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AUTHOR	Mead, Sara
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ABSTRACT

A small federal program piloting tax credit bonds to support school construction, the Qualified Zone Academy Bond (QZAB), has existed since 1997--providing evidence of how tax credit bonds could work. This paper analyzes the results of QZABs to date in order to inform policymakers, advance the debate over federal school construction aid, and provide more effective support to schools and states in need. The report concludes that, in the absence of more substantial federal assistance, QZABs play an important role in helping needy districts build and maintain school facilities, even though they are not the most effective long-term solution to the problem. The complexity of tax credits for school construction, as well as their one-size-fits-all approach that often does not mesh well with state policies or the needs of schools and investors, make tax credits an insufficient answer to school construction needs. The report recommends that the QZAB program, with some modifications, be continued while encouraging Congress to enact a more robust, durable school construction program focused on flexible and accessible initiatives. For example, state infrastructure banks, a promising remedy to the core problem of capital access for public schools, should be explored to replace current tax credit bond programs. (An appendix presents results of a survey of state QZAB implementation.) (EV)

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Early Returns

Tax Credit Bonds and School Construction?

by Sara Mead

The infrastructure needs plaguing our nation's schools are widely documented.[1] Inadequate and often unsafe buildings exist in many poor, urban, and rural schools, and overcrowding challenges some affluent communities. Many schools do not have the resources to support new technologies. Charter schools, in particular, often lack access to sufficient facilities. While adequate campuses are only one of the obstacles facing public schools, too often deplorable provisions threaten the fundamental work of teachers, administrators, and students.

School facilities are traditionally the responsibility of local school districts. In recent years, however, more states have begun participating in the demand for school construction, and there is an increasing call for the federal government to help states and local communities address these deficiencies. In particular, some have called for a federal program dedicating tax credit bonds for new and improved school construction. In theory, this proposal would allow schools or school districts to invest in new facilities by paying the interest on school construction bonds in the form of a federal tax credit for bondholders, thus reducing the cost of construction for schools and districts.

Tax credit bonds are strongly supported by major education interest groups, many Democrats, and some moderate Republicans, but opposed by conservatives and the Republican leadership who believe the federal government should not play a part in school construction. In the 106th Congress, a bill to create tax credit bonds received the support of both the Clinton administration and a majority of the House of Representatives, but was eventually scuttled by partisan disputes about labor issues. Tax credit bond proposals re-emerged in the 107th Congress and are likely to appear again in the 108th, particularly if Democrats maintain a majority in the Senate or gain control of House.

Schools and states need help dealing with the school facilities crisis, especially given the budget shortfalls currently facing many states. Unfortunately, however, the drawn-out political debate over school construction has obscured some policy issues. Given the political baggage tax credit bonds have collected over their six-year history, supporters of school construction should determine whether partisan battles are more important than addressing schools' immediate needs with less contentious alternatives. A small federal program piloting tax credit bonds, the Qualified Zone Academy Bond (QZAB), has existed since 1997—providing important evidence of how tax credit bonds could work.

This paper analyses the results of QZABs to date in order to inform policymakers, advance the debate over federal school construction aid, and provide more effective support to schools and states in need. In particular, this report finds that:

- QZABs got off to a slow start because of low funding and inadequate federal support for implementation;
- State education agencies (SEAs) were also slow to implement QZABs, which sometimes conflicted with existing state policies;
- Education and finance communities have been reluctant to adopt the tax credit bond concept, which is complex and unfamiliar;
- Even among schools that qualify to use them, QZABs do not meet the needs of many, particularly charters and others that lack access to capital;
- Despite these obstacles, QZABs have become well-established and are used in the vast

Full text available at: http://www.ppionline.org/documents/School_Construction_0902.pdf majority of states—over 82 percent of the bonds have been allocated; and

- For many small, rural, and innovative schools, QZABs have provided a valuable source of aid for critical repairs that could not have otherwise been undertaken.

These findings show that, in the absence of more substantial federal assistance, QZABs play an important role in helping needy districts build and maintain school facilities, even though they are not the most effective long-term solution to the problem. The complexity of tax credits for school construction, as well as their one-size-fits all approach that often does not mesh well with state policies or the needs of schools and investors, makes tax credits an insufficient answer to America's school construction needs. PPI recommends that the QZAB program, with some modifications, be continued while encouraging Congress to enact a more robust, durable school construction program focused on flexible and accessible initiatives. For example, state infrastructure banks, a promising remedy to the core problem of capital access for public schools, should be explored to replace current tax credit bond programs.

