some level of local responsibility. Community planning impacts school growth – school districts must be sure that they are an active player when communities recruit new industry, approve new subdivisions and establish new taxes. Current state programs strive to ensure that funding for new construction driven by growth is equitable and that facilities across the state are adequate.

In this report the Analyst offered the following recommendations that we believe will help the Legislature obtain a better understanding of the issue as it prepares for the 2002 General Session.

Recommendation #1

The Legislature should consider streamlining approval of construction projects. The Analyst recommends that they consider the following options to improve current practice:

- Adopting a new amount that reflects current costs that can be escalated each year according to DFCM cost estimates;
- adopting a square footage standard that required any new construction or remodel that impacted more than 5,000 square feet to be approved; or,
- requiring the USOE to enact rules that outline minimum levels for approval of new construction and major remodeling projects.

Recommendation #2

The Analyst believes that the Utah State Board of Education should work with local boards and superintendents to re-examine the Capital Foundation to answer the following question: *Is the Capital Foundation Formula weighted too heavily on input resources and not enough on resource allocation requirements?*

[19] Stone, Debora (2001). Policy Paradox: The art of political decision making. Revised edition. New York: Norton.

Recommendation #3 The Analyst recommends that the Legislature consider the creation of a facility database that will track the condition of all public school buildings.

Recommendation #4 The Legislature should consider directing the Utah State Board of Education to develop a plan by which the state could create and manage an interest free (or low cost) revolving loan fund to assist school districts with the construction of new buildings. The plan could be patterned on existing state loan programs and should contain estimates for initial levels of funding. The Board should report its findings to the Legislature in a timely manner.

Appendix I

Insured Value of Utah School Districts

School District	Bldg Value	Contents	Total Value
Alpine School District	$470,599,446	$43,464,982	$514,064,428
Beaver School District	26,933,815	2,109,143	29,042,958
Box Elder School District	163,055,674	14,338,399	177,394,073
Cache School District	175,147,465	12,394,813	187,542,278
Carbon School District	71,158,112	13,157,749	84,315,861
Daggett School District	6,170,064	1,336,510	7,506,574
Davis School District	672,550,072	60,634,363	733,184,435
Duchesne School District	63,635,052	4,943,896	68,578,948
Emery School District	60,218,328	7,428,929	67,647,257
Garfield School District	24,149,164	2,815,084	26,964,248
Grand School District	27,151,296	3,647,941	30,799,237
Granite School District	816,496,383	105,558,187	922,054,570
Iron School District	89,857,612	17,536,391	107,394,003
Jordan School District	830,991,165	85,759,148	916,750,313
Juab School District	33,378,877	5,883,756	39,262,633
Kane School District	23,738,418	2,752,893	26,491,311
Logan City School District	78,826,890	10,645,312	89,472,202
Millard School District	64,650,822	9,982,673	74,633,495
Morgan School District	22,326,458	3,709,479	26,035,937
Murray School District	80,189,597	13,406,679	93,596,276
Nebo School District	235,395,954	19,678,940	255,074,894
North Sanpete School District	28,032,390	3,291,433	31,323,823
North Summit School District	20,013,874	2,804,587	22,818,461
NE Utah Educational Services	0	600,000	600,000
Ogden City School District	170,164,314	23,409,573	193,573,887
Park City School District	76,910,219	13,764,424	90,674,643
Piute School District	10,074,248	1,904,743	11,978,991
Provo School District	212,680,450	17,329,842	230,010,292
Rich School District	8,166,157	6,689,444	14,855,601
Salt Lake School District	332,566,798	35,668,847	368,235,645
San Juan School District	64,104,350	8,119,200	72,223,550
Sevier School District	63,972,501	13,919,707	77,892,208
South Sanpete School District	39,662,607	4,028,205	43,690,812
South Summit School District	26,399,542	3,289,580	29,689,122
Tintic School District	9,750,430	2,059,231	11,809,661
Tooele School District	114,164,336	13,954,626	128,118,962
Uintah School District	94,339,213	11,668,534	106,007,747
Wasatch School District	60,105,208	4,869,550	64,974,758
Washington School District	220,698,090	16,576,111	237,274,201
Wayne School District	7,382,056	1,445,318	8,827,374
Weber School District	359,211,260	36,233,856	395,445,116
Grand Total	**$5,955,018,707**	**$662,812,077**	**$6,617,830,784**

