How Do States Fund School Facilities?

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Construction and maintenance of school facilities are big cost drivers for schools, and the quality of school facilities can make a difference in student learning and health. Notably, school building construction is the second-highest capital expenditure of state and local funds, trailing only investments in infrastructure like roads.[1] Ensuring access to safe, modern learning environments for all students is a critical and often overlooked aspect of school funding policy at the state level. But a 2021 analysis estimates an annual shortfall of $85 billion in school facilities funding and recommends districts nearly double their spending on maintenance, operations, and capital construction.[2]

Key Terms

- **Capital funding** refers exclusively to funding used to expand or renovate a building, purchase major equipment, or construct a new facility.
- **Facilities funding** includes both capital funding and regular operations/maintenance funding.

The Importance of School Facilities for Student Equity

Numerous studies support the connection between school facilities and students' academic achievement and well-being.[3] For example, enhancements in indoor air quality and measures to protect against lead exposure have both been shown to significantly boost students' academic performance and attendance.[4]

Marginalized students and communities are less likely to have access to high-quality school facilities. Schools that serve low-income students often contend with substandard building conditions, including the use of temporary structures, which can detrimentally affect student achievement and contribute to chronic absenteeism.[5] Moreover, students of color, particularly Black and Latino students, are disproportionately concentrated in high-poverty schools that receive low levels of capital investments.[6] Rural communities also struggle with low levels of per-pupil facilities funding relative to urban and suburban areas, regardless of their income level.[7]

Looking forward, facilities gaps may worsen amid national trends toward enrollment decline, as districts facing school closures, consolidation, or budgetary shortfalls might delay facilities investments.[8]

Local Roles in Capital Funding

Local school districts shoulder the primary responsibility for financing school capital projects, covering 77% of the costs from fiscal year 2009 to 2019.[9] This is a much bigger share than the local revenue portion of general operating expenditures: about 45% nationally.[10] Additional local revenue for capital projects is often generated in the form of a bond or a levy.[11]

- **Bonds** are essentially loans issued by government entities to investors and paid back over time with interest.[12] Bonds are often used by school districts for school construction or major upgrades. Districts typically pay back the bond and interest with higher taxes. For this reason, a large majority of states require that voters approve local bonds before a school district takes on this debt.[13]

- **Levies** are short-term local property taxes approved by voters within a school district. They generate additional revenue for the district, allowing it to fund programs and services that may not be fully covered by the state's education funding, particularly those considered beyond the scope of "basic education," such as technology improvements, transportation, or enrichment.

The disproportionate reliance on local funding sources and local voter approval for facilities maintenance and capital projects can exacerbate disparities between wealthy and less-wealthy districts, often leading to unequal access to well-maintained and modern school facilities.

States' Differing Approaches to Facilities Funding

There is considerable variation in how states fund school facilities and capital projects. Not all states have dedicated funding mechanisms for these purposes: some integrate assumptions about maintenance into their base cost and/or exclusively rely on local bonds for larger capital projects. On the other hand, even in states with primarily weighted, student-based funding formulas, many still set aside programmatic funds or employ other policy vehicles to support the construction and maintenance of facilities separate from their primary funding formula.

As highlighted in Education Commission of the States' recent "50-State Comparison: K-12 School Construction Funding," 90% of states offer some financial assistance to school districts for construction costs.[14] This can take the form of the following:

- **Appropriations**, or dedicated state aid in the form of programmatic grants or reimbursements sent to school districts to pay for up-front planning or construction costs or for payments on locally issued bonds. *(38 states)*

- **Financing**, or state assistance provided to districts in the form of debt assistance or loans. Debt assistance can be provided by a state or state-authorized entity by issuing bonds or by guaranteeing or offering credit enhancements to locally issued bonds. In this case, the state does require full or partial repayment from districts. *(35 states and Washington, D.C.)*

- **Revenue**, or designated state income sources — like sales taxes or lottery revenue — that are used to support school construction expenditures. *(19 states)*

Advocates and policymakers should examine how the funding mechanisms in their state answer districts' facilities needs and work in the context of the overall school finance system. For example, financing assistance might be most helpful for new school construction or big renovations. However, if the greater need is for day-to-day maintenance or smaller-scale projects, then widespread upgrades, a dedicated maintenance and operations funding stream, and/or increases to the base student cost might be more appropriate.[15]

Across all these policy options, state advocates and policymakers should view facilities funding through a lens of student and taxpayer equity. In states that rely heavily or exclusively on local financing, lower-wealth, high-poverty districts may be forced to take on a greater proportional tax burden via high-interest rate bonds to make necessary investments in safe, modern facilities. State policy can play an important role in balancing the scales.[16]

Charter School Facilities

Charter schools operate in a vastly different facilities-funding landscape than traditional school districts because they cannot levy taxes or issue bonds to pay for facilities construction (though rules about access to local revenue for general operating funds vary by state).[17] States attempting to alleviate this challenge typically do so through one of three mechanisms: providing an additional per-pupil funding allocation to charter schools specifically for facilities costs, giving charter schools the right of first refusal on or low- or no-cost access to vacant school buildings, or creating debt reserve or bond programs to lower charter schools' borrowing costs.[18] Even with one or more of these mechanisms in place, many charter schools must rent space on the commercial market or finance the construction of schools with traditional loans.[19] Combined with lower per-pupil funding in general, facilities costs are a major challenge for charter school finances.

Questions for Advocates

- *What do you know about the quality of school facilities in your state? Which students are more likely to have access to high-quality facilities?*
- *What proportion of funds for capital projects are locally generated from bonds or local tax revenue?*
- *Does your state have dedicated funding or revenue sources for facilities maintenance and/or school construction? If not, are facilities costs considered as part of the base cost?*
- *What options are available to districts and charter schools in your state seeking financial assistance with a facilities project?*
- *How does your state support districts with lower property wealth to maintain and invest in high-quality facilities?*

Endnotes

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About Bellwether

Bellwether is a national nonprofit that exists to transform education to ensure systemically marginalized young people achieve outcomes that lead to fulfilling lives and flourishing communities. Founded in 2010, we work hand in hand with education leaders and organizations to accelerate their impact, inform and influence policy and program design, and share what we learn along the way. For more, visit **bellwether.org**.

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Splitting the Bill is a crash course in the essentials of school finance equity for advocates and others interested in reforming state education finance systems. Learn more and read the other briefs in this series here.