



Rebuild America's Schools
**MODERN SCHOOLS FOR THE 21ST CENTURY
ECONOMIC STIMULUS POLICY OPTIONS**

“...My economic recovery plan will launch the most sweeping effort to modernize and upgrade school buildings that this country has ever seen. We will repair broken schools, make them energy-efficient, and put new computers in our classrooms. Because to help our children compete in a 21st century economy, we need to send them to 21st century schools.” **President-elect Barack Obama** December 6, 2008

School Modernization Needs Are Critical In Every State

The definitive sources for school infrastructure needs have been the Government Accounting Office study, “School Facilities: The Condition of America’s Schools” (GAO Report HEHS-96-61, 1995-96) saying that \$112 billion is needed just to repair existing schools, the National Center for Education Statistics study “Condition of America’s Public School Facilities:1999 (NCES 2000-032) estimating \$127 billion in unmet need for school construction, and the more comprehensive National Education Association estimate of \$300 billion. These reports are still referenced as statistical documentation of the overwhelming need to improve the workplace of our nation’s children—their schools.

A new report released December 10, 2008 by the American Federation of Teachers reaffirms the pressing school infrastructure needs across the country. “School Infrastructure Funding Need: A State-by-State Assessment and an Analysis of Recent Court Cases,” is an external study that tracks the current level of school infrastructure funding in all 50 states. **The AFT 2008 report shows that total school infrastructure funding need is substantial, totaling some \$254.6 billion.**

Economic Stimulus: Dual Track Funding & Financing for School Modernization

The first priority would be appropriated grants that would move in clearly stated timelines to and through the states to local school districts for projects that are undertaken in short time frames. The second part would be establishing a tax credit school modernization bond program to underwrite the cost of school construction and modernization projects for short, intermediate and long term time frames.

School modernization dual track funding and financing can be accomplished through:

1. Federal Grants to States and local school districts through appropriated grants using the legislative mechanism of the House 21st Century Green High-Performing Public School Facilities Act of 2008 and the Senate Public School Repair and Renovation Act. The cost of fully funding the 21st Century Green High-Performing Public School Facilities Act is \$6.4 billion. 100,000 new construction jobs would be created under this program.
2. School modernization bonds through the America’s Better Classrooms Act could provide the second leg of the school modernization initiative by authorizing school modernization tax credit bonds. The cost of the full \$25 billion ABC bill is \$6.7 billion over ten years. 261,000 jobs would be created under this program. Components of the ABC bill can be implemented for less.



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A dual track funding and financing approach to support school construction modernization can be provided to state and local school districts at a cost less than the amount of school modernization actually underwritten. For example, more than \$30 billion in school modernization projects can be funded and financed for \$14 billion. Directly funded projects can be implemented quickly to stimulate construction jobs, tax credit bond projects can be implemented within 180 days and over the longer term as the credit and bond markets strengthen. The combination of funding and financing school modernization programs through grants and bonds will address a much greater level of the \$254 billion school modernization need nationally.

Costs to Finance School Modernization

The cost of fully funding the 21st Century Green High-Performing Public School Facilities Act is \$6.4 billion. The cost of funding the full America's Better Classrooms Act is \$6.7 billion over ten years. Implementing both these programs will fund and finance over \$30 billion in school modernization projects in every state for \$14.1 billion or perhaps less spread over multiple years.

Construction Jobs Created through School Modernization

Stimulus funding will help states meet local community school facility needs by providing resources to repair, renovate and modernize America's schools while promoting green standards. Equally important, funding will stimulate the creation of more than hundreds of thousands of new jobs in construction and related services. Full funding of the 21st Century Green High-Performing Public Schools Facilities Act will generate more than 100,000 construction related jobs, while full implementation of the America's Better Classrooms Act will generate 261,415 construction related jobs.

