By Rick Manoloff

Capital Planning Ponderables

How much does your Board spend each year to maintain, renovate and repair your school district's buildings and facilities? How much *should* it spend?

Has your Board dedicated a revenue stream for this purpose? *Should* it?

Our great state has done a great job of improving the state of K-12 buildings and facilities over the last 20 years through the programs of what is now the Ohio Facilities Construction Commission. Outside of Commission programs, school districts (like my own in Rocky River) have successfully undertaken large capital improvement projects. These improvements benefit students in numerous ways, from providing better safety and security, to creating a healthier atmosphere, to establishing an environment more conducive to learning.

But after the ribbon is cut on a shiny new investment, there is an ongoing cost of keeping its component parts functional throughout their useful lives, renovating aspects of the project at the end of their useful lives, and fixing things that break unexpectedly along the way. The state recognizes this and requires school districts participating in co-funded programs to set aside 0.5 mills each year for 23 years in a maintenance (034) fund. That is something, and it is more than many school districts set aside on their own, but is it enough? And is the basis for the set-aside (namely, a fraction of assessed valuation) the best basis?

Research papers have been written on the subject. For example, at a recent Board meeting in Chagrin Falls, I was introduced to a discussion-provoking research paper authored by M. Bello and V. Loftness at Carnegie Mellon entitled, "Addressing Inadequate Investment in School Facility Maintenance." In a word, the authors set forth a facilities maintenance annual budgeting guideline of 2% of the value of a school district's capital plant, with further refinements on how best to value the capital plant for this purpose. They also tack on a formula to account for "backlog" maintenance, and note that none of this accounts for staffing costs, custodial work, utilities, etc.

Independent of the amount of and basis for the optimal annual maintenance allocation, the question of what is affordable looms large. School district resources are not unlimited. A dollar spent on resurfacing a parking lot is a dollar not spent on direct instruction of students. And taxpayers are not necessarily willing to open their checkbooks to all school district requests for new revenue. So fiscal and political realities may forestall attempts at ideal stewardship of a school district's physical plant.

That said, another reality is that insufficient budget allocations for maintenance of buildings and facilities—"deferred maintenance"—is ultimately more costly to taxpayers. It is like deferring an oil change on a car for too long, leading to expensive engine damage. Thus, a school district's financial plans ought to include striving for optimal maintenance budgeting.

Beyond the issue of how much revenue ought to be budgeted to maintain, renovate and repair a school district's capital plant is the issue of whether such revenue ought to be restricted in some way for that purpose (and/or to otherwise improve the capital plant). There are different schools of thought, so to speak, on that issue.

One approach is to seek maximum flexibility in the use of all revenue. If all permanent improvement expenditures are flowing directly from the General Fund, money can be readily siphoned off to fund a new initiative or contend with a levy failure. On the flip side, General Fund money is "up for grabs" for all authorized uses, which can

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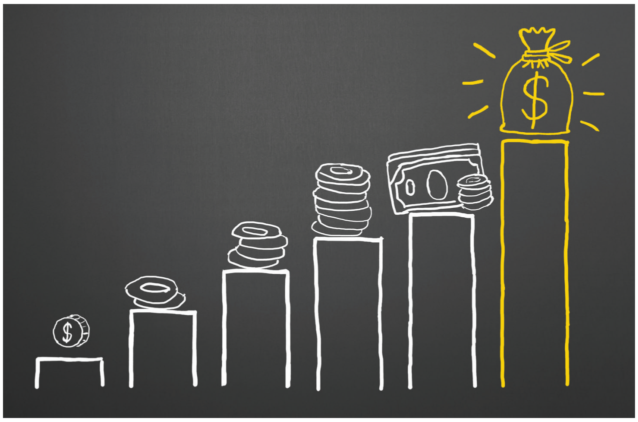

strain a commitment to optimally budget for the upkeep of buildings and facilities, leading to deferred maintenance.

Another approach is to seek voter approval of a permanent improvement levy and/or move a certain amount of inside millage from current expenses to permanent improvements. Opting for the lack of flexibility in the use of permanent improvement tax revenue is purposeful here—it demonstrates a commitment to a school district's facilities plan. And such a dedicated revenue stream may also result in financing opportunities for significant projects.

The Ohio Revised Code also provides another option for dedicating revenue to the capital plant, namely, the creation of a "capital projects fund" (070) into which a Board can move money for the acquisition, construction or improvement of fixed assets. The Board can later "rescind" the fund, at which time any money in the fund is to be transferred back to the fund whence it came.

There is a significant cost to maintaining school buildings and facilities—and a greater cost to not maintaining them.

While school business officials do not make the final call on how the resources are allocated to that purpose, they can play a critical role by seeking to understand and inform their Boards as to the optimal allocation, and by teeing up options and considerations in the implementation of a capital plan.

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