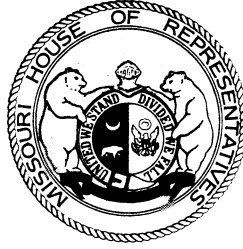


Report
of the
House Interim Committee
on
Education—Capital Improvements
and Maintenance

December 11, 2001

DICK FRANKLIN
State Representative
18005 CHEYENNE
INDEPENDENCE, MO 64056
(816) 796-3088



PLEASE REPLY TO:
HOUSE POST OFFICE
STATE CAPITOL
JEFFERSON CITY, MO 65101
(573) 751-6535


MISSOURI
HOUSE OF REPRESENTATIVES
JEFFERSON CITY, MO 65101

December 11, 2001

Honorable Jim Kreider
Speaker of the House
Room 308 Capitol
Jefferson City MO 65101

Dear Mr. Speaker:

Pursuant to your October 4, 2001, directive, the House Interim Committee on Education—Capital Improvements and Maintenance has held its meetings to investigate sources of state funding for school building and maintenance. The Committee traveled to several school buildings, some in areas that legislative committees rarely visit.

The Committee was aware from the outset that the need for state capital funding support for schools is profound. Even if the Department of Elementary and Secondary Education had not found more than \$4 billion of unmet building and repair needs, testimony suggests that the need is deep. The Committee was impressed with the diligence and creativity of school districts in dealing with their capital needs. However, testimony did not reveal any easy answers to the question of how to find funds for such a vital need.

In fact, testimony suggested, overall, that every little advantage needs to be pursued to the fullest and that while school districts would be delighted to have state help on building, many districts are prepared to do everything that is within their power to help themselves. Testimony revealed deep and troubling disparities in the tax assessment and rate-setting environment that complicate the already complicated issue of school finance.

As of the writing of this report, the consensus of the Committee was that no one major funding source suggests itself as a solution to the dilemma of state support for school building and repair, but that many possibilities are worthy of further study.

The Committee is grateful for the chance to investigate this crucial issue and is pleased to submit the attached report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dick Franklin", is written over the "Respectfully submitted," text.

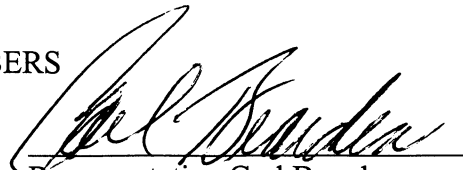
Representative Dick Franklin, Chair
House Interim Committee on Education—Capital Improvements and Maintenance

REPORT OF THE
HOUSE INTERIM COMMITTEE
ON
EDUCATION-CAPITAL IMPROVEMENTS
AND MAINTENANCE

We, the undersigned members of the House Interim Committee on Education-Capital Improvements and Maintenance, do hereby respectfully submit our report to the Honorable Jim Kreider, Speaker of the House.

COMMITTEE MEMBERS


Representative Nancy Copenhaver

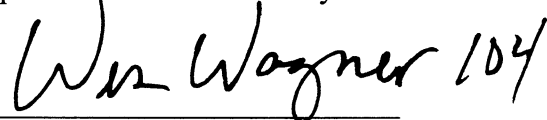

Representative Carl Bearden


Representative Mark Hampton

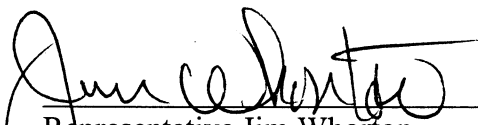
Representative Bob Behnen

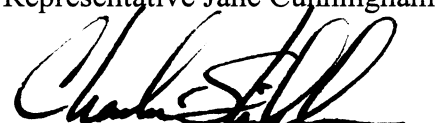

Representative Wes Shoemyer

Representative Jason Crowell


Representative Wes Wagner

Representative Jane Cunningham


Representative Jim Whorton


Representative Charles Shields


Representative Dick Franklin, Chair

REPORT OF THE
HOUSE INTERIM COMMITTEE
ON
EDUCATION–CAPITAL IMPROVEMENTS
AND MAINTENANCE

COMMITTEE MEMBERS

Representative Nancy Copenhaver

Representative Carl Bearden

Representative Mark Hampton

Representative Bob Behnen

Representative Wes Shoemyer

Representative Jason Crowell

Representative Wes Wagner

Representative Jane Cunningham

Representative Jim Whorton

Representative Charles Shields

Representative Dick Franklin, Chair

Staff: Rebecca DeNeve
Senior Legislative Analyst
House Research

Table of Contents

	<i>Page</i>
A. Charge to the Committee	9
B Committee Activities	9
C. History of the Issue	9
D. Findings of the Committee	11
Appendix 1. Summaries of Testimony	
Jefferson City	15
Trenton	17
Independence	19
DeSoto	22
Cabool	24
Appendix 2. Chart–State Support of School Capital Needs in Surrounding States	27

A. Charge to the Committee

The Committee is charged with investigating state funding sources for school buildings and maintenance. The Committee is also charged with implementing allocation of these funds for capital improvements and maintenance of school buildings in an equitable manner, giving priority to those districts with the most need. The Committee shall also review other alternative funding sources used by surrounding states for school building capital improvements and maintenance.

B. Committee Activities

Throughout October and November of 2001, the House Interim Committee on Education–Capital Improvements and Maintenance held meetings at Trenton Middle School in rural north-central Missouri; at Bingham Seventh Grade Center in Independence; at DeSoto High School in Jefferson County; at Cabool Middle School in rural south-central Missouri; and in the Capitol, Jefferson City. The Committee heard testimony from state officers, school superintendents, school board members, teachers, parents, local taxpayers, and members of industries and businesses affected by school construction. The Committee also received written testimony. Summaries of the testimony at each meeting are included as Appendix 1.

