
School Construction

by Sara Mead

Too many of America's children attend school in overcrowded and even unsafe conditions. According to the National Center for Education Statistics (NCES), nearly \$127 billion in repairs and renovations are needed to upgrade our nation's schools to good condition. Over the next decade, billions more will be needed to accommodate growing enrollments and remedy the overcrowding that hampers one-quarter of our schools. States and localities are struggling to meet the challenge of providing safe, decent facilities for their students. As a result, parents, educators, and state and local governments are increasingly turning to Washington for help meeting this challenge.

Obviously, none of this independently dictates that the federal government should intervene. However, the infrastructure challenges faced by schools are massive, the local and state capacity to meet them frequently is insufficient, and the importance of quality education is so paramount that Washington should immediately take action to address this problem. Unfortunately, efforts to do just that have met with little success. Not surprisingly, a typical partisan breakdown has characterized school construction since President Clinton first proposed a large-scale plan to build and renovate schools in 1996. Conservatives argue that there is no federal role in school facilities and that it should remain solely a state and local function. Liberals fall into a "Washington knows best" trap and support needlessly Byzantine proposals that frequently ignore the reality of public school finance. In addition, too many on the right argue that resources are a secondary issue in education and too many on the left counter that they are paramount. Both are wrong. Education is a national priority and responsibility and Washington can play a constructive role that complements and empowers state and local efforts. And, while more resources and modernized schools alone won't solve the serious problems that bedevil educators in this country, they are a key component of better schooling.

Washington should not stand, as conservatives argue, on the sidelines as states and localities wrestle with this challenge; nor should Congress, however, get in the business of giving direct grants to communities to build schools. The reality is that because of the tremendous need, Washington cannot, and should not, single-handedly solve this problem.

The appropriate federal role, as with other areas of education policy, is for Washington to act as a catalyst that sparks local innovation and leverages local capacity. There is a Third Way solution that accomplishes this: state or regional infrastructure banks capitalized by the federal government. Infrastructure banks offer flexibility for states and localities by offering a range of financial services to school districts and schools, including charter schools and small schools, but they are capitalized with federal money to leverage state and local funding. Rep. Ellen Tauscher (D-CA-10) has introduced legislation that allows states and regions to create these banks and provides \$2.5 billion in federal funds to pay for them.

Because the Tauscher bill includes provisions requiring matching funds, it would leverage additional resources at the state and local level. In addition, because the range of services

that these banks can offer is so broad, they will leverage more construction activity than simply giving direct grants or subsidizing interest. Rep. Tauscher's State Infrastructure Banks for Schools Act (H.R. 1851), would establish an appropriate federal role in empowering states and communities to provide safe, adequate school buildings for children. This synthesis offers a route, both substantively and politically, out of the quagmire of the past few years on the school construction issue. This paper examines the policy and political issues that surround school construction and illustrates how infrastructure banks would work to address this challenge.

The Problems Of Overcrowded And Crumbling Schools Are Real

According to NCES, one in five schools is in less than adequate condition, failing to meet building or safety codes and in need of extensive repairs, renovations and maintenance. Nationwide, 3.5 million children attend schools that are in poor condition or need to be replaced.¹ NCES also found that the average age of public school buildings in the United States is 40 years old, an age at which they begin to deteriorate rapidly and frequent repairs are necessary.²

Decrepit buildings are far more common in schools that serve the highest concentrations of disadvantaged and minority students.³ Reports abound of dangerous and truly squalid conditions. For example, the highly publicized collapse last October of the gymnasium roof at Cleveland's East High School spurred the creation of a commission that reported to the Cleveland Board of Education on the "deplorable conditions" in the district's schools, including freezing-cold classrooms and others greatly overheated, leaking ceilings and roofs, windows held together with masking tape, inadequate lighting, disgusting bathroom facilities and the like.⁴ Overflowing toilets and vermin-infested cafeterias have played a starring role in a new wave of school finance litigation that asserts that disadvantaged students are not only educationally deprived, but put in physical jeopardy by funding disparities.⁵

While schools attended by disadvantaged children need repair, many relatively well-off suburbs also face the challenge of creating space to accommodate growing student enrollments. The number of children in our nation's schools has grown nearly 15 percent in the past decade, to a record 53 million students this year, but national statistics fail to capture the explosion of growth in many suburban communities and rapidly growing regions.⁶