Source: State Division of Risk Management

Appendix II

School Facilities Statistics Report
As of October 1, 2000

			Permanent Structures				Relocatables				
No.	District	Student Enrollment Oct. 1, 1999	Year(s) of Construction	Net Area Square Feet	Gross Area Square Feet	Insurance Replacement Value	Year(s) of Construction	No. of Reloc	Total Net Area Sq Ft	Total Gross Area Sq Ft	Insurance Replacement Value
1	Alpine	47,117	1907-1997	4,639,437	4,883,159	$ 458,728,818	1977-1998	120	390,990	411,571	$ 10,370,000
2	Beaver	1,426	1922-1996	245,761	258,695	$ 26,502,119	1991-1994	4	4,640	4,800	$ 216,000
3	Box Elder	10,927	1902-1996	1,385,286	1,491,449	$ 172,569,543	1970-1992	10	7,952	8,370	$ 94,000
4	Cache	13,170	1923-1999	1,719,835	1,810,351	$ 169,283,244	1981-1996	22	21,278	22,400	$ 990,000
5	Carbon	4,100	1937-1991	658,143	688,558	$ 71,158,112	1978-1991	14	19,657	19,176	$ 1,055,304
6	Daggett	164	1919-1991	52,747	56,907	$ 5,045,040	1957	1	600	630	NA
7	Davis	58,867	1908-1998	4,503,405	4,800,823	$ 609,564,422	1983-1996	278	262,432	280,224	$ 10,560,000
8	Duchesne	4,140	1937-1998	632,468	661,389	$ 60,670,504	1972-1996	9	10,064	9,891	$ 312,600
9	Emery	2,714	1962-1990	645,662	678,791	$ 50,520,810	1980	7	9,086	10,080	$ 470,400
10	Garfield	1,115	1955-1998	235,714	258,702	$ 23,458,081	1985-2000	4	5,192	5,880	$ 270,000
11	Grand	1,560	1955-1997	235,531	241,957	$ 25,802,733	1977-1991	6	11,640	12,252	$ 144,636
12	Granite	70,608	1903-2000	7,723,728	8,130,143	$ 796,266,529	1971-1998	209	200,566	209,696	$ 7,995,780
13	Iron	7,176	1950-1999	1,139,002	1,198,993	$ 103,721,376	1994-1995	4	2,596	3,120	$ -
14	Jordan	73,137	1908-1999	8,298,729	8,963,726	$ 803,660,174	1973-1995	185	169,711	171,808	$ 7,893,180
15	Juab	1,830	1952-1993	317,612	342,687	$ 33,103,187	1979-1994	5	7,936	8,342	$ 75,000
16	Kane	1,394	1954-1995	236,439	246,951	$ 20,081,660	1969-1996	7	7,070	7,955	$ 149,322
17	Millard	3,321	1955-1995	577,064	624,153	$ 59,068,417	1980-1982	4	6,600	7,400	$ 224,000
18	Morgan	2,019	1923-2000	223,773	235,759	$ 20,375,090	1991-1998	17	18,812	19,655	$ 1,062,004
19	Nebo	21,066	1920-1998	2,482,215	2,612,855	$ 228,984,354	1982-1997	32	51,102	53,792	$ 2,925,000
20	North Sanpete	2,489	1962-1996	316,526	333,185	$ 29,152,189	1980-1992	12	14,269	14,830	$ 674,850
21	North Summit	993	1970-1991	203,237	213,196	$ 18,413,006	1993	1	532	560	$ 48,160
22	Park City	3,920	1977-1996	657,505	691,715	$ 69,098,611	1982	3	2,600	2,700	$ 2,067,300
23	Piute	354	1961-1991	102,762	108,171	$ 10,044,248					NA
24	Rich	473	1914-1993	113,132	119,447	$ 7,284,157					NA
25	San Juan	3,146	1938-1991	646,537	710,691	$ 53,072,950	1969-1993	11	15,638	16,056	$ 248,700
26	Sevier	4,477	1901-1995	631,221	664,443	$ 60,444,381	1973-1996	11	20,748	21,840	$ 1,004,400
27	South Sanpete	2,741	1961-1991	378,308	401,605	$ 39,197,580	1985-1995	8	12,312	12,960	$ 440,000
28	South Summit	1,289	1968-1995	256,757	274,343	$ 24,545,700	1980	3	3,960	3,992	$ -
29	Tintic	267	1979-1995	98,679	103,873	$ 8,530,870	1982	1	1,368	1,440	$ 25,000
30	Tooele	9,142	1929-1994	1,079,414	1,139,261	$ 110,083,320	1980-1996	21	29,712	30,926	$ 310,000
31	Uintah	5,974	1961-1994	870,145	913,700	$ 91,077,621	1972-1986	11	21,718	22,706	$ 647,677
32	Wasatch	3,678	1953-1997	487,822	517,828	$ 52,300,050	1994-1996	7	11,887	12,515	$ 307,000
33	Washington	18,249	1904-1998	2,209,401	2,322,658	$ 212,117,207	1985-1998	19	26,720	26,720	$ -
34	Wayne	550	1949-1993	110,748	116,576	$ 6,176,740	1973-1986	4	6,156	6,480	$ -
35	Weber	28,009	1905-1998	3,291,244	3,465,432	$ 329,053,736	1966-1996	87	92,836	92,836	$ 2,320,000
36	Salt Lake City	24,921	1910-1996	3,247,473	3,519,000	$ 317,443,556	1970-1996	78	60,799	64,452	$ -
37	Ogden City	12,750	1909-1994	1,670,991	1,466,238	$ 145,372,310	NA-1999	30	32,025	30,312	$ 1,092,854
38	Provo City	13,241	1938-1996	1,814,523	1,902,369	$ 208,323,654	1973-1996	19	29,067	30,598	$ 2,071,946
39	Logan City	5,778	1924-2000	697,529	724,917	$ 60,052,669	1982-1994	9	11,610	12,960	$ -
40	Murray City	6,481	1910-1996	749,697	836,333	$ 77,802,390	1986-1995	8	6,840	7,200	$ 217,208
84	CBA Center	42		-	-	$ -	-	3	4,200	4,320	$ -
85	Jean Massieu	20	Rental	1,700	1,700	$ -	-	-	-	-	$ -
86	Pinnacle Canyon	185	1985	8,075	8,500	$ -	-	4	5,102	5,370	$ -
87	Center City School	60	2000	4,731	4,980	$ -	-	-	-	-	$ -
88	Success	56	Rental	2,500	2,500	$ -	-	-	-	-	$ -
89	Sundance Mountain	21		-	-	$ -	2,000	1	1,368	1,440	$ -
90	Tuacahn HS for Perf. Arts	113	1998-99	40,000	42,000	$ -	-	-	-	-	$ -
92	Uintah River High	44	over 25 yrs	15,200	16,000	$ -	unknown + 20	0	15,200	16,000	$ -
	State Totals:	**475,314**	**1901-2000**	**55,658,408**	**58,806,709**	**$ 5,668,151,158**	**1957-2000**	**1,289**	**1,634,591**	**1,706,255**	**$ 56,282,321**