History and Overview

Qualified Zone Academy Bonds (QZABs) were initially sponsored in the Tax Relief Act of 1997 by Rep. Charles Rangel (D-N.Y.), the ranking Democrat on the House Ways and Means Committee. They are a version of a similar initiative earlier backed by Rangel to aid school construction by allowing them to issue tax credit bonds. The expanded version of this proposal was the basis of contentious debates in the 106th Congress.

Unlike the bonds school districts traditionally issue to finance construction, on which the districts must pay interest over the life of the bond, the federal government foots the bill through a tax credit to bond holders for QZAB and other similar programs. Schools or districts must still repay the principal, but because they do not have to pay interest, the cost of school renovation is significantly reduced.

From 1998 to 2001, QZABs provided states $400 million in bonding authority annually. States then allocated bonding authority to "Qualified Zone Academies"—schools or school districts that are located in an empowerment zone or enterprise community or have at least 35 percent of students eligible for free or reduced lunches. Schools must also raise private contributions worth at least 10 percent of the bonding authority they receive. Bond proceeds may be used to repair or renovate existing buildings, but not to build new ones.[2] In 1999, QZABs were extended through 2001, and the economic stimulus bill passed in March 2002 extended QZABs for 2002 and 2003.

How Have Tax Credit Bonds Worked In Practice?

The small amounts of QZAB bonding authority—$400 million a year, relative to a $127 billion national need for school repairs—ensure a limited impact. But early on, QZABs did not live up to even modest expectations. In the first two years, only 15 percent of the available bonding authority was used, and many states used none of their QZAB authority.[3] Although use has since increased and more than 82 percent ($1.3 billion) of QZAB bonding authority from 1998 to 2001 is now allocated, four states—Alaska, Hawaii, New Mexico, and Wyoming—still do not use QZABs.[4] There are a number of reasons for the slow adoption of QZABs.

First, due to the low amount of QZAB authority, some states' allocations were too small to justify the effort of implementing them. Others chose to combine allocations across years to build up a sufficient amount. Likewise, because of the small size and uncertainty about the future of the program, investors and financial professionals were hesitant to invest time and resources to become familiar with QZABs. The small amount of QZABs also prevents the creation of a strong secondary market.

Second, QZAB law provides no assistance for states, schools, and financial professionals to sort out the complexities of this new financial instrument. Many eligible schools have never heard of QZABs and states are not held accountable for their progress. There is no comprehensive list of schools using the bond program, and critical questions such as the poverty rates of participating schools, the types of projects undertaken, and the impact of QZAB-financed improvements, remain largely unexamined. The most extensive outreach and monitoring of QZABs come from neither the Treasury Department nor the Education Department, but from the Department of Agriculture (USDA), which executes its authority to support rural schools. Since the USDA's initiative expired in June 2001, the Bush administration has done nothing to fill the information gap or improve data collection. For a complex fledgling program with stringent eligibility requirements, this neglect is stifling.

Third, many of the state education agencies (SEAs) legally responsible for implementing QZABs were not equipped for this task. In the 1980s, many states dramatically cut staff dealing with education facilities. Fifteen states play almost no role in their education facilities, others do so only in a haphazard manner, and many SEAs lack the resources or expertise to deal with QZABs. Elsewhere, these bond programs did not mesh well with states' existing policies, and several had to pass new legislation to make QZABs functional.[5]

Fourth, early technical problems made QZABs a bad deal for investors. To determine the tax credit investors could take, the law required the Treasury Department to set a "credit rate" on QZABs that would provide investors a return equivalent to or better than comparable investments. This was important to ensure that investors would be willing to buy QZABs and schools could get the full benefit. But the Treasury Department's initial tax credit rate formula was too low to make the bond program competitive. And, because the tax credit rate changed monthly, it was often not comparable with other rates. As a result, two-thirds of initial participating schools were forced to sell QZAB bonds at less than their full value, while others paid interest to supplement the tax credit.[6] The Treasury Department has since fixed the problem and QZABs are now being issued at par. But these early problems turned off some investors and schools, demonstrating the difficulty of using tax credits in lieu of interest.