Communities and States are Expanding Their Efforts, But Many Still Struggle

To respond to this challenge, states and local school districts increased spending on public school construction by 39 percent nationally between 1990-1997. Even though school buildings are primarily funded at the local level, many states have stepped up their role.⁷

The public also seems increasingly convinced of the need to make investments in school buildings. In last November's election, voters in many areas showed strong support for increased school construction, raising sales taxes to pay for additional construction in Arizona, altering a California statute to reduce barriers to local bond issues for school construction, and passing local bond referenda in communities across the country.⁸

Yet even substantial increases in state and local spending have been inadequate to meet the needs created by growing enrollments and aging buildings. Using data collected in 1999, NCES estimates that \$127 billion is needed merely to bring existing school facilities into good physical condition. And this cost does not include the new construction needed to accommodate growing enrollments, or to alleviate the overcrowding reported by one-quarter of schools.⁹

Most new school buildings and major renovations are financed using tax-exempt general obligation bonds issued by the local school district. However, many districts face obstacles to issuing bonds. To curtail increases in property taxes, many communities have placed caps on their ability to issue debt, making it impossible for some districts to use bond financing. Further, school districts cannot issue bonds until they have been approved by voters, and resistance to increased property taxes has made it difficult for many communities to gain voter support. Although no comprehensive registry of local school district bonding activity is kept, reports from 19 states that do keep records of school bond referenda show that in 1998 only 54 percent of school facilities bonds placed before voters in these states were approved.¹⁰

The overcrowding and new construction issues facing many communities are not simply community problems, but the result of national demographic shifts, such as the aging of the baby-boom generation and a population shift to the Sunbelt states that has created massive school-age population growth in states like California, Florida, and Nevada. Los Angeles, for example, will need to build 100 new schools in the next decade, and Florida's Miami-Dade County would need to add one elementary school a month just to keep up with the influx of new residents. Nevada's Clark County, the fastest growing school district in the country, will need to build schools for an additional 150,000 students by 2010.¹¹ Because interstate, and even international, population shifts are major components of this growth, the federal government can play a pivotal role in equalizing the burdens they create for schools in high-growth areas. Such support is in keeping with the federal responsibility to facilitate economic growth, which increasingly depends on a flexible labor force able to respond to changes in demand both by developing new skills and changing geographic location. By easing the transition costs associated with population mobility, including building schools in rapidly growing areas, the federal government helps to create a favorable climate for economic growth.

Current School Facilities Issues Are Fundamentally Connected To Effective School Reform

Those opposed to federal support for school construction have frequently derided it as divorced from the real issues of education reform. During his candidacy, for example, President George Bush chastised Al Gore for discussing “bricks and mortar” instead of other reforms. While new buildings alone will hardly solve the problems that exist in our nation’s most troubled schools, some of the most promising school reform ideas, such as charter schools and small schools, are hindered by the shortage of school facilities.

Charter schools are among the most promising forces revitalizing American education; however, their number is limited by lack of access to facilities. One-third of new charter school operators cite inadequate facilities as a significant challenge to implementing their programs, and 15 percent of all charter school closings are due to problems finding facilities.¹² In most states, charter schools receive only operational funding on a per-student basis, with no additional support for facilities. Therefore, they must pay for facilities out of operational funds, squeezing instructional expenditures, which in many states are already lower than the operational funding provided for traditional public schools. Furthermore, due to their brief credit histories, the length of charters, and the increased risk inherent in the competitive charter model, charter schools are generally unable to obtain loans or issue bonds, or can do so only at high interest rates.¹³

Similarly, efforts to improve public schools by providing parents with greater options for their children’s education are hampered by insufficient space in desirable schools. There is growing bipartisan agreement that accountability provisions in federal policy should include measures to provide children in failing schools the option to transfer to other, successful, public schools. However, this option is contingent on the capacity of other local public schools to accommodate additional students from under-performing schools. If public school choice is to succeed, we must decrease overcrowding and increase the capacity of desirable schools, including public charter schools.

