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ABSTRACT

After noting that only 43.6 percent of the dollar value of school bond issues submitted to U.S. voters was approved during 1968-69, the author discusses various State grant and loan school construction programs. Alternatives to, and suggestions for, financing public school construction, as well as guidelines for developing State capital outlay support programs are provided. (LLR)

TRENDS IN STATE SUPPORT OF PUBLIC SCHOOL CAPITAL OUTLAY

W. Monfort Barr*

A CBS documentary program on January 22, 1970 was closely related to the theme of our conference - A Time for Priorities. During the 1968-69 school year, according to the New York Times, January 12, 1970, a total of $3.9 billion in bond issues for school purposes was submitted to the voters; only $1.7 billion, or 43.6 percent of the dollar value was approved.

What was the real election issue? Were the voters rejecting the need for school facilities or were they rejecting the assumption of the cost of the facilities by the property taxpayer, as is mandated in a number of states? Perhaps, as stated by a West Coast voter recently, "A school election is the only time when a man can stand up and be counted. My negative vote was against high taxes in general and against any further increase in property taxes in particular." This disgruntled voter had a point. In his state a school bond issue is retired and interest is paid by property taxpayers and only by property taxpayers, if the shifting of incidence of taxation is ignored.

The United States Office of Education in 1968 presented to Congress a report on the nation's classroom needs. Classroom shortages exceeded 500,000, and the shortage has not been reduced since that time. In fact, the annual construction of classrooms dropped from 75,400 to 69,700 during the next year.

Classrooms to house educational programs closely related to the nation's societal needs comprised a substantial portion of the deficiency.

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Included in the projects rejected by the voters were classrooms for the economically and educationally disadvantaged, for children of pre-school age, for the technical and vocational training of our youth and adults, for compensatory education, and for special education.

Spiraling interest rates on municipal bonds resulted in deferment of bond sales in a number of states because the maximum interest rate permitted by the school code was lower than the going rate in the municipal bond market. Municipal bonds offered in 1969, but unsalable, totalled $2.9 billion according to the Investment Bankers Association. Admittedly many localities do not utilize the permissible tax levies and bonding to the maximum which the state permits. On the other hand district after district, using every avenue of obtaining funds which the state permits, finds itself in a financial straightjacket. Many districts in the nation have no remaining leeway for providing school construction funds within the maze of tax rate limits, debt limits, and other state deterrents which they face.

The National Capital Outlay Project, a satellite of the National Educational Finance Project, has recently compiled data regarding state grant and/or loan programs for public school capital outlay and related debt service and lease-rental payments.

State Grants for School Construction[1]

Grants for construction of public elementary and secondary school construction or debt service were made by 25 states in 1968-69. In addition state funds provided for school construction in Hawaii. The amounts distributed ranged from $175 million in New York, $66 million in Florida, and $50 million in Maryland and Pennsylvania to token amounts of less than $2 million in Illinois and Missouri. Since fiscal 1951 the amount granted for capital outlay in the nation increased from $78 million to more than $633 million in 1968-69.

Funds in Indiana were distributed primarily for debt service and in New Hampshire for bond retirement. The remaining states granted funds for construction of public school buildings. Debt service as well as capital outlay could be paid from grant proceeds in 12 states. At least two states, New Jersey and Utah, permitted the accumulation of granted funds in local capital reserve funds.

Several state capital outlay grant and loan programs specifically provided additional funds for other than regular classrooms. The California loan program, which may be superceded by a state grant program, provided loans for special education classrooms and for space needs related to poverty, social tensions, low achievement, and migratory workers. Regional school districts received additional construction grants in Connecticutt, Maine, and Massachusetts. Enrollment increases were recognized by specific grants in Florida. Credit for local funds used in school construction was an added feature of the New Hampshire grant program.

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[1]Based on Wilkerson, Wm. R., State Grants for Public School Construction, Prepared for the National Capital Outlay Project, Indiana State University, Terre Haute, January, 1970.

A number of states recognized the space needs of special educational programs by including them in the building project which was approved for reimbursement. The cost of area or regional vocational, technical, agricultural, junior college, and community college facilities was a state responsibility in some states or was partially reimbursed by the state in others.

The principal source of funds for state capital outlay grants in 23 states was an appropriation from the state general fund. The number of states using the yield of state bond issues was 12. The permanent school fund was the source in one state and earmarked tax receipts in four states. Various combinations of the above sources were used in the 25 states.

Local taxpaying ability was considered in the grant program of 14 states, resulting in equalizing grants for capital outlay. The typical measure of need utilized in the programs in 1968-69 was a specified portion of the approved project cost.

The number of states which had no provisions for state capital outlay grants, loan programs, or school building authorities was 15. Local property taxation and local school bond issues repaid by property tax revenues were relied upon almost exclusively for school construction funds in those states.