C. History of the Issue

1. What is the background of state aid for capital funding in Missouri?

Missouri is one of a handful of states that does not provide direct support for school construction. Currently, Missouri aids school construction in a number of small ways:

- a. Technical assistance through the Health and Educational Facilities Authority, which consists of paying certain administrative and professional fees associated with issuing bonds;
- b. Districts that do not have outstanding lease-purchases may use a small percentage of their capital projects levy to draw state aid, as the result of an amendment made in 1998 by Senate Bill 781;
- c. Senate Bill 380 created the school building revolving fund in 1993, but the fund has never accumulated enough moneys to be useful, despite several legislative attempts to provide additional moneys.

The school building revolving fund was put in place to address the possibility that capital funding could be a source of future equity litigation. The January 1993 Kinder memorandum opinion and judgment on school funding that prompted the passage of Senate Bill 380 mentions this possibility on its first page, in a phrase

that has achieved instant classic status: Missouri's school facilities range "from the 'golden' to the 'god-awful.'"

Missouri is also one of a handful of states that requires a supermajority to pass a local school bond issue. Therefore, Missouri might be characterized as a state in which finding money for school construction is doubly difficult, with no state construction aid and a stringent supermajority requirement on local school bond issues. In recent years, proposed constitutional amendments to eliminate the supermajority requirement from some or all election dates have been received favorably in the House of Representatives but have not succeeded in the Senate. As this report is being written, the Missouri PTA, in conjunction with the Missouri School Board Association, has undertaken the project of getting the issue on the 2002 ballot through petition, rather than legislation. The State Board of Education has endorsed this effort.

In the fall of 1999, the Department of Elementary and Secondary Education undertook a survey of districts to determine the status of their school buildings and the scope of the need for new and renovated buildings. The survey revealed a need of \$4.3 billion, split almost evenly between new construction and renovation/repair. This figure appears to represent a modest approach, rather than a wish list, when checked against other sources that document building needs, such as the 1996 Government Accounting Office reports on this topic, and gauged against failed bond issues as an index of unmet need.

In recent years, school construction funding legislation has been introduced and debated in both chambers. Work has been done, primarily by school superintendents, on the creation of an equitable allocation plan that culminated in the 2001 session with House Bill 457 and Senate Bill 242. The major obstacle for passage of a bill has been lack of a substantial and reliable funding source. Funding sources of the magnitude needed to address the problem do not currently exist; suggestions that involve redirecting existing sources, typically gaming moneys, have been viewed with caution by the education community.

2. Why is this issue now surfacing more frequently in discussions of school funding?

State support of school construction is viewed as an important issue because of the trend in school funding litigation. Within the last few years, a number of states have been ordered by the courts to find additional funding to address school construction needs in at-risk districts. Several other states are involved in litigation that has a capital-funding component. By contrast, operating funds are usually equalized, so that districts with low property values are not penalized in their ability to provide an education for their children. However, there is a strong

tradition, not just in Missouri but throughout the United States, of school construction being primarily a local responsibility. If districts face limits on bonded indebtedness (in Missouri, the bonding cap was recently raised from 10% to 15%), if districts have low assessed valuation, if the demographics of the district reveal constituents who are property-rich but cash-poor (such as the elderly or farm owners)—all these factors can prevent districts from being able to pass bond issues to build or repair their buildings. And while the teaching-and-learning process is the heart of education, some of the physical conditions that adults expect students (and teachers) to endure are surprisingly harsh: failing heating systems, no air conditioning, leaky roofs, mold and mildew which can aggravate breathing problems, lack of security, and inadequate wiring systems that prevent access to technology.

D. Findings of the Committee

The following are recurrent themes from testimony:

1. School finance, especially as it relates to property tax, is a complex issue and is difficult to explain to voters.

Testimony before the Committee indicated that the entire property tax cycle is hard to understand, from reassessment to rollback to tax ceiling to voluntary rollback waivers. This probably contributes to the property tax's status as the most disliked form of taxation. Leaving aside problems patrons may have with the assessment process, patrons' understanding of the relationship between local property tax and both operational and capital funding is a sore spot. It is easier to vote "no" on an issue that is hard to understand.

2. While many districts have worked hard to educate their patrons about the need for school construction, other districts have problems that keep them from being successful in supporting their local school building projects.

Patrons frequently have difficulty understanding why districts continually approach them to raise taxes. For districts that are near their limit on bonded indebtedness, this is a particularly touchy subject. "Didn't we just vote on that?" is a typical response. In rural districts with a high proportion of agricultural land, property owners feel that the tax is really a sort of occupational tax. Districts with many patrons on fixed incomes also face special problems, as do districts with high proportions of low-income workers who typically rent rather than buy homes. Districts with high assessed valuation that face rapid growth have their own set of problems, as well as high-assessed-valuation districts that may be facing other extraordinary needs, such as asbestos abatement.

3. The constitutional amendment to permit a simple majority for local school

bond issues is believed by several to be the simplest and most direct way a district can help itself.

The most frequently heard comment in testimony was how the simple majority would benefit districts that want to help themselves. If a majority of a district's patrons are willing to support a bond issue, it speaks to the patrons' trust and hope for the district. It is deeply discouraging to fail with 54 or 55% of voters in favor of a bond issue. Several speakers indicated that, whether it is by legislative action or by petition, for one election date or all of them, the people of the state should be given the chance to choose.

