

# Proposed Housing Aid Incentive Structure

For Discussion 11/14/17

# Agenda

- Principles for an incentive structure
- Proposed scoring methodology
- Proposed incentives and penalties
- Discussion

# Recap from Prior Meetings

- Current rate of school facilities spending not enough to keep up with deteriorating buildings
  - Under current rate of spending, total need grows from \$2.2 billion to \$2.9 billion over 10 years
- Current rate of spending not enough to meet priority 1 and 2 needs (warm, safe and dry)
- Spending more under existing system is costly and inefficient
  - Too much spent on municipal debt interest, not enough funding flows to projects
- Even if state can afford to spend more, no guarantee that municipalities will request enough projects
  - To achieve \$1 billion of project spending over 5 years and \$2.5 billion over 10 years, municipalities would need to request \$300 – 400 million worth of projects for 3-4 years. There has never been a year with more than \$265 million of project requests.



# Benefits of an Incentive System

- Adding incentives to the state share formula can:
  - Encourage districts to invest in more school facilities projects
  - Encourage districts to move quickly (if incentives have an expiration date)
  - Encourage districts to prioritize the most important types of projects and spend resources efficiently

# Current Housing Aid Formula

- State share formula is based on a formula that accounts for a school district's wealth and level of enrollment
- Minimum state share for all communities set at 35%
- State share for charter schools set at 30%

# Principles for State Share Reimbursement Incentives

- Incentives must be attractive enough to motivate districts to request more approvals, but must also expire after a period of time
- Incentives should emphasize investment in high-priority projects, including those that make facilities warm, safe and dry
- Incentives should promote cost-effective decision making by districts
- The incentive structure should be simple and easy to understand
- No district can be worse off than they are under the current system

# Possible Incentive Structure

- Formula for base state share ratios remains the same as it is today
- New “incentive” points will be added to the state share for certain types of projects.
- A district cannot receive more than a total of 20 incentive points for a project.
- With the addition of incentive points, under no circumstance can a district’s regular municipal share be reduced by more than 50%.
  - Necessary to avoid the state paying for 100% of a project

# Possible Incentive Structure (Examples)

- Community A with 40% base share ratio receives 15 bonus points on a project: total state share increases to 55%
- Community B with 85% share ratio receives 15 bonus points on a project: because no community's municipal share can be reduced by more than half, the total state share for this project increases to 92.5%

# Possible Incentives

- Warm, Safe and Dry
  - Maximum number of points: 5
  - Projects must directly address priority 1 or 2 deficiencies
  - Districts must apply no later than October 2020 and project must commence no later than December 2022
- Learning Priorities
  - Maximum number of points: 5
  - Facilities must be used for the following:
    - Teaching of science, technology, engineering, arts or math
    - Early childhood education
    - Career and technical education
  - Districts must apply no later than October 2020 and project must commence no later than December 2022

# Proposed Incentives (continued)

- Newer and Fewer
  - Maximum number of points: 5 for each consolidated facility
  - Definition:
    - Newer: Replacement of a facility with a Facilities Condition Index (FCI) of higher than 65%
    - Fewer: Construction or consolidation of any facility that leads to the functional utilization of one or more building increasing from less than 60% to more than 80%
  - Districts must apply no later than October 2021 and project must commence no later than December 2023
  - In addition, institute a 5 point penalty for P3-P5 projects at facilities with FCI scores greater than 65%

**Facilities Condition Index:** *indicator of a building's health, calculated by dividing the total cost of repair by replacement cost.*

**Functional utilization:** *a measure of how full a school facility is relative to its intended capacity*

# Proposed Incentives (continued)

- Reducing Overcrowding
  - Maximum number of points: 5
  - Definition: Any new construction or renovation that leads to the functional utilization of a school dropping from more than 120% to between 85% and 105%
  - Districts must apply no later than October 2021 and project must commence no later than December 2023
- Energy Efficiency, ADA, Asbestos Abatement:
  - Continue existing incentive where districts can be awarded up to 4 points for projects that achieve energy efficiency targets, address accessibility issues and/or remove hazardous materials

# Additional Options

- The following priority areas identified by the task force can be addressed by adding share ratio incentives, or it could be possible to address them through other measures:
  - Incentivize or Require Districts to spend an adequate amount on maintenance of facilities
    - Could also be accomplished allowing state to withhold future housing aid funding if a district has not spent an adequate amount on maintenance.
  - Encouraging use of W/MBE contractors
    - Could also be accomplished by establishing state MPAs or prequalification, or establishing a program to assist contractors with bonding
  - Promoting the use of school facilities for other appropriate community purposes
    - Could also be accomplished by relaxing statutory restrictions on state housing aid for school buildings that are operated jointly with other entities
  - Encouraging use of state MPAs or prequalification of vendors

# Discussion