Appendix III

School Facilities Statistics Report
As of October 1, 2000

			Permanent Structures				Relocatables		
State Totals	Grade Levels Housed	Student Enrollment Oct. 1, 2000	Year(s) of Construction	Net Area Square Feet	Gross Area Square Feet	Year(s) of Construction	No. of Reloc	Total Net Area Sq Ft	Total Gross Area Sq Ft
Elementary	K-8	244,851	1901-2000	20,436,613	22,105,022	1957-2000	771	961,155	1,004,066
Middle/Intermediate/Junior	4-9	105,510	1907-2000	14,253,351	14,965,718	1972-1997	250	281,064	291,295
High	7-12	118,674	1903-2000	20,331,517	21,071,994	1969-1998	219	306,813	320,767
Special Programs/Other	Ungraded	6,279	1916-1999	636,927	663,975	1974-1999	49	85,559	90,127
STATE:	K-12	475,314	1901-2000	55,658,408	58,806,709	1957-2000	1,289	1,634,591	1,706,255

Source: State Office of Education

Appendix IV

Levies Available to Utah School Districts (Utah Code Authority)

- Capital Outlay (53A-16-107)
- Debt Service (11-14-19)
- Voted Capital Outlay (53A-16-110)
- Ten Percent of the Basic Program (53A-17a-145)

Appendix V

Capital and Debt Service total levy for FY 2001

Estimated Assessed Valuations and Final Approved School District Tax Rates
(Source--Utah State Tax Commission, Property Tax Division)
Tax Year 2000--FY 2000-01