4. Investigate the possibility of raising the constitutional limit on bonded indebtedness.

Although Missouri recently voted to raise the limit on bonded indebtedness from 10% to 15%, fewer than one-fourth of states have a limit on bonded indebtedness. The limit hurts poorest districts worst, since assessed valuation in the \$2 to 8 million range, which is not uncommon for smaller, rural districts, virtually prevents such districts from building a new building of any size. Many witnesses believe a study should be made (perhaps by the State Treasurer's office) of the potential effects on Missouri's bond rating of raising the limit; and if there is no detrimental effect, the General Assembly, the education community by petition, or both, should pursue the necessary amendment to place the issue on the ballot with a proposed new limit of 25%.

5. Aggressively pursue every possible local option that gives a district help in capital funding, consistent with a district's willingness to help itself, its unique demographic qualities, and with any equity issues.

While the major issue remains that there is at least \$4.3 billion of unmet capital need in Missouri and the districts with the greatest need are frequently the least able to help themselves, witnesses made it clear that any advantage, however small, is worth pursuing. Whether it is regulatory relief on some financial/transfer issues; the possibility for developer fees and real estate transfer fees on existing buildings; local sales tax options such as are used in Georgia and Florida; local income tax as has been proposed in Missouri—districts deserve the chance to help themselves with methods that suit their circumstances. Performance contracting, which is already permitted under state law, may well be underutilized. The statutory changes detailed in the testimony of Erik Froehlik in Independence may merit consideration.

6. The state should continue to study the implications of the methods of funding a large pool of moneys for a state building match program, similar to HB 457 and SB 242 of 2001.

Consensus exists on the issues that: (1) the need for such a program exists; (2) failure by the state to address state participation in school construction could

result in litigation against the state; and (3) existing funding from any source cannot readily be tapped without serious disruption of school funding patterns that have been set over the past 8 to 10 years. Several speakers indicated a preference for a statewide one-quarter cent sales tax as one possible source of additional funding. Other potential sources of state funding discussed included: (1) raising the boarding fees on gambling boats; (2) dedicating growth in gaming moneys including any increases resulting from the elimination of the loss limit; (3) increased forfeiture proceeds; (4) dedicating growth in lottery moneys; (5) one-cent sales tax with one-half cent for local property relief similar to Prop C; and (6) tobacco settlement moneys, on the grounds that many elements of school construction address health and safety issues.

The education community has been approached by representatives of transportation concerns to explore the possibility of a joint infrastructure sales tax and bonding plan. At the writing of this report, the talks between these two interests are continuing. While it is clear from the testimony that school superintendents overwhelmingly favor a combined approach to roads and schools, the testimony also makes clear that the majority of school patrons have not given sustained consideration to the idea.

7. The allocation method of the capital improvement funds must be well defined.

The allocation method crafted by the superintendents and reflected in the two bills from the 2001 session received overall approval as a good beginning, with the caveat that “need” must be well defined and emergencies must be considered in the definition of need. The General Assembly should ensure that any priorities or criteria they feel are important are included in the legislation. The committee agreed that an entity free from political influence, geographically and demographically balanced, similar to the committee of superintendents sponsored by the Missouri Association of School Administrators that participated in the development of HB 457/SB 242, would be the best choice for the actual mechanism of allocating moneys. The Department of Elementary and Secondary Education could provide staff support, but the actual decision-making body should be made up of school administrators.

8. Because of the almost-equal split between the need for new buildings and the need to upgrade and repair existing buildings, an equitable allocation plan must contain both these elements.

Missouri has a large proportion of old school buildings—25% are over 50 years old. That percentage translates to more than 500 buildings statewide over 50 years of age. Parts of Missouri have experienced explosive growth, while other parts have undergone a slow dwindling of communities. Thrifty Midwesterners who recognize the value of a dollar and who are proud of their community’s past

want the opportunity to renovate, rather than build new, when the economic analysis supports it. Frequently a school building is the most important building for a sense of community identity, especially in areas that are losing population, and even districts with little or no growth may need funds for new construction.

Appendix 1. Summaries of Testimony

Jefferson City
October 23, 2001

4:00 pm Organizational Session:

Chairman Franklin convened the meeting for the purpose of setting hearing dates and places, discussion of the charge to the committee, and getting some background information on the issue. He stated that the need for additional funding for school facilities seemed well documented; the committee's charge is to investigate sources of funding and methods of allocating that funding.

All hearings will be at 7:00 p.m.; some committee members were hopeful that electronic/ITV meetings could be arranged in instances in which members have conflicts that prevent their attendance.

Schedule:

Tuesday	October 30	Trenton
Tuesday	November 6	Kansas City area, possibly eastern edge
Thursday	November 15	DeSoto
Tuesday	November 20	Cabool

Members received an Education Commission of the States publication "Making Better Decisions about Funding School Facilities," which contains some key policy issues and a comprehensive state-by-state chart of current school capital funding.

Background information was provided by:

Tony Stansberry, Superintendent, Lee's Summit and member of the School Construction Facilities Committee of the Missouri School Administrators' Association.

Dr. Stansberry described the process by which last year's SB 242/HB 457 were developed through a statewide committee of school administrators. An allocation method that addressed equity issues was part of those bills; the sticking point was a funding source. Committee members expressed interest in (1) how potential classroom building standards would be developed, voicing concern that new construction meeting such standards rather than requiring renovation to meet standards should be the norm; (2) how emergency needs would be met; and (3) how to quantify what "needs" means and how needs and wants differ.