SCHOOL MODERNIZATION LEGISLATION AS FOUNDATION FOR ECONOMIC STIMULUS

The following bills considered in the 110th Congress can provide the framework for the dual funding and financing approach for school modernization in a 2009 economic stimulus legislative package.

- ***HR 3021, 21st Century Green High-Performing Public School Facilities Act of 2008.***

The bill authorizes \$6.4 billion in funding to states and school districts to help ensure that school facilities and learning environments are safe, healthy, energy efficient, environmentally friendly, and technologically up-to-date. The funds will be directed to states to provide grants to local school districts for the modernization, renovation or repair of public school facilities. HR 3021 uses the Title I formula to distribute grants to every school district receiving title I funding.



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The House of Representative acted last spring on the imperative to undertake school modernization projects quickly in order to stimulate the economy and to create jobs in the construction and related industries. HR 3021 gives the U.S. Department of Education thirty days to distribute appropriated funds to states and thirty days to the states to distribute the construction grants to school districts to ensure the rapid distribution of the federal funds to local school districts. The bill would also provide additional support for Gulf Coast schools still recovering from Hurricanes Katrina and Rita.

HR 3021 passed the House of Representatives on June 4, 2008 on a bipartisan vote of 250-164.

- ***S 1942 the Public School Repair and Renovation Act***

Sponsored by Senator Tom Harkin (D-IA), ***S 1942 provides \$1.6 billion in grants*** to communities that struggle to fund needed school facility repairs. This legislation builds on the Emergency School Repair Program which was funded at \$1.2 billion when Congress first authorized it in 2000. Under the Emergency School Repair Program, states and school districts successfully used \$1.2 billion to repair and renovate public schools in 2001 and 2002. The U.S. Department of Education administered the original Emergency School Repair program and assembled reports of the state and local use of the program. The initial program was effective and was very well received and used by local school districts. There was some initial delay in the implementation of the Emergency School Repair program as state plans to implement the program were prepared and put in place. A set time for state action for distribution of grants to locals would address this issue.

- ***HR 2470 the America's Better Classrooms Act (ABC)***

Sponsored by Representatives Rangel, Ramstad, Etheridge, HR 2470 has 221 cosponsors. The America's Better Classrooms Act has strong support in the House and has had over 200 cosponsors since first introduced in the 106th Congress. The Senate companion bill is S 912 sponsored by Senator Rockefeller (D-WV).

The ABC Act is a \$25 billion program designed to provide interest-free bonds financed through federal tax credits to expand incentives for public school construction and renovation. The program provides a tax credit to the purchaser of bonds, saving the local school district the cost of the interest that would otherwise be paid to finance the bond. The estimated ten year cost to the Treasury of the full \$25 billion ABC school modernization tax credit bond program is \$6.7 billion.

- ***Qualified Zone Academy Bonds (QZAB)***

The ABC bill builds on the successful Qualified Zone Academy Bond (QZAB) program. The QZAB program originally authorized in 1997 for two years, and extended by Democratic and Republican Congresses since, provides \$400 million each year for federal tax credits which are used in lieu of interest to finance local school construction



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bonds. The QZAB program began slowly because it was a small and new program. Since 1998 \$4 billion in QZAB allocations have been made to the states to finance local school renovation and repair projects. QZABs can be used for the following activities:

- Renovating and repairing buildings;
- Investing in equipment and up-to-date technology ;
- Developing challenging curricula; and
- Training quality teachers.

The Qualified Zone Academy Bond program is being used successfully by school districts to renovate and repair existing school facilities and for developing innovative curriculum. School districts in California have used QZABS to create high technology, career, and culinary academies. The Chicago Public Schools have used QZABs to create the South Side Preparatory Academy and the Chicago Military Academy. The program has been very popular and many states have had waiting lists for QZAB allocations. Changes in arbitrage rules made by the Senate in 2006 slowed the demand for the program. Congress made modifications in the 2006 rules this year when QZABs were reauthorized for 2008 and 2009. These modifications should restore the full appeal of the QZAB bond program. The Treasury Department is expected to issue new QZAB allocations and regulations in late December 2008 or early January 2009.

