

## CHAPTER 4 DETERMINING THE NEEDS

To determine appropriate solutions to facility and debt service needs, a clearer understanding of the state's present facilities situation must be achieved. The three fundamental areas of need in school districts are debt service, repair and renovation, and new construction. From data collected through the Public Education Information Management System (PEIMS), the inventory of school facilities, and other sources, a picture of aggregate need begins to emerge. Because needs for space and funding are inextricably linked, this chapter first discusses current debt service issues, then turns to other factors affecting the determination of facilities need.

### Debt Service

The population in Texas public schools has been increasing steadily for more than a decade, and only shows signs of accelerating its rate of growth. In response to the clear need to house students, school districts have consistently increased indebtedness, and debt service payments have risen as a result.

For the 1981-82 school year, total school district debt was approximately \$4.7 billion. At the end of the decade, for the 1989-90 school year, total debt had risen to approximately \$7.1 billion. During the past three years, school districts have been spending approximately one billion dollars annually to meet their debt service obligations, including principal and interest. For the 1991-92 school year, districts reported that they anticipated collected \$982 million in debt service tax revenues. Debt service payments will exceed \$1.1 billion, or seven (7) percent of all school district expenditures, excluding capital outlay.

The debt burden of school districts is serviced by taxes on property. The average tax effort needed to raise this year's debt service across the entire

statewide tax base would be between \$0.16 and \$0.17 per \$100 of assessed valuation. Approximately 800 of the state's 1,051 districts have debt service payments. Among these districts, the average effective rate is \$0.19, although more than 200 district report rates above \$0.40.

School districts with high debt service per student generally have property high wealth or have experienced rapid growth. Since many poor districts are also fast-growing, the burden of debt service tends to fall heavily on property poor districts.

An analysis of agency data on district debt from the 1987-88 school year through the 1991-92 school year reveal that debt service per student has risen nearly thirty (30) percent in the past five years. The aggregate amount of debt service has increased from \$878 million to \$1.12 billion over five-year time period.

The average debt service among the bottom fifteen (15) percent of student by property wealth is about \$200 per student in 1992. The average amount in the wealthiest fifteen (15) percent is about \$450. While the average dollar amount of per student is lower in property poor school districts, the rate needed to service debt in the poorest districts averages nearly three times the rate of property wealthy districts. Districts representing the bottom fifteen (15) percent of students in terms of property wealth need an effective tax rate of nearly \$0.33 for 1992 compared to only about \$0.13 for the wealthiest fifteen (15) percent. Suburban and other fast growing districts also tend to have higher debt service costs than other types of districts.

#### Summary of State Bond Review Board Report<sup>2</sup>

The Texas Bond Review Board has also been examining the issue of school district borrowing needs and expectations. In January of 1991, the Board completed a statewide survey of Texas public school districts. Information was obtained about districts' borrowing and most pressing facility needs. A total of 725 school districts out of 1,052 districts responded to the survey.

2. Texas Public Schools Facility Needs and Borrowing Expectations, State Bond Review Board, Austin, Texas, March 1991.

Districts responding to the survey estimated the cost to alleviate their most pressing facility concerns to be \$2.25 billion.

More than half of this estimated need, \$1.3 billion, is driven by enrollment growth. Other factors impacting district facility needs include plant modernization, fire and life safety code compliance, and legislatively mandated maximum class size requirements for kindergarten to fourth grade. Some 27 percent of all school districts responding had no facility needs. These schools were small, wealthy and stable in comparison to state averages.

The report stated that thirty (30) percent of all school districts responding to the survey expect to issue bonds within the next three years. The 200 school districts that identified a dollar amount expect to borrow a total of \$2.1 billion. The majority of schools with facility needs did not indicate that they expect to issue bonds. Instead, they plan to use existing reserves, build up a cash reserve to complete future projects, or they may simply not attempt to remedy their needs.

Poor school districts, defined by the Bond Review Board as those with wealth per ADA below \$113,000, share some similarities with their more affluent counterparts. Both property wealthy and property poor districts reported a need for plant modernization and improvements to meet accreditation citations. Both wealthy and poor districts indicated that they place a higher priority on new construction projects than on debt service relief. For those districts with bond elections in 1990, 65% of the elections were successful. However, as tax rates increase, bond success rates decrease. For districts with tax rates over \$1.00 only 50% of the elections were successful, and for those districts with rates in excess of \$1.25, only 29% of elections were successful. Although tax effort did seem to have an effect on the success of a bond election, local property wealth did not. Elections were successful at approximately the same rate in both wealthy and poor districts with similar tax rates.