While increased competition among public schools can generate school improvement, schools cannot effectively adopt the competitive model that has worked for American business when they lack comparable avenues of access to capital. Successful schools cannot easily expand or be replicated to accommodate increasing demand, and it is difficult for innovative new schools to be launched. Moreover, as the combined problems of overcrowding in successful schools and sub-capacity enrollment in many troubled urban schools demonstrate, resources for school facilities do not effectively respond to changes in demand. This is because the current process of funding school construction is both slow and ill-suited to the needs created by education reform. New, more flexible ways to obtain facilities are needed if public school choice and charter schools are to meet their potential to drive change and deliver quality educations to disadvantaged students trapped in failing schools.

Throughout American history, elementary and secondary education has been primarily a local responsibility, funded by local property taxes -- a system that has resulted in much discussed funding inequities between communities. Those with greater property wealth are able to raise generous funding for local schools while taxing themselves at relatively low rates, while those with less property wealth must levy relatively high tax rates to provide comparable education funding. The inherent unfairness of this system results in widely disparate levels of education funding between lower and higher wealth districts, and the high property tax rates it requires of lower wealth communities have produced a hostility to property taxes for greater investment in education. To address these inequalities, states have increased their role in public education funding, and the federal government has targeted additional funds to disadvantaged students. Ironically, however, while decrepit school facilities played a starring role in many of the lawsuits that impacted state funding systems, increased state and federal spending has gone to day-to-day operations, not capital investments. Local districts remain largely on their own in responding to facilities needs, and the inequities that increased state and federal funding were designed to address remain unchanged with regard to facilities.

The Current School Construction Debate

Already, school construction has emerged as an issue in the 107th Congress, but the debate seems likely to be plagued by the same partisan breakdown that has characterized the issue in years past. In the previous Congress, the school construction debate revolved around proposals to establish tax credit bonds, which would allow states and school districts to issue school construction bonds “interest free” by providing bondholders a federal tax credit in lieu of interest. Such proposals were a part of the Clinton Administration agenda in both 1999 and 2000, and legislation was introduced to advance the concept. While one bill, H.R. 4094, gained support from a majority of the House of Representatives, including a significant number of Republicans, the Republican leadership in both houses strongly opposed an expanded federal role in school construction, and this legislation failed to move through Congress.

As a policy matter, these “interest free” bonds are a less than ideal way for the federal government to support state and local school construction. Nearly half of school construction bonds fail to win the approval of local voters and many communities are simply unable to issue bonds because of property-tax and other fiscal caps. Therefore, basing federal school construction assistance on the ability of local communities to issue bonds effectively precludes many schools from receiving any additional support, including some of those with the greatest needs. The problem for most schools and school districts is not interest, it is capital.

In addition to partisan politics, another primary barrier to school construction is a labor issue rather than an educational issue. Labor unions feel strongly that federal school construction aid should be covered by “Davis-Bacon” provisions, which require workers on

federally supported projects to be paid “prevailing wages,” those paid to a majority of similar workers on similar projects in the local area. Tax expenditures such as those envisioned under the tax-credit proposal are not automatically covered by Davis-Bacon; rather, the provisions must be attached in legislation. Organized labor has a clear interest in attaching Davis-Bacon provisions to any new school construction legislation, not simply to protect wages on covered projects, but also because doing so would expand the application of Davis-Bacon into new areas of policy. Many Democrats, therefore, are unwilling to support school construction proposals that do not include Davis-Bacon. For Republicans, Davis-Bacon expansion is both a pill too big to swallow and a tool with which to block school construction legislation, by entangling it in partisan battles over labor issues. As a result, a stalemate has existed for several years, and, as is all too often the case in education policy, the needs of children are trumped by the competing special interests of adults.

In practical terms, the debate itself is largely irrelevant, since 31 states and a significant number of cities and counties, including some of those with the greatest need for school construction, have their own laws applying prevailing wage laws to state or locally supported school construction projects. Yet any effective federal effort to further support state and local school construction will require policymakers to grapple with Davis-Bacon issues in ways that move beyond stale left-right debates.

One progressive solution to this problem is to apply Davis-Bacon regulations to initial funding used to capitalize regional or state infrastructure banks, but then defer to state and local policy after funds are recycled, because at that point they are state and local funds. There is precedent for this in other areas of federal policy.

