



SENATE FISCAL OFFICE
ISSUE BRIEF

School Housing Aid

DECEMBER 8, 2011

In 1960, the school housing aid program was enacted by the General Assembly to guarantee adequate school facilities for all public school children in the state, and to prevent the cost of constructing and repairing facilities from interfering with the effective operation of the schools. Applications for aid to support the construction and renovation of school buildings are submitted to and evaluated by the Rhode Island Department of Elementary and Secondary Education (RIDE). State aid is provided for approved projects based on a percentage of cost. The percentage provided by the State to the school district is determined based on a share ratio designed to measure a community's need. For FY2012, the minimum state share is 35.0 percent (increased from 30.0 percent) and the maximum is 92.7 percent. The minimum state share ratio will increase to 40.0 percent in FY2013 and thereafter.

The General Assembly is obligated by statute to annually appropriate the necessary sum for school housing aid payments to districts. In the FY2012 Budget, the General Assembly appropriated \$72.5 million in school housing aid, a 6.7 percent increase from the previous year's supplemental appropriation; local districts are estimated to match this expenditure with \$58.8 million in local funds. To control the growth in the program, the 2011 General Assembly enacted a moratorium on new projects, limiting approvals in FY2012 through FY2015 to projects that are necessitated by immediate health and safety reasons.

Local school districts are supported through allocations of local and state tax revenues and financing; they do not have taxing authority to raise funds for capital projects. In FY2012, cities and towns are subject to a state-mandated 4.25 percent cap on increasing property tax levies to pay for school capital outlay projects: in FY2013 and thereafter the tax levy cap is 4.0 percent.

<u>Fiscal Year</u>	<u>Total Funding</u>	<u>Percent Change</u>
2000	\$25.5	13.2%
2001	30.8	20.5%
2002	33.2	7.9%
2003	38.2	15.1%
2004	40.7	6.6%
2005	43.9	7.6%
2006	47.2	7.6%
2007	46.8	-0.8%
2008	49.7	6.1%
2009	54.1	9.0%
2010	58.3	7.8%
2011	68.0	16.6%
2012	72.5	6.7%

\$ in millions.

NECESSITY OF SCHOOL CONSTRUCTION APPLICATION

The application process for school construction projects has several steps:

- Letter of Intent: The district informs RIDE of its need and begins project planning between the district and RIDE.
- Stage I Application: The district provides an overview of the school facility problem and also provides a plan for the preventative maintenance and renovations of facilities to be constructed. RIDE will then issue one of three review options following the district's submission of the Stage I application, including disapproval, further information needed, or approval.

- Stage II Application: If approved, the district will then begin an Architectural Feasibility Study in order to develop and agree on a solution to solve the verified problem. Following the feasibility study, design and construction cost projections as well as a financing plan must be determined before approval is issued.
- Stage III: Reviews by RIDE continue to include a design and construction review. Once the Board of Regents approves the application, a memorandum of agreement is signed between RIDE and the LEA. For projects funded by general obligation bonds, LEAs must receive General Assembly and voter approval.
- Stage IV: Following the conclusion of the construction review, RIDE may perform an independent audit before final approval is issued. Reimbursement is paid only after compliance with the memorandum of agreement is confirmed.

Applications can be submitted to RIDE at any point during the year; however, projects must be completed by June 30 to be reimbursed in the following fiscal year.

ALLOWABLE COSTS

Only school districts, not municipalities, may receive school housing aid, which must be for projects undertaken at school facilities under the control of the school committee and located on school property. Facilities with combined school and municipal uses or facilities that are operated jointly with any other for-profit or non-profit agency do not qualify for reimbursement. Public charter schools sponsored by a district may receive the reimbursement rate of the district; public charter schools not sponsored by a district may apply for a 30.0 percent reimbursement of school housing cost.

As mandated by the General Assembly, RIDE developed and implemented new school construction regulations in 2007 and developed annually-updated cost standards. Since adoption of the regulations and cost standards, the total value of annually-approved projects has been reduced by 60.0 percent.

Costs eligible for reimbursement include the purchase of sites, buildings, and equipment; the construction of buildings and additions; and the renovation of existing buildings or facilities. For projects approved after June 30, 2003, interest payments may only be included in project costs if the bonds for the project are issued through the Rhode Island Health and Education Building Corporation (RIHEBC). Capital lease purchase agreements are eligible if the agreement demonstrates a direct benefit to the school and excludes all non-capital costs such as maintenance.

Costs not eligible for reimbursement include the demolition costs for buildings, facilities, or sites deemed surplus and no longer under the direct care and control of the school committee; equipment, unless part of furnishing and fitting a new school or addition; swimming pools, skating rinks, field houses, indoor tennis courts, and outdoor surface materials on existing fields; district administrative office space that is not incorporated into a school building; and facilities bond issuance costs incurred by the municipality or regional school district. Capital leases are not eligible.

REIMBURSEMENT RATES

Projects completed by June 30 of a fiscal year are eligible for reimbursement in the following fiscal year. A project is considered complete when the work has been officially accepted by the school committee or when the housing is occupied for its intended use by the school committee, whichever is earlier. The reimbursement rate for

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the project is frozen at the percentage calculated at the time the bond is issued or, if funded by capital reserve funds, the time the project is completed.