Even after the technical problems were fixed, the new and unproven concept of tax credit bonds for school construction met with skepticism from investors and finance experts. Since state and local governments do not pay federal taxes, tax credits are an unwieldy way of helping them. Tax credits to subsidize school construction require a Rube Goldberg-esque approach in which the federal government offers a tax credit not to the intended beneficiary (the school), but to a third party (the investor) who buys tax credit bonds. This approach is dramatically different from other tax incentives such as the Earned Income Tax Credit (EITC) or the research and development tax credit.[7] Many in the financial community doubt that tax credits actually provide a value that can replace the interest payments on bonds, particularly given the favorable tax treatments already associated with tax-exempt municipal and school bonds. Even if they are equivalent in amount, tax credits are fundamentally different from direct payments and their value depends on the investor's tax status for each year that the bond is held. This makes tax credit bonds more complex and risky than other types of investments, less attractive to investors, and less efficient for the federal government.

Over time, however, a niche group of financial professionals have developed expertise in QZAB issuance. Only certain banks, insurance companies, and corporations actively engaged in the process of lending money may purchase these bonds, and the majority of QZABs are paid for by institutional investors already heavily involved in municipal finance. Bankers working with QZABs today report little difficulty finding buyers for recent offerings. It is uncertain, however, whether sufficient buyers would be available if the scale of the program was increased.

Implications of Tax Credit Bonds

Despite some flaws in structure and execution, QZABs have benefited the small number of schools that have used them, especially rural and innovative schools that would otherwise not have received priority in state and local education budgets. However, analysis of QZABs' impact points out several ways in which the tax credit bond concept may not be an ideal model for larger-scale federal school construction programs, or the most effective way to meet the needs of atypical schools.

QZABs were useful to small, isolated, and innovative schools precisely because they did not appeal to a broad range of schools. QZAB allocations are small and cannot be used for new construction, therefore they were unattractive to many urban and suburban school districts, and rural schools and charter institutions did not have to compete for limited QZAB authority. Because they face such substantial obstacles to obtaining facilities, charters and rural schools are more likely to seek out little-known options like QZABs and more willing to take on the substantial work involved. Further, small bureaucracies are often more flexible and able to adjust to new tools, like QZABs, than larger systems. While the tax credit bond program has been good for these schools, the usefulness of QZABs for addressing extensive school construction needs must be considered.

As noted above, charter schools have unique needs that could benefit from QZABs. However, many of the same obstacles that keep charters from accessing facilities now also bar many from using QZABs. Their brief credit histories, the length of charters, and the increased risk inherent in the competitive charter model often prevent charters from obtaining loans or bond financing in today's market. And, since they can't issue bonds in the first place, many charters do not benefit from tax credit bonds. Further, charters may face discrimination from SEAs when applying for a share of state QZAB authority, and some state QZAB regulations effectively preclude charters from using the program. Several charter schools, including the C.A.R.T. Charter School in Fresno, Calif., and the MATCH Public Charter School in Brookline, Mass., have issued QZABs. However, these cases demonstrate more about the dedication of their leaders than they do about the success of tax credit bonds.

The core problem for charter schools and many schools and districts in impoverished or rural areas is a lack of access to capital. Interest subsidies appeal to federal policymakers as well as large urban and suburban districts because they subsidize their debt service. But this approach often provides little help to the neediest schools. Covering interest fees is a major part of the long-term cost of school construction, but not the primary barrier for those schools and districts that cannot access capital in the first place. State and local laws capping debt issuance preclude many communities, particularly those with low property wealth, from issuing bonds. And voter approval for school bonds is a significant obstacle—approximately one in three school bond referenda fail.[8] Although some argue that interest subsidies will enable more bond referenda to pass by reducing the overall cost of bonding, that assertion is unproven. Expanded tax credit bond proposals would still leave the needs of many schools unmet.

Indeed, any one-size-fits-all strategy, as tax credit bonds are, will fail to meet the needs of some schools, particularly in a nation such as ours where 50 different sets of state laws govern a range of diverse schools and communities. Tax credit bonds fall short because they overlook the critical role states must play in efforts to address school facilities. Laws governing school construction and finance vary greatly from state to state and have a significant impact on how and whether schools can use tax credit bonds like QZABs. Responsible states are often penalized by unwieldy and inapplicable elements of universal construction programs. Therefore, federal school construction policy should give states the flexibility to craft assistance to meet their needs and enhance existing efforts. Because Washington contributes only 7 percent of the colossal amount needed to fund elementary and secondary education and facility upkeep nationwide, an effective federal undertaking must catalyze and support state investments. But tax credit bonds, by providing a purely federal subsidy with no matching requirement for state input, do not adequately satisfy these requirements—as they rely on states to implement a homogenous and uniform policy that may conflict with their existing policies or laws.