The poorest districts have borrowed less per student for facilities than wealthier school districts. The 300 poorest are carrying only 14 percent of all school debt even though they house 21 percent of all Texas public school

students. Paying off their facilities debt, however, requires a greater tax effort than for the richer districts. The poorest districts responding to the survey require an average tax levy of \$.23 per \$100 for debt service, 59 percent above the state average. The 252 wealthiest school districts responding to the survey are carrying a debt burden that is 9 percent above the state average on a per-student basis. But these school districts on average levy only a \$.07 per \$100 I & S tax, or 52 percent less than the state average, to pay off this debt.

### Standards

The majority of states which provide funding for facilities to local school districts also require that districts meet some level of standards when constructing new buildings. As of September 1992, all Texas school districts must comply with facilities standards in order to use state or local funds for construction.

Senate Bill 351, passed during the 72nd Legislative Session requires that "all facilities constructed after September 1, 1992, must meet the standards in order to be financed with state or local tax funds." In response to this legislation, the State Board of Education is in the process of adopting rules on standards, and final adoption will take place in July, 1992. The rule defines the circumstances under which the standards apply, and specifies requirements for square footages in instructional areas, professional certification of design and construction, and recommendations for educational adequacy.

The implementation of standards, and the requirement that they be met in order to pay for new construction with either state or local monies will effect the way districts determine their needs, both for additional space and for construction funds.

### Cost Estimates

Using information collected as a part of the school facilities inventory, it is possible to provide gross statewide estimates for the cost of meeting some major facility needs. The following estimates were generated using data from

the inventory. Due to the nature of the data, some of these costs may be overlapping, making it difficult to produce a single cost amount to meet facilities needs. A brief explanation of how each cost was generated is presented below, a more complete explanation is included in Appendix D.

TABLE 1  
COST ESTIMATES TO MEET SPACE NEEDS

<u>Activity</u>	<u>Estimated Cost</u>
Replace space rated below fair	\$895 million
Relieve classroom overcrowding	\$126 million
Provide adequate science labs	\$31 million
Provide sufficient gymnasium space	\$988 million
Provide sufficient library space	\$621 million
Replace excess portable space	\$197 million

Explanation of Cost Calculations

Information from the inventory was used to estimate the amount of space that would be needed to meet a number of instructional facility needs. In most cases, cost estimates were based on \$60 per square foot for construction, a cost level which would yield a standard of finish acceptable for an instructional facility. Renovation costs were estimated at a somewhat lower rate. The following descriptions represent the estimation method chosen by the agency for illustration and research purposes but should not be interpreted as an exacting method for estimating costs.

*Space Rated Below Fair* - Statewide, 14,920,426 square feet of space received a rating of below fair or poor when evaluated by the professional staff performing the inventory. Replacement was estimated to cost \$60 per square foot.

*Overcrowded Classrooms* - Statewide, there is a need for 2.5 million additional square feet of space to relieve overcrowded classrooms. This estimate was developed at a campus level by dividing total classroom space by enrollment to determine a classroom utilization rate. Overcrowding was considered to occur

when the utilization rate indicated less than 36 square feet per student in the elementary grades and 28 square feet per student in the secondary grades. Replacement was estimated to cost \$60 per square foot.

*Inadequate Science Labs* - There are 281 high schools across the state without rooms which were originally intended to be science labs. Assuming that each school requires at least one science lab, the number of schools without labs was multiplied by 1,440 square feet per lab. \$60 per square foot was used to estimate the cost of constructing the labs. To calculate the number of science labs requiring improvements, a count was taken of the number of labs without either emergency showers, exhaust fans, sinks, or gas jets. Costs were calculated based on an estimate for adding the necessary equipment to the labs.

*Inadequate Gymnasium Space* - There are 694 campuses across the state without space designated as gymnasiums. There are an additional 3,139 campuses with insufficient gym space to meet their needs. The cost estimate was generated using a construction cost of \$60 per square foot for both new construction and additions.

*Insufficient Library Space* - There are 482 campuses across the state without libraries. There are an additional 4,041 campuses with insufficient library space to meet their needs. Insufficient space was calculated by subtracting the amount of library space on a campus from the amount of library space recommended for a campus at that grade level. The cost estimate was generated using a construction cost of \$60 per square foot for both new construction and additions.