Gary Dixon, retired Department of Elementary and Secondary Education staff, School Governance.

Dr. Dixon helped developed the needs survey that DESE conducted during the fall and winter of 1999-2000. The survey indicates about \$4.3 billion of need, with renovation needing slightly more than new construction. He also discussed some of the more technical provisions of last

year's bills, explaining that the \$150 million per year for 10 years estimated as the cost of the bill came from estimates that looked at current levels of bonded debt. Committee members asked how the determination would be made about whether a building could or should be renovated versus whether it would be more efficient to fund new construction. Dr. Dixon cautioned that for there to be good oversight of how funds would be used would require some additional staff for DESE, since there is only one staff member assigned to facilities and that staff position also has other duties.

Brian Long, Budget Director.

Dr. Long outlined the revenue forecast process, which is essentially a double blind set-up with the budget office and appropriations staff creating an estimate from the same data given to MU economists and then negotiated consensus about revenue levels. Mid-fiscal-year corrections also occur in December, when the forecast for the next fiscal year is being prepared. Dr. Long said that current estimate for FY 03 shows about \$183 million in new revenue, with two sizable obligations—the Medicaid match and full funding of the foundation formula for school aid—showing the need for \$470 million in new revenues. There is not yet any post-September 11 data to help forecast the economic effects of the terrorist attacks, which members need to keep in mind when considering these estimates.

7:00 p.m. Testimony:

Gary Sharpe, Missouri Association of School Administrators.

Dr. Sharpe spoke about the relationship between school reform and available space. Frustration with the fate of the simple majority for school bonds constitutional amendment has led to a petition drive to put the issue on the ballot, but there also needs to be more than just local bond issues as a source of funding, because the need is so profound. Discussions have been held with the transportation coalition to explore if the approach that Illinois uses would be effective in Missouri—that is, considering roads and schools as infrastructure and issuing statewide bonds, to be repaid through a sales tax, to cover both types of construction. Considerable discussion ensued about this possibility, as well as other revenue sources such a local sales or income tax options. The committee expressed consensus on the issue that explaining property tax assessment and rollback procedures makes school funding a very difficult issue for voters to grasp.

Rowena Conklin, Cooperating School Districts of Suburban Kansas City.

Ms. Conklin reviewed the pros and cons of property tax versus other funding sources for both operating and capital funding. She listed several potential funding sources, noting the advantages and disadvantages of each. She mentioned that there would be some momentum for the repeal of loss limits and cautioned the members to view revenue estimates associated with this carefully. California, Connecticut, Maryland and Maine all use statewide bonding to fund school facilities. Committee questions focused on equity and litigation aspects of various funding sources.

Otto Fajen, Missouri National Education Association.

Mr. Fajen reminded the committee that operating funds have increased more than twofold under SB 380, but capital funding has not been addressed. He expressed concern that if the state created construction standards and a voluntary participation funding plan, it could open the door to litigation. Traditionally, equity problems are associated with fast-growing districts and low-wealth districts. His review of the estimated need showed a gap between current capital expenditures and need of almost \$195 million per year, which is roughly comparable to the \$150 million figure associated with last year's bills. He also reminded committee members that joint use funding is permitted under Chapter 70.

Chris Straub, Missouri School Board Association.

Dr. Straub's organization supports state aid for school funding but he believes that it would not solve all the state's problems. The simple majority constitutional amendment is a necessary part of the picture, and Missouri is one of only 9 states that have a supermajority requirement. He reminded the committee that we ask school children to learn under conditions that we ourselves wouldn't want to work in.

Mark Van Zandt, General Counsel, Department of Elementary and Secondary Education.

Dr. Van Zandt stressed the need for clear communication between the General Assembly and the Department when and if state aid for capital funding is developed into legislation and becomes a reality. He underscored earlier comments that quantification of need would be a key issue and expressed his belief that as committee members see some of the older school buildings, they will broaden their understanding of how varied the conditions of Missouri's school building are.

Trenton R-IX School, Trenton

7:00 p.m. October 30, 2001

Chairman Franklin convened the hearing and explained the charge of the committee to the members of the audience. In addition to the 8 committee members in attendance, Chairman Franklin recognized Rep. D. J. Davis, who is co-chairing the Joint Interim Committee on Education Finance, and Rep. John Quinn, from Chillicothe.

Supt. Harry Wheeler, Trenton R-IX District.

Superintendent Wheeler welcomed the committee to his school district and spoke of the difficulties of passing bond issues in rural areas. Upgrading heating systems is a priority, because older boilers are inefficient and to replace them would be more efficient in the long-run, especially in the light of higher fuel prices. Rural districts don't expect 100% state support of building costs, but a matching figure would make bond issues easier to pass. It is crucial that any program be available to all districts. School construction may be an economic stimulus.

In response to committee questions, Superintendent Wheeler stated he believed a statewide sales tax would do a better job of spreading out the tax burden than some of the alternatives.

Concerning the possible combination of schools with roads for statewide bonding, the issue of trust is paramount. Schools generally have the people's trust. As for alternative financing methods, a 3-way split of income, sales, and local property taxes seems a sensible approach. A school-district optional income tax has the advantage of being fair but might not work for the most sparsely populated districts.

John Holcomb, President, Trenton R-IX Board of Education.

Trenton had to offer its bond issue 5 times to get the facility built in which the committee hearing was held. Citizen involvement was what ultimately made the issue succeed. In response to the question of how a matching program with a sliding scale based on property wealth could best be explained to patrons of high assessed valuation districts, Mr. Holcomb said that there was no easy answer, but the idea of "pull" from outside the county might be effective. If a district's costs are higher, 25% of their costs will be a larger figure than 25% of a district where costs are lower.