Because tax credit bonds are administered through the tax code and existing structures of the Internal Revenue Service, no additional support is created at the federal level. However, that does not mean tax credits do not pose bureaucratic and procedural obstacles for schools. The complexities and technicalities of using new tax credit bond programs are as daunting, costly, and time-consuming for schools as dealing with any other type of federal red tape.

Further, the lack of federal backing also means no technical assistance or resources to help states and schools implement and take advantage of the program, and there is no one to monitor the effectiveness of the program. The slow initial implementation of QZABs demonstrates that, despite the severity of need, states and schools will not automatically implement complex new programs without support or accountability. Strategic federal investments should include technical assistance, resources, and monitoring to help schools align construction with instructional goals, and ensure effectiveness of federal investments. Such assistance and monitoring are more difficult to provide for tax credits than direct spending, particularly for tax credit bonds, where those who claim the credit are not those the program is primarily intended to aid.

Tax expenditures are increasingly popular as an alternative to spending, because cutting taxes is more politically palatable than increasing spending and can obscure the full costs of an initiative. This is even more true with tax credit bonds, because they spread the cost of assistance far into the future, making the immediate expenses appear minute. For example, the $800 million in QZAB authority for 2002 and 2003 passed by Congress in March 2002 is estimated to cost the federal government only an additional $2 million in 2003 and $63 million over the next five years. However, the outlay of that authority will actually be felt over the full 15-year life of the bonds, through 2020.[9] More importantly, any apparent reductions in costs must be weighed against the reduced efficiency of tax credit bonds and the increased burden their complexity places on schools.

Long-Term Solutions, Short-Term Compromises

In light of these concerns and the severity of needs for more and better school facilities facing many communities, Washington should move beyond the dysfunctional debate over tax credit bonds to embrace a more straightforward and flexible approach. It is crucial to devise programs for federal construction assistance that address the real issue of capital access plaguing most disadvantaged schools, and respect the critical role and prerogatives of states in this area.

State infrastructure banks (SIBs) provide such a model. These are new, state-run financial institutions created for the express purpose of providing low-cost loans or credit enhancement to schools that otherwise could not obtain financing or afford school construction or repairs. By providing loans at lower interest rates than the general market, SIBs reduce the cost to local taxpayers as well as helping schools that can't otherwise borrow or issue bonds due to debt restrictions or bond levy difficulty. As loans are repaid, the banks use the repayments to assist additional schools.

While SIBs offer an economical approach to construction financing for schools and school districts, they require capital investment to get started. Providing seed funding to create these banks is an effective way for the federal government to encourage and support state and local investment in school facilities. Congresswoman Ellen Tauscher (D-Calif.) and Sens. Jean Carnahan (D-Mo.), Hillary Clinton (D-N.Y.), Dianne Feinstein (D-Calif.), and Tom Harkin (D-Iowa) have introduced legislation to launch an SIB program. As loans are repaid, infrastructure banks become self-sustaining, creating a long-term source of assistance without extended commitment of federal aid. This one-time investment would place banks and their programs in the control of states (or multi-state partnerships), not the federal government, giving them the flexibility to match their unique needs and policies. This strategy also does not rely on the willingness of private investors to dabble in untried investments. State policymakers are already familiar with this strategy through the successful Clean Water State Revolving Fund and Drinking Water State Revolving Fund, created with federal start-up funding and now operating in every state.

While tax credit bonds are not an ideal long-term solution to national school construction needs, the school construction needs facing many schools are pressing, and in the short term, the limited tax credit bond program that now exists in the form of QZABs provides a source of financing for some schools—particularly rural schools—that lack other alternatives to make needed repairs. However, several changes are needed to increase their benefits:

- Congress should reauthorize the QZAB program for a longer duration to help ensure stability for the program and a financial market for these bonds by making them "strippable," allowing bondholders to sell the tax credit to other institutions or individuals.
- Data collection and supervision of the program must be dramatically improved. The U.S. Treasury or Education Department should monitor state QZAB activity, including recording the names and characteristics of participating schools and when bonds are issued. Allocations from states that refuse to implement the program should be redistributed to other states, or to charter schools, on a national basis.
- QZABs should be made more charter-school friendly. Some steps to do this include clarifying the legislation to specifically include charter schools and allowing QZABs to be used for acquisition and construction of school facilities.[10]
- Once better and more substantial school construction assistance is enacted, the tax credit bond program should be phased out.