*Excess Portable Space* - Across the state there are 997 campuses with more than 20 percent of their classroom space in portable buildings. To reduce the amount of portable space in these districts to no more than 20 percent would require the replacement of 3.3 million square feet at a cost of \$60 per square foot. To eliminate all portable space would require the replacement of 15.3 million square feet at a cost of \$922 million using a \$60 per square foot cost.

Some facilities costs will continue to occur even after all improvements to instructional space have been made. These costs are a function of on-going events such as the aging of existing facilities and continued growth in the student population.

TABLE 2  
ANNUAL COST ESTIMATES TO MEET SPACE NEEDS

<u>Activity</u>	<u>Estimated Cost</u>
Renovate aging space (annually)	\$66 million
Needs for student growth (annually)	\$300 million

*Renovation Needs* - During the 10 year period from 1980 through 1989 school districts renovated an average of 3.3 million square feet per year. Renovation cost estimates were made using a cost of \$20 per square foot rather than \$60 per square foot for new construction. Renovation was assumed to have taken place if the values for year renovated differed from that for year constructed. Renovation information was collected on a room by room basis, and the square footage used may represent a partial building.

*Student Growth Needs* - The student population is growing at a rate of approximately 50,000 per year. For each student in attendance, a facility needs to have approximately 100 square feet of instructional and non-instructional space. Since it is impossible to predict whether student growth will occur in areas where there is excess capacity, this estimate assumes that facilities will need to be constructed to accommodate all student growth. This will require 5,000,000 square feet of new space each year. A construction cost of \$60 per square foot was used to calculate this estimate.

CHAPTER 5  
PREVIOUS DISCUSSIONS OF  
THE STATE ROLE IN FUNDING SCHOOL FACILITIES

In his 1987 opinion in the first trial hearing on the Edgewood v. Kirby case, Judge Harley Clark stated that the Texas system of school finance "is UNCONSTITUTIONAL AND UNENFORCEABLE IN LAW because it fails to insure that each school district in this state has the same ability as every other district to obtain, by state legislative appropriation or by local taxation, or both, equal funds for educational expenditures, *including facilities*" (emphasis added).

Previous Attempts To Address The Facilities Issue

Since 1987, a number of legislative and advisory committees have examined the issues related to funding school facilities, and have made recommendations to that end. A summary of the recommendations of previous committees is presented below.

Recommendations of the 1987-1988 Accountable Costs Advisory Committee<sup>3</sup>

In November 1988, the State Board of Education released the report of the 1987-1988 Accountable Costs Study. As a part of that study, the advisory committee addressed issues related to school facilities, including the need for additional study. The committee recommended that a facilities advisory committee be appointed, and that a study, including an inventory of facilities be undertaken.

Specifically, the advisory committee made the following recommendations concerning the cost of school facilities:

---

3. 1987-1988 Accountable Costs Study From the State Board of Education, Texas Education Agency, Austin, Texas, November 1988, pp. 3-4.



1. **Construction and Renovation of Facilities**

Although accurate and complete data on the status and inventory of facilities are not available, the Committee estimates that the cost of facilities for public school districts for the next biennium may require an investment of approximately \$760 million each year. This cost estimate includes construction to meet the demands of growing student populations, renovation of existing structures, and facilities required to meet the maximum class size standard of 22:1 in grades 3 and 4.

2. **Inventory of School Facilities**

It is the recommendation of the Committee to the State Board of Education that specific legislative authority be sought to inventory and evaluate all structures used for educational purposes. It is also recommended that an adequate legislative appropriation be sought to fund the development of an inventory database. Continuing appropriations will be necessary for the maintenance and update of the database.

3. **State Role in Financing School Facilities**

The role of the state in financing and constructing school facilities should be sufficient to help districts which do not have the resources to construct adequate school facilities while at the same time allowing all districts to maintain a significant degree of local control about what type of facilities to construct. As part of defining the role of the state, minimum standards should be established for facilities and an inventory of existing facilities should be undertaken. The state should establish guidelines for providing a debt service subsidy to the low wealth districts, using criteria such as wealth and tax effort, level of existing debt, quality of existing facilities, or some combination thereof.

