



May 2022

SNAPSHOT

Capital Spending for Local School Districts

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Spending for public school capital projects totaled an estimated \$1.7 billion in fiscal year 2019-20, including spending on current projects that year and the debt payments due for previous years' projects. This project spending is primarily for building education facilities, including any necessary land purchases and major additions and renovations. The projects are typically financed through long-term debt, like bonds. The payment of principal and interest due on those debts is the bulk of the debt service spending. When additional spending for capital equipment (having a useful life of more than one year) and facility spending from operating funds (referred to as regular capital outlay, and which does not involve debt financing) is added, total capital spending on public schools in 2019-20 was an estimated \$2 billion.

The bulk of capital education costs are paid from local dollars, and city and county governments are major funders, as well as the school districts themselves. Total expenditures for education capital projects in fiscal year 2019-20 shift upward from the \$509.5 million reported by districts alone to a range of \$929 million to \$1.12 billion when local government expenditures are included. Debt service spending totals shift up from the \$266 million reported by districts to between \$685 million and \$693 million when local government spending is included. The majority of funding for this capital spending comes from local sources, including bonds and notes, adequate facilities taxes, and dedicated property taxes.

The state provides revenues for capital spending primarily through the capital outlay component of the Basic Education Program (BEP). In fiscal year 2019-20, district-only capital project spending and debt service totaled \$776 million, and the state dollars contributed from the BEP capital component were \$406 million, or about 52 percent of those district expenditures. In 2019-20, the BEP formula also provided \$67 million in state funding for equipment and \$30 million in state funding for technology, both of which could be used to fund capital spending. Outside of the BEP, the state provided \$23 million in additional funds for high-growth districts in 2019-20 that could be used for capital spending.

In Tennessee, most school districts are not allowed to issue debt or borrow money; they must work with their local governments to initiate and complete major capital projects. OREA's review of funding and payment arrangements between districts and their local governments found a variety of ways that districts and local governments split the costs of capital projects and debt payments. Because these arrangements may change from project to project, reviewing only a school district's capital spending does not necessarily provide a full picture of total education capital spending.

More students, especially a large or continuous influx of new students, is a significant driver of increases in capital spending as the demand for more space prompts the construction of new schools and additions to existing buildings. Challenges for growing districts include developing strategies to serve students in crowded schools, meeting the costs of adding school capacity while keeping up with existing maintenance needs and negotiating with local government funders. Other drivers of capital spending are unrelated to the size of the student population, however. A leaking roof needs repair or replacement regardless of whether student enrollment is increasing.

To read the report, visit the Comptroller's OREA website at tncot.cc/orea.