Conclusion

In keeping with the renewed commitment to ensuring all children receive the skills they need to succeed in the knowledge economy, Washington can—and should—play a productive role in helping states provide and maintain safe, adequate school facilities. However, this goal cannot be accomplished as long as federal school construction efforts remain locked in a dysfunctional partisan debate over policies that fail to work for a substantial share of the most deprived schools. Instead, those concerned about school construction should strike a balance between modifying current QZAB programs while working to enact a flexible initiative that meets the needs of diverse schools and districts. State infrastructure banks offer more profitable and less complex programs that address the core problem of capital access and help states and schools deal with school construction.

Sara Mead is a policy analyst with the Progressive Policy Institute's 21st Century Schools Project.

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Appendix

Some Answers, More Questions

A Survey of State QZAB Implementation[11]

Little information is available at the national level regarding QZABs' impact or implementation. To assist policymakers considering federal school facilities policy, and to support further analysis of tax credit bond programs in general, the Progressive Policy Institute undertook a nationwide survey of state QZAB programs.

A total of 40 states responded to the survey.[12] Forty-six states and the District of Columbia have used QZABs. Alaska, Hawaii, New Mexico, and Wyoming have decided not to implement the program. Among states that did participate in this survey, allocation ranged from 12 percent to 100 percent. Nationwide, some 82 percent of QZAB authority has been allocated.[13] Twenty-six states and the District of Columbia have allocated all of their bond authority.

State policies and practices, as well as the particular types of schools that participate, have an impact on the overall usage of the QZAB program. The availability of other state facilities aid also has an effect on the demand for QZAB implementation. While some states have aggressively encouraged QZAB uptake, others have implemented the program only when pushed to do so by their school districts. As with other areas of federal education policy, some states have maintained a simple application structure incorporating only the minimal requirements of the federal law; others have added further requirements. While there may be good reasons for states to limit the type of bonds that can be issued—for example, requiring general obligation bonds—in practice, this precludes charter schools as well as some of the poorest districts from participating in the bond program.

Some states allocate authority on a "first-come, first-served" basis, while others hold allocation cycles and, in the case of excess demand, evaluate applicant need on a variety of measures. States have also acted to ensure certain districts receive authority, or to equalize access. For example, half of New York's allocation is dedicated to New York City; Iowa requires allocations to be distributed among large, medium, and small districts; Indiana, Georgia, and Tennessee restrict the amount of authority individual districts may receive. Several states already report excess demand and more are likely to do so as awareness of the program increases.

There is little information on bond issuance. After obtaining an allocation, districts or schools must issue bonds, which poses a major obstacle early in the program. Data on bond issuance should be a priority for states and the federal government. However, only 15 states were able to provide information on issuance, and of these, two issued all the bonds themselves. Among these states, issuance rates ranged from 25 percent to 100 percent of allocated authority. Even many states that have allocated all their authority still have not seen all the bonds issued. States also vary in the degree to which they monitor project progress and spending, and whether they record information on proposed renovations.

Information on the percentage of students eligible for free and reduced lunches in schools or districts utilizing QZABs was obtained for 10 states, representing 29 percent of QZAB authority allocated to date. In this limited sample, the mean percentage of these schools and districts is 55.6 percent and the median is 53.8 percent. Districts ranged from 11.31 percent to 100 percent of eligible students, and school-levels from 16.2 percent to 100 percent.

Appendix

A Survey of State QZAB Implementation [12]