Supt. Dale Wallace, Carrollton R-VII District.

Carrollton has tried 4 times in 6 years to get funds for a new elementary school; the district has two 1929 buildings that should be replaced with one new building. The district patrons would respond very favorably if they felt tax relief was part of the package. A statewide sales tax and a simple majority on bond issues would be a big help. In response to a question about the possibility of consolidating districts, the issue of the school as the single biggest factor in community identity for small communities received much discussion. Many small districts are proud of their schools and tax themselves for operational purposes at a comparatively high rate.

Supt. Ron McElwain, Tina-Avalon District.

Superintendent McElwain's district has 210 students and a building that dates from 1953. He spoke about the demographic differences between the rural north and south of the state and reiterated the importance of the school in community viability for towns that are losing population. It was noted that after consolidation, it is sometimes difficult to pass levy increases, because patrons no longer feel that "their" school is receiving their money. Committee discussion ranged over the issue of economies of scale, with several members commenting that in many ways, smaller districts are forced to be more efficient than larger districts. It is impossible to predict special circumstances, which have a disproportionate effect on smaller districts. Supt. McElwain noted that while economies-of-scale studies were generally inconclusive, the effects of smaller districts/smaller buildings on students were well-documented and positive. Students score better on tests and are more likely to finish school. Tina-Avalon uses a pay-as-you-go philosophy for its building needs, rather than floating a bond issue.

Supt. James Ruse, Gallatin R-V District.

Superintendent Ruse's district doesn't consider consolidation an option, even with 600 students and a projection of dwindling numbers; the district already has children riding buses for an hour each way. He believes that equity is slipping away as the formula is amended. Most rural areas would probably prefer to renovate when they can, rather than build new.

Supt. Heath Halley, Milan C-2 District.

Milan has 3 recent failed bond issues. Premium Standard Farms and Con Agra are large employers, but Con Agra may leave. The district has lots of higher-income people who commute to work in it and a sizable population of Hispanic immigrants who live in the district and whose children attend the district schools. About 20% of the Milan students are not native English speakers. The district is working hard to assimilate the changes that its large businesses have brought about. Portables house 150 students, which is not a good long-term solution. The high school is 76 years old. The large businesses are in enterprise zones, so the district does not derive much direct financial benefit from their presence. The committee expressed interest in Milan's special circumstances, particularly its difficulty in attracting teachers.

Troy Smith, former Trenton R-IX board member.

Mr. Smith posed the question about how a statewide sales tax would mesh with Missouri's emphasis on local control of schools. Committee discussion covered the inevitability of strings being attached to funding, whether it's federal or state. He reminded the committee that without Premium Standard Farms, the area would have a lot of inexpensive farm land.

Bob Watts, President, Missouri School Plant Managers Association.

Mr. Watts represents the people who have responsibility for the physical plants of district schools. He was concerned with the health aspects of bad roofs and bad ventilation systems, since so many of the state's schools are more than 50 years old. He suggested that performance contracting, with an emphasis on energy savings, might offer some relief, but it doesn't address the problem of needing more space. He mentioned that inadequate electrical facilities keep schools from taking advantage of technology. In response to committee questions, he stated that virtually any school that has facilities from the mid-1960s or earlier will have an asbestos problem, which means the district has to remove it or else inspect and maintain features such as boiler insulation to prevent friability of the material.

Bingham Seventh Grade Center, Independence

7:00 p.m. November 6, 2001

Chairman Franklin convened the hearing and explained the charge of the committee to the members of the audience. In addition to the 9 committee members in attendance, Chairman Franklin recognized Rep. D. J. Davis, who is co-chairing the Joint Interim Committee on Education Finance, Rep. Meg Harding from north Kansas City, and Rep. Randall Relford from Cameron.

Dr. Scott Taveau, Superintendent, Liberty 53 District and president of the Missouri Association of School Administrators.

Dr. Taveau believes that the capital funding bills that were introduced last year were a step forward in getting the message out for people to hear, and that this coming legislative session will offer a chance to follow up; the key is finding the funding source. The most viable option he

sees is the one-quarter-cent sales tax. He stressed that any funding should be made available to all districts over a 10-year period. In response to committee questions, Dr. Taveau responded that the simple majority is an issue that goes hand-in-hand with state support for school building. He agreed that the local property tax is almost universally hated. A local income tax option might be helpful but would be of limited use in small districts. In regard to a possible roads-schools sales tax to support statewide bonds, he favored at least exploring the possibility. On a question regarding how equity would function when faced with a high-assessed-value but high-need district, he replied that a good prioritization of need was essential. Liberty passed a \$36 million bond issue at 83.2%, but the district is at its debt ceiling.

Dr. Paul James, Superintendent, Fort Osage R-1 School District.

Fort Osage has 10 buildings that date from the 1950s and 60s. It has floated \$25 million in 2 bond issues in the last 5 years; one other issue failed with 55%. Matching state funding would be a great incentive for voters. Even though "package deals" on a sales tax/bond issue might include a sector that suffers from a bad reputation, voters do seem to respond to a thoughtful presentation of a package. Education may need transportation's help in making the issue visible to the voters. Some committee members urged that caution be used in exploring any such package.

Jeff Tindle, President, Lee's Summit R-7 School Board.