4. **Texas School Bond Guarantee Insurance Program**

The legislature should authorize the Permanent School Fund to establish an independent insurance company with an investment of at least \$100 million from the fund. This company would provide bond insurance to all districts in the state, guaranteeing a AAA rating for all bonds. Such

an investment would also serve to reduce any state funds required for interest subsidies under other recommendations.

Recommendations of the 1988 Select Committee On Education<sup>4</sup>

The Select Committee offered a number of recommendations for financing capital outlay and debt service. Like the Accountable Costs Committee, the Select Committee recommended that the state undertake a data collection process. The Select Committee broke their recommendations down into two groups. The first group provided "Guiding Principles" for addressing issues related to capital outlay and debt service. These principles included the implementation of fiscal controls to protect the integrity of state funds, should a program be put in place; limitations on the permissible uses of state funds for facilities; equalization of state funds for facilities; Texas Education Agency review of local need for the provision of state funds; and the recommendation that a facilities and debt service funding program be separate from the Foundation School Program funding mechanism.

As their "Guiding Principles" for capital outlay and debt service, the committee offered the following:

- a. A comprehensive approach does not seem feasible at this time because current data concerning school facilities in Texas school districts do not provide sufficient information concerning the condition of individual buildings, the number of "unhoused" or "inadequately housed" school pupils, or the extent to which existing buildings are educationally obsolete.
- b. When data are available concerning the condition of school facilities in local districts, consideration should be given to developing a state program through which fiscally equalized funds would be provided to assist in meeting current requirements for capital construction and debt service and future needs for school facilities.

---

4. The Final Report and Recommendations of the Select Committee on Education, Volume 1, Austin, Texas, December 1988, pp 142-147.

- c. Whenever state funds are provided, fiscal controls should be installed to protect the integrity of the state funds for capital outlay and debt service and to prevent diversion of the funds for purposes other than capital outlay and debt services.
- d. A state equalization funding program for capital facilities and equipment should include criteria and standards that limit the permissible uses of state funds to such areas as classrooms and related instructional items rather than permit the use of state funds for any local school district expenditures for school facilities and equipment.
- e. To address the facility needs in low-wealth school districts, especially in those adversely affected by state mandates, any capital construction or debt service programs should be fiscally equalized with the result that no funds, or limited funds, would be provided to high-wealth districts irrespective of their level of debt or need for facilities.
- f. In any program involving the use of state funds, the Texas Education Agency (TEA) should review local need for school facilities, local capacity to pay for facilities, school sites, architectural plans, and methods for financing school construction projects.
- g. Any state program for capital outlay or debt service should be totally separate from the process used in determining and administering the calculation process used for the Foundation School Program.

The committee also made specific recommendations on capital outlay and debt service funding. These included:

- a. The state should establish a State Capital Fund of \$100 million to address emergency facility needs. Need should be determined on a variety of factors, including regional differences in construction costs, growth in student population, age and condition of existing facilities, unused bonding capacity, district fiscal capacity and the district's educational program.

- b. The creation of a capital depreciation grant program which recognizes previous local efforts in meeting facilities needs. This equalized program, when administered in conjunction with the State Capital Fund would provide assistance to districts for both debt service relief and new construction.

In the discussion following these recommendations, the committee focuses on the need for an equalized system for financing facilities. The report advocates using "a district power equalized state aid for debt service under a highly equalized formula to provide maximum benefit to the poorest local school districts."<sup>5</sup> The district power equalized system that is described in the Select Committee report is essentially a guaranteed yield system of funding analogous to proposals which were made during the 71st and 72nd legislative sessions.

#### Recommendations of School Facilities Advisory Committee

Created by the Legislature, with the passage of Senate Bill 1019, and appointed by the State Board of Education in October, 1989, the fifteen members of the School Facilities Advisory Committee have built upon the work of previous advisory groups. The Committee has made recommendations to the State Board of Education concerning options for interim and long-term financing of school facilities, as well as assisted in the development of the requests for proposals for the facilities inventory and in the development of school facilities standards.

Specifically, the Committee recommended that a guaranteed yield system which uses the interest and sinking fund tax rate to recognize both new construction and previous debt be used to fund school facilities. The Committee also recommended that standards be applied only to new construction, and that the Texas Education Agency hire appropriate staff to assist in the implementation of these new programs.

---

5. Ibid, p. 145.

Below is a summary of the advisory committee recommendations which were sent to the State Board of Education in October, 1990.

