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CLASSROOM MODERNIZATION BILL PROMOTES UNWARRANTED FEDERAL INTRUSION

RONALD D. UTT, PH.D.

Efforts by the White House and some in Congress to expand the scope of the federal government's involvement in local education decisions took another risky turn in June with the introduction of the Classroom Modernization Act (H.R. 4766) in the House Committee on Education and the Workforce, chaired by Representative William Goodling (R–PA). This bill would create a bureaucratically intensive program to fund public school renovation and charter school construction. Currently, funds for these projects are raised at the state and local levels, largely through the sale of tax-exempt general obligation bonds.

H.R. 4766 is among many bills introduced in response to reports concerning an apparent backlog of activity to fill school renovation and replacement needs. The U.S. General Accounting Office estimates that the backlog of projects will cost $112 billion to fill, while the National Education Association reports that it is closer to $322 billion. However, evidence of public school construction trends reveals that the locally based education system is closing the funding gap and on track to meet the need for more and better classrooms and facilities.

A U.S. Bureau of the Census series entitled "Value of Public Construction Put in Place," for example, reports that state and local governments spent $39.7 billion in 1999 on construction, modernization, and renovation of public education facilities—up 54 percent from $25.8 billion in 1995. Data compiled by American Schools and Universities (ASU) reveal much the same: State and local spending on K–12 school construction skyrocketed in 1998—up 38 percent over 1997; school construction spending in 1999 nearly matched that level, the second largest amount ever recorded.

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Of the amount spent on school facilities in 1999, 31 percent was dedicated to modernization and upgrades (the focus of H.R. 4766). The ASU survey forecasts $75 billion in school construction spending over the 2000–2002 period, with about half of that amount to be spent on modernization and upgrades.

Despite such impressive local gains, by July, at least 50 bills had been introduced in Congress to expand the federal role in public school renovation and construction. Only two appear likely to join the Classroom Modernization Act in attracting serious legislative action: America's Better Classroom Act of 2000 (H.R. 4094), introduced by Representatives Charles Rangel (D–NY) and Nancy Johnson (R–CT), and the Public School Construction Partnership Act (S. 526, H.R. 2514), sponsored respectively by Senator Bob Graham (D–FL) and Representative Clay Shaw (R–FL) and included in the Senate-passed Affordable Education Act (S. 1134).

The Graham–Shaw bill is the most innovative and interesting of the three. It would modify the existing school finance system to allow communities to better tap the resources and creativity of private-sector developers, designers, and financiers. The Rangel–Johnson bill—a modified version of President Clinton's school construction plan in his fiscal year 2000 and 2001 budgets—had 225 co-sponsors as of mid-August. (See "Congress, Not the President, Has the Better Plan to Facilitate Public School Construction," Heritage Foundation *Backgrounder* No. 650, February 11, 2000.)

Costs and Restrictions. Although the bills differ dramatically in cost and scope, the Classroom Modernization Act would be the most expensive. At $7.5 billion over the next five years, it is three times more expensive than the Rangel–Johnson proposal ($2.4 billion in lost revenue over the first five years) and 41 times more costly than the Graham–Shaw plan ($182 million).

H.R. 4766 also would encourage the creation of state bureaucracies to perform services already offered by private financial institutions. Thus, it would interfere with the new but significant interest of the financial community in funding public charter schools. Funding would be limited to renovation, repair, and modernization of existing facilities, and could be used for new construction only if the proposed structure were a charter school. Although states would be responsible for choosing the type of project funding from among the school financing opportunities subject to the bill's guidelines, receipt of federal funds would be contingent upon the state's submitting a plan to the U.S. Department of Education and receiving approval.

Under H.R. 4766, states could spend the federal money in a variety of ways, including grants or loans. They could use the funds to establish state insurance facilities to guarantee the payment of principal and interest on loans for school modernization, construction, and renovation. But this latter provision could result in the creation of more than 50 such bureaucracies just to provide a service already offered by the private sector.

Undermining Private-Sector Interest. At present, at least eight private companies exist to insure state and local bonds and enhance their credit to the AAA level. In recent years, up to two-thirds of state and local general obligation bonds—many issued for schools—have carried such insurance. More important, and reflecting the growing financial market interest in charter schools, Moody's Investor Service announced in November 1999 that it would begin rating bonds issued to finance public charter schools. Over the past year, at least two privately insured bond offerings to finance the construction or renovation of charter schools (in Florida and Arizona) have come to the market with credit enhancement provided by two of these insurers. Clearly, competition from new state-run loan insurance entities would stifle this emerging market and force taxpayers to pay for a redundant effort.

Conclusion. While members of the House Education Committee are to be commended for encouraging the development of public charter schools and for the flexibility their proposal offers school systems, H.R. 4766 is not an effective way to achieve these goals. It could stifle the interest of the private financial market in charter schools that otherwise would propel their construction forward.

A less intrusive, less costly way to promote construction of charter schools is the public–private partnership concept embodied in the Graham–Shaw bill, which would allow tax-exempt private activity bonds to be used for public charter school construction, just as airports, docks, ports, mass transit, high speed rail, and facilities for water, sewage, and hazardous waste are eligible for such bonds and tax subsidies today.

—Ronald D. Utt, Ph.D., is Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.