The reimbursement rate, or state share ratio (SSR), is calculated using the district’s adjusted equalized weighted assessed valuation (EWAV) and resident average daily membership (RADM) for Pre-K-12 grades relative to the EWAV and RADM for the state.

The state share ratio for a community is calculated as follows:

$$SSR_{District} = 1 - \left(0.62 \times \left(\frac{EWAV_{District}/RADM_{District}}{EWAV_{State}/RADM_{State}} \right) \right)$$

The calculation of the EWAV is intended to gauge a district’s relative wealth by measuring a community’s ability to generate revenue relative to other communities in the State. The EWAV takes the total value of taxable property within a community, corrects for full market value, and adjusts for the ratio of the median family income of the district relative to the statewide median family income.

HOUSING AID BONUSSES

There are currently four bonuses available to districts.

Energy Conservation/Handicapped Access/Asbestos Abatement

To qualify for this 4.0 percent bonus, districts must document that 75.0 percent of the cost of the renovation project is specifically directed to energy conservation, handicapped access and/or asbestos abatement activities.

Energy Efficiency Incentive

Approved new construction projects demonstrating energy and water efficiency beyond the minimum school construction threshold requirements as defined by the Northeast Collaborative for High Performance Schools are eligible for additional reimbursement ranging from 2.0 percent to 4.0 percent. Districts are eligible for an additional 2.0 percent to 4.0 percent in aid based on the level of energy efficiency. Compliance is demonstrated through energy modeling and analysis reports.

Career and Technical Center Renovations

This bonus only applies upon transfer of state-owned, locally-operated career and technical centers from state to local control and provides a 4.0 percent bonus for repairs and renovations deemed necessary to bring the building to a state of good repair.

Regional School Districts

Regional school districts receive an increase in the school housing aid ratio of 2.0 percent for each consolidated grade. Regional districts undertaking renovations projects receive an additional increase of 4.0 percent.

FY2012 Housing Aid State Share Ratios

District	Share Ratio
Barrington	35.0%
Burrillville	56.6%
Central Falls	92.7%
Coventry	50.7%
Cranston	45.6%
Cumberland	41.5%
East Greenwich	35.0%
East Providence	52.1%
Foster	35.0%
Glocester	45.0%
Jamestown	35.0%
Johnston	35.0%
Lincoln	35.0%
Little Compton	35.0%
Middletown	35.0%
Narragansett	35.0%
Newport	35.0%
New Shoreham	35.0%
North Kingstown	35.0%
North Providence	45.8%
North Smithfield	35.2%
Pawtucket	75.9%
Portsmouth	35.0%
Providence	80.6%
Scituate	35.0%
Smithfield	35.0%
South Kingstown	35.0%
Tiverton	35.0%
Warwick	35.0%
Westerly	35.0%
West Warwick	58.5%
Woonsocket	81.7%
Bristol Warren	58.0%
Exeter-West Greenwich	56.0%
Charlho	56.0%
Foster-Glocester	53.6%

REIMBURSEMENT PROCESS

Payments for approved new construction projects are paid following the completion of the project. The annual aid payment is based on the project cost and interest (if the bond is issued by RIBEHC) as dictated in the bond amortization schedule. The annual aid payment is calculated based on the principal and interest for that fiscal year. The reimbursement percentage is held constant at the rate calculated the year the bond is issued. Aid is paid annually in two equal installments at the end of October and April. For bond supported (not capital reserve fund) projects, payments are issued to RIHEBC for projects supported by RIHEBC bonds, not to the municipalities or school districts.

FUNDING SOURCES

Funding sources for school housing projects are limited to general revenue obligation bonds, lease revenue bonds, debt issued by RIHEBC, capital lease purchases, and capital reserve funds, provided that the term of any bond or capital lease is no longer than the useful life of the project. Projects cannot be paid out of operating funds. Beginning January 1, 2008, all bonds, notes and other forms of indebtedness in support of school housing projects require passage of an enabling act by the General Assembly, except for interim financing, refunding bonds and bonds issued by RIHEBC. Also, the district must have a capital reserve fund at the district and/or municipal level.

Any federal aid and other private or public funding, including capitalized interest, applied income investment income, or debt service reserve funds, must be deducted from the cost of the project prior to requesting reimbursement.

REPAYMENT PROVISION

In FY2009, the General Assembly enacted a provision for when an audit or subsequent review by the Commissioner of Elementary and Secondary Education determines that a district was overpaid school housing aid. The community must repay the amount over a repayment period that is designed to keep the amount repaid in any given year at 0.5 percent of revenues, or less. If the entire repayment is not received in the first year, interest is applied annually at a rate equal to the consumer price index.

SCHOOL HOUSING AID MORITORIUM

The 2011 General Assembly enacted legislation limiting the approval of new projects between FY2012 and FY2015, to those necessitated by immediate health and safety reasons. Any project requested during the moratorium must be reported to the chairs of the House and Senate Finance Committees. Any project approval granted prior to the adoption of the school construction regulations in 2007 which is currently inactive; and any project approval granted prior to the adoption of the school construction regulations in 2007 which did not receive voter approval or which has not been previously financed, is no longer eligible for reimbursement. RIDE must develop recommendations for further cost containment strategies in the school housing aid program.