Small Initiatives

Despite partisan bickering, President Clinton was successful in establishing two smaller school construction programs. In the FY2001 budget, the Clinton Administration secured more than \$1 billion in new funding for emergency school repairs. While this program provided a symbolic victory for school construction supporters, and the real impact of \$1 billion in emergency repairs to needy schools is far from negligible, it is dwarfed by the \$127 billion need for school repairs nationwide. In addition, the efficacy and efficiency of a large-scale program for school construction, administered from the federal level through grants, is questionable. A longer-term sustainable effort is preferable to ad hoc, short-term initiatives.

A limited version of tax credit bonds was also enacted in 1997 with the Qualified Zone Academy Bonds (QZABs), championed by Congressman Charles Rangel (D-NY-15). Since then, QZABs have made available \$400 million annually in tax credit bonding authority for schools in Empowerment Zones or Enterprise Communities, or where 35 percent of students qualify for reduced-price lunch. To take advantage of the bonds, these schools must also raise at least ten percent of the bond’s value in contributions from private partners. QZABs also differ from the Clinton tax credit bond proposal in that they are not covered by Davis-Bacon provisions. Schools that have been able to use QZABs have

benefited from both the cost savings from the bonds and the required private contributions. However, slow implementation by state educational agencies and unfamiliarity with the tax credit bond concept in the financial community mean that schools must take considerable initiative to access these benefits. As a result, several states have yet to allocate any of their bonding authority, though continued outreach by the Department of Agriculture has accelerated implementation. Although President Bush has been clear about his intention to discontinue the emergency school repairs program, the Bush Administration's 2002 budget extends the QZAB program for an additional year.

A Progressive Federal Role in School Construction and Repair: Infrastructure Banks

There is a national role in ensuring adequate school facilities for all students regardless of where they live. Safe and modern school buildings alone won't improve educational quality; however, their absence is a clear impediment to effective reform. Rather than a top-down, Washington-based program or an abdication of Washington's responsibility in this area, a Third Way solution exists that leverages state and local efforts to address this problem. As we have learned from progressive initiatives in various policy areas, investments that give states, communities, and individuals the ability to meet their responsibilities and solve their own problems are an effective and appropriate federal role. By establishing state or regional infrastructure banks for schools, Washington would capitalize and leverage state and local resources in a way that ensures customization and flexibility for the variety of schools that exist in our diverse communities.

Federal funds would be used to provide the initial capital to these institutions, which would then use the funds to make low-interest loans to schools and districts. Infrastructure banks would also provide other financing or credit enhancement assistance, such as loan guarantees, to enable them to secure financing in the market or obtain lower interest rates. Thus the costs to local taxpayers would be reduced, and communities would be able to do more with limited resources. A flexible array of financing options, such as low or no interest loans, bond financing security, loan guarantees, or credit support for financing projects, would give schools and districts the flexibility to craft options that best meet their needs. As loans were repaid, funds would be used to make new loans; in time the banks would become self-sustaining, continuing to support school construction and repair without an ongoing need for federal assistance.

This strategy has successful precedents in other areas: the Clean Water State Revolving Fund and Drinking Water State Revolving Funds established through the EPA, and State Infrastructure Banks established through the Department of Transportation. Rep. Ellen Tauscher's legislation would allocate \$2.5 billion over five years to capitalize school infrastructure banks, which could be established at the state level or by multi-state consortia. A required non-federal match would enhance these funds, and states could further leverage these resources by issuing bonds, or offering loan guarantees.

School infrastructure banks are the most efficient vehicle to ensure that the following progressive principles are reflected in school infrastructure legislation:

Federal funds should leverage state, local, and private investments. Many communities face obstacles that prevent them from making necessary investments in schools. The federal government can help them to meet their responsibilities by improving access to credit, facilitating the development of financing mechanisms that work for schools, and maximizing the impact of limited state and local funds.

Federal school construction proposals should include a financial commitment to enable them to have a significant impact. There is an unfortunate history of enacting ambitious education proposals but failing to provide the ongoing financial support needed for success. The Title I and IDEA programs are two prominent examples of this problem. Because of their capacity to leverage and recycle funds, school infrastructure banks enable limited federal funds to have an impact that exceeds their size. However, achieving this impact requires an initial federal commitment to invest significant funds. Rep. Tauscher's proposal to allocate \$2.5 billion for the capitalization of infrastructure banks over the next five years is a reasonable, but substantial, federal down payment to improve America's education infrastructure.