	QZAB Allocation 2002[14]	QZAB Allocation 1998-2001	Amount Allocated	Percent Use	Recipient Info	Average Percent FRPL	Issuance
Alabama	$7,683,000	$27,396,000	$27,396,000	100%	Districts	N/A	All issued
Arkasas	$5,589,000	$18,494,000	$18,494,000	100%	Districts	N/A	Partially issued
California	$53,149,000	$222,497,000	$222,497,000	100%	Districts, Charters	60.40%	N/A
Colorado	$4,105,000	$15,459,000	$13,682,775	89%	Districts	N/A	N/A
Delaware	$862,000	$3,186,000	$640,000	20%	Schools	44.41%, 51.44%	N/A
Dist. of Columbia	$898,000	$4,665,000	$4,665,000	100%	Schools	N/A	All issued
Georgia	$10,400,000	$45,860,000	$43,885,919	96%	Schools	N/A	N/A
Idaho	$1,927,000	$7,180,000	4851870 [15]	68%	Districts	N/A	N/A
Illinois	$16,827,000	$56,252,000	$56,252,000	100%	Districts	N/A	All issued for Chicago
Indiana	$6,032,000	$20,391,000	$20,391,000	100%	Districts	N/A	No records
Iowa	$2,465,000	$11,004,000	$11,004,000	100%	Districts	N/A	All issued
Kansas	$3,004,000	$12,057,000	$12,057,000	100%	Districts	N/A	N/A
Kentucky	$5,637,000	$24,556,000	$24,556,000	100%	Districts	N/A	N/A
Louisiana	$8,736,000	$34,917,000	$34,917,000	100%	N/A	N/A	N/A
Maine	$1,269,000	$5,658,000	$800,000	14%	Districts	high poverty & ESL	N/A
Maryland	$4,632,000	$18,098,000	$18,098,000	100%	Districts, Schools	35% required	All issued by state
Massachusetts	$7,528,000	$28,228,000	$7,815,000	28%	None - 4 allocations	N/A	Partially issued
Michigan	$11,884,000	$44,604,000	$44,604,000	100%	Districts, Schools	54.50%	No records

	QZAB Allocation 2002[14]	QZAB Allocation 1998-2001	Amount Allocated	Percent Use	Recipient Info	Average Percent FRPL	Issuance
Minnesota	$3,411,000	$18,927,000	$22,338,000 [16]	100%	Districts	46.80%	N/A
Mississippi	$4,284,000	$21,161,000	$21,161,000	100%	Districts, Schools	N/A	No records
Missouri	$5,266,000	$24,875,000	$24,875,000	100%	None - 39 allocations	N/A	Partially issued
Montana	$1,628,000	$6,318,000	$750,000	12%	Districts	N/A	N/A
Nebraska	$1,771,000	$7,855,000	$7,935,000	100%	Districts	N/A	N/A
Nevada	$2,035,000	$7,859,000	$7,858,200	100%	Districts	N/A	N/A
New Jersey	$7,970,000	$30,133,000	$8,600,000	29%	N/A	N/A[17]	To be issued
New York	$29,441,000	$125,946,000	$125,946,000	100%	Districts	N/A	No records
North Carolina	$10,903,000	$41,208,000	$41,208,000	100%	Districts, Schools	N/A	Partially issued
North Dakota	$730,000	$3,636,000	$3,629,999	100%	Districts	47.40%	Partially issued
Ohio	$13,847,000	$56,901,000	$56,901,000	100%	Districts, Schools	71%	Partially issued
Pennsylvania	$12,710,000	$55,840,000	$50,736,000	91%[18]	Districts	N/A	All issued
Rhode Island	$1,017,000	$4,689,000	$4,689,000	100%	Districts, Schools	25.05%	N/A
South Dakota	$802,000	$3,569,000	$2,075,000	58%	Districts	50%	All issued
Tennessee	$9,814,000	$33,077,000	$23,889,235	72%	Districts	N/A	All issued
Utah	$2,573,000	$6,997,000	$5,591,000 [19]	80%	Districts, Schools	35-50%	All issued
Vermont	$850,000	$2,629,000	$2,555,000	97%	Districts	38%	N/A
Wisconsin	$6,199,000	$19,294,000	$19,225,000	100%	Districts	N/A	All issued
TOTAL	$400,000,000	$1,600,000,000	$1,307,741,671	82%	N/A	N/A	N/A