Lee's Summit is one of the state's fastest-growing districts and has a high levy. District patrons would respond very favorably to state assistance for building. The district has spent considerable time and effort in exploring as many alternative sources of funding as possible, including a foundation for soliciting and accepting private donations and a voluntary program to get developers to commit funds for school buildings through the platting process. The voluntary program is not working very well, and the city/district is considering ways to revise it. Because of rapid growth in the district, it is always at its bonding capacity. The best option so far is the possibility of the sales tax to support statewide bonds. Mr. Tindle expressed concern that there are no standards for classrooms and would like to see some point of attachment between physical standards and student achievement. In response to committee questions about the possibility of a substantial private donation that the district might receive if it can match the gift, Mr. Tindle stated that a tax credit for the donation would be extremely helpful. He believes that if standards were created they could not be retroactively applied to existing classrooms, and he expressed concern that if standards were created and districts did not meet them, that lack of state support could become an issue for litigation.

Jerry Voss, teacher in the Lee's Summit R-7 District; President-Elect of the Missouri State Teachers Association.

In Lee's Summit, rapid growth puts a huge strain on the buildings. The district has the dubious distinction of having the state's biggest high school. The district has 30 portable classrooms, but its patrons may be getting tired of being approached over and over again to raise their property taxes. Mr. Voss participated in a meeting of education stakeholders at University of Missouri-Columbia in August of this year on the topic of school finance and reported that a draft of the

meeting's recommendations had included the incorporation of state support for building in the overall education funding system.

Dr. Dan Colgan, Superintendent, St. Joseph District.

On its third try, St. Joe passed a \$36 million bond issue, but based on the district's need survey, at least \$50 million more is required. The district's buildings are old, but they are in good repair. However, buildings that are 70+ years old require constant maintenance and are expensive to update. Last year's bills split funds between new construction and renovation, which would be necessary for any such bill to work. Dr. Colgan referred to state funding as "seed money," saying that it would strengthen the position of any district seeking to pass a bond issue. Rightly or wrongly, patrons frequently view property tax as unfair, so districts need all the funding options they can get. St. Joe has a substantial education foundation, but its moneys go to fund ideas developed by teachers rather than for building. He also cautioned the committee about tying building funds to student achievement. Three states have recently been ordered by the courts to provide equity in capital funding.

Erik Froehlich, Exelon Corporation.

Mr. Froehlich spoke on the issue of performance contracting, which is supported under Missouri Statute through 10-year low interest loans from the Department of Natural Resources. Savings are used for debt service and are guaranteed by the company that performs the work. Typical projects involve lighting, insulation, roofs, doors, windows, heating/air conditioning, and, increasingly, security. ADA considerations do not fall under the current statute. He suggested a few changes to the existing law: longer payback periods and broader use categories.

Sonja Wald, patron, Lee's Summit.

Lee's Summit recently completed a community survey that ranked education as the city's top issue. Ms. Wald detailed the development of the voluntary developer's fee program and urged the committee to make as many options as possible available to districts for alternative sources of funding, including a real estate transfer fee. That option would be particularly useful for Lee's Summit, because schools in older neighborhoods are not experiencing any dropoff in enrollment. When homes in these older neighborhoods change owners, the new owners also have children.

Janis Duke, patron, Lee's Summit.

The build-out prediction for Lee's Summit sees a near-doubling of the city's population by 2020. Thus, the city's current growth spurt doesn't show any signs of abating soon. Ms. Duke reviewed for the committee how the city has improved its relationship with the school district, especially in the platting and development process. The district now gets involved much earlier, and the city is working with the district to make sure that development regulations make sense for schools (for example, the number of required trees may hamper open space for sports unless creative solutions are found).

Dr. Marvin Headley, retired school superintendent.

Dr. Headley spoke of his experiences in visiting smaller districts and reminded the committee

that most districts have less than 1000 students. Putting off required maintenance because of lack of funding can create maintenance nightmares down the line. Capital funding must be equalized.

The committee received an Education Commission of the States print-out of school litigation, with capital-related cases marked, courtesy of the Missouri School Administrators Association.

DeSoto High School, DeSoto
7:00 p.m. November 15, 2001

Chairman Franklin convened the hearing and explained the charge of the committee to the members of the audience.

Dr. Wallace Stiles, Superintendent, Hillsboro R-3.

Dr. Stiles presented a one-cent sales tax plan based on Prop C, to be distributed per-pupil, with the requirement that a district would have to use the money first to make debt service payments and roll back its levy, then to pay off lease-purchases, and take one-fourth of the remaining moneys to be the basis of a construction savings account. Even though sales tax is regressive, people feel they can control their spending more than they can control property tax. In response to committee questions about equity in relation to a per-pupil distribution, Dr. Stiles replied that equity was not his primary focus in creating the idea; he was more concerned with property tax relief and what new funding source people would support. He didn't see the volatility of the sales tax as a problem; while a local option income tax would work in many districts, in smaller districts it would not provide much money.

Jeff Russell, member, DeSoto 73 School Board.

Mr. Russell's major concern was with the simple majority for bond issues, especially in light of the district's inability to pass a bond issue in recent years. He mentioned that the constant need to find capital funding could be a distraction that prevents local school boards from focusing on student achievement. He believes that the education community will need to explain better the relationship of gaming moneys and general revenue to the funding of the foundation formula before people would accept another new tax, and he cautioned about withdrawing gaming funds from the formula, even though the temptation to direct the money where it can be more easily tracked is strong. He believes that a state match for local funds would be well accepted.

Dr. Gregory Wilson, Superintendent, Washington.

