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Congress, Not the President, Has the Better Plan to Facilitate Public School Construction

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For the third year in a row, President Clinton's proposed annual federal budget includes an expensive new tax credit that would significantly expand federal financing and control of the construction and renovation of public schools. Under current law and practice, state and local governments are responsible for public school construction; in 1999, according to the U.S. Bureau of the Census, they spent $34 billion on public school and university facilities.

Last year's spending by state and local governments was double the just over $16 billion devoted to public education facilities in 1990. Between 1990 and 1999 (adjusting for inflation), public school construction expenditures increased by 60 percent, exceeding the increases in overall economic activity (32 percent in GDP) and student population (10 percent for ages 5 to 19). Between 1997 and 1998, according to an *American School and University* survey, the pace of school construction by state and local governments jumped 23 percent.

Although new school construction has more than matched broad national averages, however, some financially troubled cities have fallen behind, and some faster growing suburban communities have seen the growth of enrollment temporarily exceed available classroom space. Other communities, recognizing that their current enrollment boom reflects a predictable demographic bulge, have chosen to accommodate the temporary increase through less expensive mobile classrooms rather than costly permanent structures that might lie empty in the future. Reflecting the boom-and-bust nature of the school population, the 5-to-19 age group peaked at 60.1 million in 1970, fell to 52.4 million in 1986, and rose again to 58.6 million in 1998. Localized classroom shortages have been misrepresented as evidence that America is faced with a school construction crisis that only federal intervention can solve.

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The President's Plan. Local school systems already receive a federal subsidy that allows them to borrow their construction funds at the lower tax-exempt interest rate—about two-thirds the taxable rate. The President now proposes to reduce this to 0 percent by allowing lenders to receive an annual tax credit for investing in these special federal school loans. He wants $11 billion of such loans in each of the next two years, an amount equal to about a third of all annual public school construction spending; but given the generosity of the program, it is certain to grow in scope as all school districts seek no-interest loans. Moreover, to be eligible for these loans, a school system would have to agree to pay federal prevailing Davis–Bacon wages to construction workers—a costly federal mandate that does not now apply to public school construction.

The Graham–Shaw Plan (S. 526–H.R. 2514). Rather than federalizing school construction, this much less costly proposal, introduced by Senator Bob Graham (D–FL) and Representative Clay Shaw (R–FL), would extend the use of tax-exempt private activity bonds to private investors willing to join public–private partnerships to construct new public schools.

Graham–Shaw would create a nationwide demonstration program for a limited number of investors and developers to use tax-exempt private activity bonds to borrow funds for the construction and ownership of school facilities. The private owners would then lease these facilities on a long-term basis to public school systems, which would operate the schools with their own teachers, administrators, principals, and curricula. This would enable public school systems to achieve potentially large savings because of the cost efficiencies in private development and construction compared with the inefficiencies and delays that often characterize public construction. (See *Backgrounder* No. 1257, "How Public–Private Partnerships Can Facilitate Public School Construction," February 25, 1999, for more detail on these innovative arrangements.)

Experience with this approach in Canada, England, Scotland, and a few school systems in Florida and Texas clearly indicates that such partnerships permit the accelerated construction of public school facilities at significant savings over the traditional process. The Canadian province of Nova Scotia, for example, has built or has contracted to build more than 50 public schools through such partnerships.

Under Graham–Shaw, each state could issue as much as $10 in private activity school bonds for each resident. Virginia, for example, could issue $69 million per year, and California as much as $331 million. By initially limiting each state to a dozen or so public–private partnership schools per year, Congress could foster a national demonstration project to encourage innovative solutions to school shortages at limited risk to taxpayers while maintaining traditional local responsibility for such construction. Once any unexpected start-up problems were resolved, the program could be expanded to allow for significantly more school construction and modernization.

A Fraction of the Cost. The limited cost of the Graham–Shaw proposal is striking when compared with the estimated revenue loss from the Clinton tax credit, which the Administration itself estimates at $2.4 billion over five years. In contrast, the Joint Committee on Taxation estimates that Graham–Shaw would cost $182 million over five years—less than 8 percent of the Clinton plan's $2.4 billion.

Conclusion. The Graham–Shaw school partnerships proposal is a far more desirable way to help local communities help themselves address pressing school construction needs. Rather than establish federal financing and control of such construction, as the President proposes, Graham–Shaw would allow states and local communities to accelerate school construction projects at significant savings by giving the private sector incentives to help meet school facility needs without necessarily encumbering these communities with costly new permanent structures.

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