Endnotes

[1]U.S. Department of Education. National Center for Education Statistics. Condition of America's Public School Facilities: 1999, NCES 2000-032, by Laurie Lewis, Kyle Snow, Elizabeth Farris, Becky Smerdon, Stephanie Cronen, and Jessica Kaplan. Project Officer: Bernie Green. Washington, DC: 2000; U.S. Department of Education. National Center for Education Statistics. How Old Are America's Public Schools, NCES 1999-048. Washington, DC: Office of Educational Research and Improvement. 1999; U.S. Department of Education. Growing Pains: The Challenge of Overcrowded Schools is Here to Stay: A Back to School Special Report. Washington, DC: August 2000; Mead, Sara, "School Construction" Progressive Policy Institute. June 2001.
[2] 26 USC Sec. 1397E; Taxpayer Relief Act of 1997, Section 226. These are the limits placed on QZAB use by federal law. State law may place additional restrictions on the uses of bond proceeds, but cannot expand them.
[3] Treasury Department estimate cited in Burns, Judith, "Future of Tax Credit Bonds Unclear, Experts Say" Dow Jones News Service, May 12, 2000.
[4] Source: PPI Survey of State QZAB implementation. This does not mean, however, that $1.3 billion in QZABs have been issued; states may have approved or set aside QZAB authority for a particular project, but the deal itself may not yet have "closed."
[5] General Accounting Office. School Facilities: Construction Expenditures Have Grown Significantly in Recent Years. (March 2000) GAO/HEHS-00-41. Washington, DC: General Accounting Office. National Governors' Association. Building America's Schools: State Efforts to Address School Facility Needs. (June 2000) Washington, DC: National Governors' Association.
[6] Cooper, Kenneth J. "School Repair Bonds Draw Little Interest," Washington Post (May 22, 2000); 26 USC Sec. 1397E. Bonds may be issued at par, at a discount or at a premium. Bonds issued at par are sold for their full face value (which must be repaid when the bonds mature), bonds issued at a discount, for less than their face value, and bonds issued at a premium, for more. Because two-thirds of early QZABs were issued at a discount, schools that issued these QZABs got less than the full value the legislation intended, and the $120 million in bonding authority issued in the first two years of the program actually generated less than $120 revenue to schools for construction.
[7] For more on this, see Toder, Eric F. "Tax Cuts or Spending—Does it Make a Difference?" (June 8, 2000) Washington, DC: The Urban Institute. Tax exempt bonds issued by state and local governments and used for most school construction have a similar effect, but the exemption of interest on such bonds was not created as an incentive for state and local bond issuance. Rather the exemption stems from the principal that federal government must not tax state and local governments. Moreover, some analysts note that the interest benefit on tax exempt bonds relative to other bonds has declined in recent years, suggesting that the effectiveness of this form of tax-based subsidy for bonding may be actually be declining.
[8] Dr. Dennis Zimmerman. Congressional Research Service. Tax-exempt Bond Proposals to Increase Public Elementary and Secondary School Facilities. Statement Submitted for the Hearing Record. Senate Finance Committee. (March 3, 1999).
[9] Unused authority may be carried over for two years.
[10] Currently, the law does not preclude charter schools from using QZABs. As written, though, it refers to LEAs (usually school districts) as the entities receiving allocations. Although charter schools are legally LEAs in some states, they are not in others, so there has been some confusion about where charters stand for QZABs.
[11] 21st Century Schools Project Research Assistant Renée Rybak conducted primary research for this survey.
[12] Arizona, Connecticut, Florida, New Jersey, New Hampshire, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, and West Virginia did not provide information requested by the survey.
[13] This figure includes June 2001 figures from USDA for states that did not respond. Given the amount of state QZAB activity in the past years, these figures may not be accurate for states that had less than 100% allocation in June 2001, but are probably reliable for those that did. Thus, the nationwide QZAB take-up may actually be higher, but is likely not lower, than 82 percent.
[14] These allocations were reauthorized in March, 2002. State allocations were announced April 11, 2002. Therefore, most states have not yet allocated their allocations.
[15] Idaho approved two school districts for allocations totaling $4,851,870. However, one of these districts is not using its allocation. The remaining district is using $2,635,935 in bonding allocation.
[16] Minnesota has already allocated their 2002 bonding authority.
[17] Under Abbott v Burke, decided by the New Jersey Supreme Court in 1998, the state of New Jersey is required to pay 100% of facilities costs in 28 poor urban school districts identified in the case. New Jersey is using its QZAB authority to finance these expenditures, by issuing and servicing the bonds itself and providing the funds to the districts for facilities needs.
[18] Although $5.1 million of Pennsylvania's QZAB authority in currently allocated, that authority is committed to a district awaiting "formal allocation," so Pennsylvania has essentially used 100 percent of its authority through 2001.
[19] Utah is holding its 2001 allocation for a combined distribution with the 2002 allocation.

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Organization/Address: Progressive Policy Institute 600 Pennsylvania Ave SE #400 Washington, DC 20003	Telephone: 202/608-1221	FAX: 202/544-5014
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