State Loan Plans[2]

The number of states reporting loan plans in fiscal 1969 was 14. State loan plans have a long and distinguished history, having been utilized

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[2] Hudson, C. Cale, State Loan Plans, Prepared for the National Capital Outlay Project, University of Nebraska, Lincoln, January, 1970.

in Virginia as early as 1810 and in Wisconsin in 1844. A logical source of funds for state loans was the permanent school fund, derived in part from the Congressional land grants of the nineteenth century. Of the 14 states reporting state loan funds in 1968-69, six were utilizing permanent school funds as a source. Other states, six in number, had turned to state bond issues for a source, thus substituting state for local credit. The other two states utilized appropriations from the state general fund as a source.

State loans are used primarily to provide funds for construction of school facilities. Two states also provide for refunding of outstanding bond issues and at least two states permit use of the funds for local school district debt service. An unusual feature of several of the loan programs is the bypassing of local debt limits through an advance of state funds which would normally flow to the local district through the state school support program.

Considerable ingenuity has been used by the states in devising workable loan plans. Illinois, North Dakota, and Wyoming utilize lease-rental arrangements as a means of avoiding an increase of direct debt by local districts. Virginia purchases local school bonds. Georgia, Maine, and Pennsylvania have state school building authorities. Sale of bonds by these nongovernmental agencies does not incur direct state indebtedness; lease-rental arrangements with local school districts avoid direct local debt.

Advantages of the state loan programs and related arrangements are provision of a broad based source of funds, economical state borrowing, and in some instances lower local debt service levies. Disadvantages are the limited amounts available in several states, a stop gap approach to the needs of financing local facilities, and a tendency to use subjective rather than objective criteria for allocating loans.

Loan programs when adequately funded and when supplemented by state grants for debt service to fiscally weak local school districts provide substantial assistance in meeting the acute classroom shortage in the nation. An inherent danger is that as operated in some states a loan program may be analogous to sweeping the problem under the rug. There can be no substitute for long-term fiscal planning for meeting the costs of needed classroom construction.

An Impasse

Preliminary findings of the National Capital Outlay Project indicate that state-local revenues cannot meet the classroom needs of the decade ahead.[3] Recent experience has shown that state-local borrowing cannot close the gap between needed nonrevenue receipts and needed school construction funds.

A recent projection of the cost, in 1969 dollars, of providing needed classroom space for the nation's public schools indicated an annual need of $7.8 billion during the decade ahead. A projection of anticipated state-local revenues for the same period indicated a serious dollar gap between revenues for schools and needed funds.[4]

Among several alternatives to the prospect of a partial moratorium on school construction are:

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[3] Subcommittee report.

[4] Prepublication data from the National Capital Outlay Project.

1. A major increase in the proportion of state-local revenues allocated to school construction

2. Creation of a governmental loan bank for provision of construction funds for public school facilities

3. Federal and/or state tax credits for that portion of local taxes which is paid for school construction and debt service

4. Federal tax sharing with the states as a source of funds for school construction

5. Federal grants to the states for public school construction.

Suggestions for Financing Public School Facilities in the 1970's

1. Conduct school facilities needs studies in each state, financed by state and federal funds.
2. Develop an adequate coordinated grant and loan program in each state in support of public school construction and debt service.
3. Remove state constraints on provision of funds for school construction. Among these are:
   a. Low and arbitrary debt limits unrelated to local school district revenues
   b. Unrealistic interest rate ceilings on local and state bond issues
   c. State provisions which require that school construction funds and debt service be provided principally from property tax revenues

d. State restrictions which prevent flexible governmental and nongovernmental cooperative financing of public school facilities

e. Requirements of more than a majority vote for passage of bond issues and capital financing arrangements

f. Limited tax rates for debt service.

4. Develop cooperative federal, state, and local financing of approved public school construction projects.
5. Provide for coordinated governmental and nongovernmental financing of public facility needs.

The N.E.A. Research Division has estimated public school capital outlay to be $4.7 billion during fiscal 1970. As indicated above, $7.8 billion annually (in 1969 dollars) will be needed to adequately meet classrooms needs during the decade ahead. Since our discussion today is primarily concerned with state-local funding of public school capital outlay, I will conclude by listing a few guidelines for developing coordinated state and local support programs for capital outlay and debt service.

Guidelines for Developing State Capital Outlay Support Programs

1. The state has primary responsibility for establishing and enforcing school construction standards.
2. Each state should conduct a long-range school construction planning program.

3. Final determination, within state regulations, of a school building project should be local.
4. State grants-in-aid and/or loans should be made only to school districts which have obtained state approval of school building projects.
5. Reimbursable project costs should be objectively determined, should be realistic, and should reflect variations in construction and site costs in various regions of the state.
6. The state share of capital outlay or debt service of a local district should vary inversely with the taxpaying ability of the district.
7. The measure of need for state capital outlay programs should be the approved project cost. This cost can then be converted to a per pupil or instructional unit cost for inclusion in the foundation program
8. Credit for expenditures incurred for construction in years prior to the establishment of a state capital outlay program should be included in the measure of need used in the state program.