Federal programs should allow states and districts flexibility to develop financing strategies that work for them. Because local school construction needs vary, federal support should not be tied to a one-size-fits-all strategy. Rapidly growing communities struggling to keep up with an influx of students may need a different kind of assistance than disadvantaged communities that need to restore schools in disrepair. In addition, state financing systems for education are far from uniform, and many -- though not all -- states provide differing forms of assistance for local school construction. The federal government should not penalize states that have taken the lead in responding to facilities needs by creating inflexible programs that require states to create new bureaucracies to implement them. Instead, federal programs should be flexible so that states can implement them in the manner that best enhances existing efforts.

The federal government should ensure that public charter schools are treated equitably. Federal support for school construction should be crafted with the flexibility to allow charter schools equal access with other schools to federal facilities assistance. Charter schools generally cannot issue bonds, and they pay for facilities out of operating budgets as opposed to a capital fund. A federal pilot program is currently slated to support innovative ways to finance charter school facilities and should produce additional evidence and ideas. For now, flexible financing mechanisms including loans and credit enhancement are necessary to ensure that charter schools can leverage federal dollars to secure facilities. In addition, many school districts may find that these mechanisms benefit them as well.

The federal government should ensure that local school districts have the knowledge to develop new school facilities that are in alignment with educational goals. Because it is not burdened by the demands of running a large school construction program, the Department of Education should sponsor research and buttress resources available from the Department of Education's National Clearinghouse for Education Facilities to help ailing schools. Research, such as that illustrating the positive impact that smaller schools have on student achievement and other outcomes, should be widely available and disseminated. Much of today's school repair crisis is the result of efforts during the 1950s and 1960s to cut school construction costs by using low-quality materials and construction. Federal financial and technical support can help schools avoid repeating this and other costly mistakes. Similarly, forward-thinking designs can accommodate future technological change without great expense. At a time when concerns about energy availability and costs have claimed national attention, and high energy costs are consuming an increasing share of many school budgets, both schools and the nation as a whole can benefit from efforts by school planners to design energy-efficient schools that may to a considerable extent pay for themselves through future savings in operational costs.

States and schools should maximize school construction resources by developing innovative partnerships that leverage private and community resources. Many of the most costly components of schools, such as athletic and arts facilities and technology, are also those offering the greatest benefit to the outside community. Since most schools are in operation for only six to eight hours a day, shared use is a real possibility with the potential to not only make resources available to both groups at a lower cost to each, but also to draw community members into the school and increase community participation and support. Schools should work with community and business groups to this end, and state and federal policy should provide flexibility to create these partnerships.

Conclusion

Today, the demands of a New Economy and a growing awareness of the pernicious effects of low-student achievement and the achievement gap have made education one of America's top priorities. Elected officials at all levels have a responsibility to invest in the future. Adequate facilities are essential to effective education and are a predicate for many successful reform strategies. Infrastructure banks provide a way that Washington can empower states and communities to address school facilities issues efficiently and in a way that respects diverse local needs and wants with regard to schools. Representative Tauscher's State Infrastructure Banks for Schools Act is a real federal investment that would leverage state, local, and private support for school construction and provide struggling communities and schools the flexibility to craft financing strategies suited to their unique needs. With over \$127 billion in repairs needed in our nation's schools, Congress and the President should enact the State Infrastructure Banks for Schools Act to address these needs.

Nearly half a century ago, as America's schools were struggling to cope with the enrollment explosion created by the baby boom generation, President Dwight D. Eisenhower, a Republican, issued the first call for a \$1.1 billion federal program for school construction (the equivalent of \$9 billion in today's dollars). Speaking of federal assistance for school construction, Eisenhower said, "Without impairing in any way the responsibilities of our states, localities, communities, or families, the federal government can and should serve as an effective catalyst in dealing with this problem."¹⁴ Now, as the echo of that first baby boom moves through our schools, the structural needs of new technology increase, and America's schools age, Eisenhower's words resonate with even greater urgency.

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