District	*Estimated Adjusted Assessed Valuations as of: 18-Jun-01		Capital Outlay 53A-16-107**	Debt Service**** 11-14-19** 53A-28** 53A-16-107**	Voted Capital 53A-16-110**	10% Additional Basic Program: Debt Service***** 53A-17a-145**	10% Additional Basic Program: Capital Outlay 53A-17a-145**	10% Additional Basic Program: Other 53A-17a-145**	Subtotal 10% Additional Basic Program:	Capital Outlay Debt Service Voted Capital and 10% Addl
1 Alpine	6,869,985,030	***		0.002373			0.000669		0.000669	0.003042
2 Beaver	404,081,021		0.000166	0.003487			0.000418		0.000418	0.004071
3 Box Elder	1,916,280,144	***	0.000686	0.002120			0.000400		0.000400	0.003206
4 Cache	1,671,767,400	***	0.000149	0.002461					0.000000	0.002610
5 Carbon	1,317,865,137	***	0.001453	0.000801			0.000421	0.000582	0.001003	0.003257
6 Daggett	146,217,707		0.000707	0.000941				0.000797	0.000797	0.002445
7 Davis	8,659,205,223	***	0.000083	0.002571			0.000370	0.000430	0.000800	0.003454
8 Duchesne	486,013,086	***	0.002400	0.000534			0.000202	0.001142	0.001344	0.004278
9 Emery	1,380,324,296		0.001442	0.001713			0.000643		0.000643	0.003798
10 Garfield	289,244,446		0.000373	0.003119		0.000590		0.000694	0.001284	0.004776
11 Grand	559,617,166	***	0.001244	0.001649			0.000328	0.000493	0.000821	0.003714
12 Granite	15,031,663,398	***	0.001708				0.001071		0.001071	0.002779
13 Iron	1,538,867,827	***	0.000926	0.003200					0.000000	0.004126
14 Jordan	14,135,205,164	***	0.002400	0.001888				0.000943	0.000943	0.005231
15 Juab	365,871,245		0.001390	0.003262				0.000600	0.000600	0.005252
16 Kane	469,490,359		0.000439	0.001570			0.000386		0.000386	0.002395
17 Millard	2,055,924,481		0.001197	0.001052				0.000416	0.000416	0.002665
18 Morgan	459,241,827	***	0.000667	0.000809			0.000761	0.000254	0.001014	0.002490
19 Nebo	2,889,728,688	***	0.000607	0.002648			0.000690	0.000460	0.001150	0.004405
20 No. Sanpete	371,176,117	***	0.000088	0.001299			0.000694		0.000694	0.002081
21 No. Summit	330,600,606		0.001093	0.000971			0.000239	0.000849	0.001088	0.003152
22 Park City	4,590,199,272	***	0.000526	0.001265	0.000142		0.000105	0.000165	0.000270	0.002203
23 Piute	49,562,923		0.000424	0.001793			0.001497		0.001497	0.003714
24 Rich	244,538,443	***	0.001040	0.000879			0.000817		0.000817	0.002736
25 San Juan	468,821,893		0.001724	0.001331			0.001064	0.001530	0.002594	0.005649
26 Sevier	575,062,691	***	0.000420	0.002656			0.000918		0.000918	0.003994
27 So. Sanpete	306,054,444	***	0.001084	0.002001			0.000713		0.000713	0.003798
28 So. Summit	1,026,585,000		0.001839	0.000599			0.000422		0.000422	0.002860
29 Tintic	24,910,520		0.000663	0.004338					0.000000	0.005001
30 Tooele	1,537,143,153	***	0.000952	0.001653				0.001214	0.001214	0.003819
31 Uintah	1,297,273,375	***	0.002000					0.001306	0.001306	0.003306
32 Wasatch	1,399,010,263		0.000055	0.001950			0.000202	0.000202	0.000403	0.002408
33 Washington	4,406,996,005	***	0.000205	0.003379					0.000000	0.003584
34 Wayne	131,762,637		0.002347				0.000379		0.000379	0.002726
35 Weber	4,152,792,269	***	0.000995	0.001405				0.000409	0.000409	0.002809
36 Salt Lake	12,629,109,130	***	0.000932	0.000457			0.000285		0.000285	0.001674
37 Ogden	2,360,137,935	***	0.002033	0.000620				0.001638	0.001638	0.004291
38 Provo	3,158,372,427	***	0.001055	0.001345				0.000317	0.000317	0.002717
39 Logan	1,262,520,016	***	0.000945	0.001667			0.000483	0.000667	0.001150	0.003762
40 Murray	2,163,230,815	***	0.000974	0.000121			0.000214		0.000214	0.001309
Total	$103,132,453,579									
Average Levies			0.001011	0.001782	0.000142	0.000590	0.000553	0.000719	0.000752	0.003390

*From estimated Sum of Valuations from the State Tax Commission without estimated fees-in-lieu, less adjustments calculated from estimated redevelopment increment data from redevelopment agencies.

**Section of Utah Code 2000 that authorizes levy.

***Adjusted for redevelopment

****General Obligation Bond Debt

*****Non General Obligation Bond Debt