Washington is a hold-harmless district. Because Dr. Wilson has worked in smaller districts, he spoke of how the limit on bonded indebtedness restricts options for districts that have low assessed valuation. He also explained how capital expenditures frequently mean larger operational expenditures, such as support staff and utilities, for which it is sometimes difficult to get patron support. He supports a certificate of value. In response to committee questions, he stated that he could envision a state offering of revenue bonds on which districts could pay

interest; other sorts of financial arrangements should be pursued to create a capital projects pool rather than using the standard solutions of a sales tax or gaming moneys.

Dr. Jere Hochman, Superintendent, Parkway C-2.

Dr. Hochman told the committee that the purpose of his testimony was to illustrate the variety of issues that districts have to deal with in capital funding, rather than to ask for more help for his own district. His district is considered to have a model ADA and asbestos plan; each of the 29 buildings in the district has a thick binder of plans and requirements. However the district doesn't have the money needed to implement the plans fully. The two factors Dr. Hochman cited as particularly troublesome are demographic shifts and physical emergencies; his district had a \$15 million bill for asbestos and mold that they were able to meet because they had budgeted a contingency fund. He also believes that districts get mixed messages from state and local authorities on how vigorously they should pursue environmental and safety issues. He stressed the need for regulatory relief. He would like to see gaming or tobacco moneys go directly to health and safety issues. He also believes that elected assessors, who have a tendency to keep assessed values low, may be contributing to a larger draw on the funding formula, which then reduces the availability of funds for other districts. In response to committee questions, he replied that equity needs to be the key consideration in capital funding and that the cost of education and cost of building need to be figured into calculations of need. Any priority list of districts eligible for funding should take emergencies into consideration.

Dr. Jane Reed, Area Superintendent, Mehlville R-IX.

Mehlville is a hold-harmless district that last year passed a 49-cent increase to support \$68 million of facilities improvements, of which \$9 million will be for technology. The district's need survey showed two times what the bond issue was for, so there is still plenty of unmet capital need in the district. She expressed concern that there was growing patron resentment about the lack of additional state funding in hold-harmless districts.

Dr. Chris Wright, Superintendent, Riverview Gardens.

Dr. Wright demonstrated that the increase in assessed valuation in her district has not kept pace with the increase in the pupil count. The district now has the state's highest levy. They have built new buildings but haven't been able to renovate, for which they have about \$70 million in unmet need. Although she doesn't like the sales tax because it is regressive, she recognizes that it is the most likely form of tax to meet with voter approval. She believes that the \$150 million per year figure that springs from the one-quarter cent sales tax is certainly much too low to be effective. She worries that continuing to defer maintenance will result in a much higher cost eventually.

Scott Sifton, member, Affton 101 School Board.

Affton has had three bond issues fail in recent years by margins as slim as 30 votes. Through an increased operating levy, the district has made \$12 million in improvements but has \$42 million in need. This district has a very high concentration of retired people, who have about reached their limit on support of property tax increases, as well as a relatively high number of non-

English-speaking refugees. He would like to see any capital program indexed to inflation and to include a factor for cost of education. He believes the spread of matching percentages should be narrower. He would like to see a per-pupil distribution of gaming moneys. In response to a question about potential support for a simple majority limited to the November election, he responded, "we'll take anything we can get."

Dr. Vern Moore, Superintendent, University City.

The district's average building age is over 60 years. The district recently passed a 75-cent increase that went for teacher salaries, so Dr. Moore believes that an increase for capital purposes would be unlikely anytime soon. In response to a question about the cost of building in his district, Dr. Moore cited \$25 to \$27 per hour as the going rate for carpenters.

Dr. John Oldani, Executive Director, Cooperating School Districts of greater St. Louis.

St. Louis County is on the verge of a tax revolt. While voters may agree to a sales tax as a source for school funding, it won't solve all building problems. It's a beginning, and districts need a beginning because they're at a crisis point. In response to a question about the wisdom of combining schools with roads as a sales-tax package, Dr. Oldani replied that most superintendents would support anything they thought the voters would approve. Combining with roads might well sway voters who do not normally support school issues. He believes that the income tax is the fairest tax, but the issue of adequacy will become the overriding issue in school funding. He favors distribution of funds based on need, rather than per-pupil, with some consideration for emergencies. He also believes that impact fees could help.

Cabool Middle School, Cabool

7:00 p.m. November 20, 2001

Chairman Franklin introduced former Representative Jim Montgomery who was in the audience and explained the committee's charge.

Dr. Stephen Kleinsmith, Superintendent, Nixa R-II District and member of Missouri Association of School Administrators (MASA) committee.

Dr. Kleinsmith introduced Jim McCauly, board member, Rich Jones, director of buildings, Peggy Preston, teacher, and Becky Glenn, education director, from his district. Dr. Kleinsmith believes that the current moment presents an opportunity for Missouri to show visionary leadership in capital funding for schools. In response to committee questions regarding the inevitability of strings attached to funds that are not local funds, Dr. Kleinsmith replied that the strings have to be there to ensure accountability. He agrees with those who say that the state may be courting litigation on its lack of capital funding and encouraged the committee to review what works and what doesn't and stop funding what doesn't work. Although he agrees that developers would react badly to impact fees, his district has discussed them. His district hits its bonding limit every other year, regularly.

Dr. Dennis Cooper, Superintendent, Bolivar R-I District, and MASA executive board.