1. Both an interim financing program (for the period prior to the completion of the inventory) and a long-term financing program should be developed.
2. Financing for both the interim and long-term programs should be through a modified guaranteed yield system, which recognizes the efforts of districts that constructed or purchased buildings from operating funds or fund balances.
3. Weighted ADA should be used in the calculation of facilities funding in order to be consistent with other funding formulas found in Senate Bill 1.
4. The committee recommends the following priorities for allocating limited state funds:
  - a. Renovation or new construction projects for eligible instructional and support spaces.
  - b. Portable buildings to meet emergency situations where permanent construction is inappropriate. Portable buildings must also meet state standards.
  - c. Debt service on projects which are brought up to state standards, including any debt on a building prior to bringing it up to standard.
  - d. Debt service on eligible projects built since 1984 which meet standards.
5. Standards for school facilities should be developed in the areas of size and space, safety, and educational appropriateness.
6. Standards should be mandatory for all instructional facilities in order to qualify for state funding.

7. Standards should be applied to existing facilities if districts wish to be eligible for financing for existing debt service. A program of grants should be established to bring existing facilities into compliance with standards.
8. An appropriate division within the Texas Education Agency should be responsible for monitoring districts and enforcing standards.
9. Additional agency staff should be hired to accommodate the workload that will be associated with increased state responsibilities for school facilities.
10. At the time that any building which was constructed with state funds is put into surplus or sold, the state should participate in the proceeds from the sale in the same proportion as it participated in construction costs.
11. Only those buildings constructed since 1984 and the passage of House Bill 72 will be eligible for funding for debt service relief.
12. Initial estimates place the annual cost of the long-term program at \$350 million per year in state money. This represents a state share of 50% of costs for debt service and new construction, on average.
13. The interim and permanent debt service and capital outlay programs should be established as a part of the Foundation School Program, and any shortfall in appropriations should be subjected to the same treatment as other appropriation shortfalls in the Foundation School Program.
14. The committee recognizes that some school districts finance new facilities with fund balances rather than debt, and recommends further study of a mechanism for reimbursing these districts.
15. The committee recognizes that there needs to be a transition period as the state moves from funding the debt service tax rate as a part of the

overall guaranteed yield program to funding this tax rate separately. The committee recommends additional study in the area of transition mechanisms.

The advisory committee presented the State Board of Education with a report in which they provided detailed examples of their recommended funding mechanisms. A copy of the report is attached to this document as Appendix C. The committee has also discussed year-round schooling as an option for meeting short-term needs for additional space and recommended that the agency examine this issue further.

### Common Themes

There are a number of issues and recommendations which are common to all of the committees which have examined this issue in the last several years. In each case, there is some discussion of an inventory, standards, funding options, and agency involvement.

### Inventory

Both the Accountable Costs Advisory Committee (ACAC) and the Select Committee on Education (SCOE) recommended that the state obtain data on school facilities. Based on these recommendations, the Legislature provided funding for the inventory, and the School Facilities Advisory Committee (SFAC) worked with the agency to complete the project. Both the ACAC and the SFAC have recommended that the information be updated on a regular basis. All groups saw the inventory information as beneficial to the agency and to policy makers, but none provided specific recommendations as to how the data should be used.

### Standards

Both the ACAC and the SFAC recommended that standards for school facilities be developed. The SFAC was heavily involved in the development of the standards, which are discussed in detail later in this report, and recommended that funding be linked to compliance with the standards. As with the inventory,

the Legislature has acted, and required that districts comply with standards beginning with the 1992-93 school year in order to use state or local funds for construction.

### Funding

The ACAC worked to identify costs, and recommended that options for funding be studied more carefully. Both the SCOE and the SFAC have made a number of recommendations for financing options. Both committees recommended that both a short-term program, with a recommended appropriation of \$100 million, be established while a long-term option was put into place. The Legislature did establish an emergency grant program along these lines, but set the funding at \$50 million.

In addressing the issue of long-term financing, both the SCOE and SFAC have recommended an equalized program which enables districts to both meet their debt service obligations and needs for new construction. Both committees specifically recommended the use of a guaranteed yield approach for distributing these funds.

### Texas Education Agency Involvement

All of the advisory committees addressed the issue of agency involvement. The SCOE and the SFAC state that the agency should be in a position to monitor and enforce standards. Additionally, the agency should be appropriately staffed to undertake the new obligations that will be associated with school facilities. In response to these recommendations, the agency has added two architects to the staff in the Division of State Funding and School Facilities.