- ***ABC School Modernization Bonds***

The America's Better Classrooms Act modernization bonds will use the same tax credit mechanism as the QZAB program. School modernization bonds would be easier to use and not have many of the restrictions that limit the use of QZABS. QZABS can only be used at schools where 35 % of the students qualify for free or reduced lunch. A 10% local match is required for QZABS. Frequently, smaller and rural school districts find this requirement difficult to meet. Also, the ABC modernization bonds can be used for broader purposes including the ***building of new*** schools, expansions of existing schools, and for other purposes including the acquisition of sites to build schools. The modernization bond can also be sold to a much broader investor base than the bank and insurance company market available to QZABs.

ABC School Modernization Bond Cost and Administration

Cost is an attractive dimension of the ABC modernization bond program. The estimated ten year cost to the U.S.Treasury of the full \$25 billion tax credit bond program is \$6.7 billion. The program costs less than an appropriated program which is dollar for dollar. The use of the federal tax credits through the tax code does not translate into direct expenditures which is why the cost of underwriting a \$25 billion bond program is \$6.7 billion. ABC bonds can be allocated to every state in the same way the Treasury Department currently allocates QZAB bonds. States do have the experience of administering the QZAB program and the QZAB allocation to local school districts.



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2008 Stimulus Packages in House and Senate - Congress Considered Billions in Funding for School Construction

This year Congress has definitely seen the value and importance of including school construction as part of economic stimulus legislation. On September 26, the House of Representatives passed a stimulus package, HR 7110, providing \$3 billion for school facilities using the structure of HR 3021, the 21st Century Green High-Performing Public Schools Facilities Act. The vote on HR 7110 was 264-158. The Senate considered a stimulus package, S 3604 that included \$2 billion for school construction using the mechanism of Senator Harkin's Public School Repair and Renovation Act. Congress also extended the Qualified Zone Academy Bond program and included very important rule changes making the school renovation and repair tax credit bonds more marketable to a broader market.

In October, Senate Majority Leader Harry Reid (D-NV) and Senate Appropriations Committee Chair Robert Byrd (D-WV) developed a \$100.3 billion economic stimulus package that included \$2.5 billion for school renovation and repair. While the Senate has not taken up this bill Senate leaders have said that this package will be part of the discussions with the economic team of President-elect Obama as an economic recovery package is prepared for Congressional action early next year.

2009 Economic Stimulus: Dual Track Funding & Financing for School Modernization

Funding and financing school modernization can to be provided through a dual funding and financing approach. The first priority would be appropriated grants that would move in clearly stated timelines to and through the states to local school districts for projects that are undertaken in short time frames. The second part would be establishing a tax credit bond program to underwrite the cost of school construction and modernization projects for short, intermediate and long-term time frames.

Specifically this school modernization dual track can be accomplished through legislative vehicles already introduced and supported in 110th Congress:

1. Federal Grants to States and local school districts through appropriated grants using the legislative mechanism of the House 21st Century Green High-Performing Public School Facilities Act of 2008 and the Senate Public School Repair and Renovation Act. The cost of full funding the 21st Century Green High Performing Public Schools Facilities Act is \$6.4 billion.
2. School modernization bonds through the America's Better Classrooms Act could provide the second leg of the school modernization initiative by authorizing and financing school modernization tax credit bonds. The cost of the full \$25 billion ABC bill is \$6.7 billion over ten years. Components of the ABC bill can be implemented for less.



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Investing in school modernization through President-elect Obama's economic stimulus legislation is good public policy. It will help to:

- modernize our nation's schools;
- enhance our children's workplace—their schools;
- better prepare our children for the 21st Century economy, and
- generate hundreds of thousands of construction and related jobs.

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