Dr. Cooper has been a superintendent for 21 years and believes the last several years have been very good ones because the schools now have the resources they need for classroom instruction; however, they lack capital funds. He advocates looking at a roads/school infrastructure combination. In response to a question on whether raising the bonding limit might affect equity, he replied that unless capital funds are made available to all districts, all children will suffer, which is a sort of negative equity that nobody wants to endorse. He would like to see any new moneys kept as a separate pot. Responding to a warning about tying education's fate to transportation's fate at the ballot box, Dr. Cooper said he thought the education community would support any vehicle they thought likely to be successful, even in the face of warnings that it could fracture the General Assembly. He believes that diluting current education funding streams by diverting growth in them to capital funding might be dangerous as well.

Mike Wood, Missouri State Teachers Association.

While the teacher is always first for MSTA, the educational environment is next in importance. MSTA has supported efforts for federal and state matching funds; they support standards for building adequacy. Mr. Wood noted that various permutations on gaming revenues are perennially popular funding sources for many constituencies. He did not know if the Farm Bureau or the Chamber of Commerce would support a roads/school package. In response to a question on where Missouri ranks in terms of relative wealth and education expenditures, especially on teacher salaries, he replied that Missouri ranks below average but the state's pupil-teacher ratio is very favorable. He hoped to be able to go to the voters with a package larger than just capital funding, that could potentially include teacher salaries and transportation costs.

Dr. Don Hamby, Superintendent, Willow Springs R-IV District.

Dr. Hamby remarked that in a small district such as his, with low assessed valuation, even a 25% bonding lid wouldn't permit the sort of building needed. His district has done much through lease-purchase; his district has high balances that it can't use as it would like, although legislation passed this year will help in the future. He was wary about using the balances to support higher teacher salaries for fear that the district could not maintain the higher salary.

Rowena Conklin, Cooperating School Districts of Greater Kansas City.

Mrs. Conklin replied to several questions that had been asked of previous witnesses. When the bonding capacity limit was raised in 1998, the education community was surprised at the pent-up demand. She recommended if the limit was raised again, that it be raised to 25%. She pointed out that local option sales taxes would receive some opposition from counties, but that local option income taxes may be workable. The change in the forfeiture law this year will not funnel enough money in to the building fund to meet demand. The first priority on its use will be districts with replacement costs in excess of insurance. She would recommend bonding \$1 or 1.5 billion with any sales tax moneys as a means of jump starting the economy and meeting pent-up demand. She warned the committee that Dr. Craig Wood, who had testified that day before the Joint Interim Committee on Education Funding, had made a point about how any definition of adequacy demanded that funding follow immediately: If you define it, you must fund it. Mrs.

Conklin also traced the bonding limit back to bad experiences Missouri taxpayers had with bonds issued by railroads that then went bankrupt and left property owners to pay them off. She encouraged committee members to think creatively about solutions, such as administrative consolidation that would let small districts retain their buildings but realize economies of scale in management.

Dr. Gary Sharpe, Executive Director, Missouri Coalition of School Administrators.

Dr. Sharpe attended a transportation meeting last week at which the possibility of a roads/school package was discussed. He wants to be sure that education does not miss any opportunity that a sales tax/bond issuance campaign might offer for capital funding. He agreed that the burden of reassessment has fallen on residential taxpayers, and he raised the possibility of finding more revenue sources rather than cutting programs because he believes that schools are already fairly efficient.

Jim Montgomery, resident of Cabool.

Mr. Montgomery supported Prop C and SB 380 when he was in the House of Representatives. He alluded to the possibility of asking veterans' groups to let education have more of the gaming moneys.

Appendix 2. State Support of School Capital Needs in Surrounding States

State	State facilities funding allocation	Source of state funds	Description
Arkansas	\$10 million ----- FY 94: \$4.7 million		Small (\$22m) revolving loan fund established 1951 Newer program covers repair (based on financial need), construction (based on enrollment growth), and debt service
Illinois	\$1.1 billion over 5 years + \$125 million for upkeep over 3-5 years; \$290 million appropriated ----- FY 94: No state assistance	General obligation bonds	School construction law created in 1997 to provide grants. Eligibility based on enrollment and local property wealth. State provides 35 to 75% of eligible construction costs
Iowa	\$50 million over 3 years ----- FY 94: No state assistance	General obligation bonds repaid by gaming revenues	Part of an overall infrastructure bonding program ("Vision Iowa"—\$190 million) enacted in 2000. Priority is given to districts that do not have a local option sales tax
Kansas	\$27 million ----- FY 94: \$7 million		Districts receive debt service funding, based on ability to pay
Kentucky	(1) \$60 million (2) \$0-20 million (3) \$47 million ----- FY 94: \$66 million	General revenue	(1) \$100 per student for capital outlay provided through funding formula (2) School Facilities Construction Commission appropriates funding on basis of proportion of all unmet facility needs in state (3) State equalizes \$0.05 levy to 150% of statewide average per pupil assessment
Nebraska	No state assistance		
Oklahoma	No state assistance		Tobacco money (\$100 million) will finance some technology infrastructure projects through statewide bond issue Local bond approval must be by 60%
Tennessee	\$165 million allocated out of \$330 million generated ----- FY 94: No data	Primarily state sales tax	State funds 50% of total statewide need; district contributes based on its fiscal capacity Some funding delivered through basic aid formula through nonclassroom component, which districts may use for capital or not District bond issues not subject to voter approval

Sources: June 14, 2000: Education Policy Studies Division, National Governors' Association, "Building America's Schools: State Efforts to Address School Facility Needs";

April 1998, updated 2000: Education Commission of the States, "Making Better Decisions about Funding School Facilities"

1998: Education Commission of the States, "State Policies for School Facilities"

June 1996: GAO Report, "School Facilities: Profiles of School Condition by State"

Some items have not been confirmed as correct/complete

