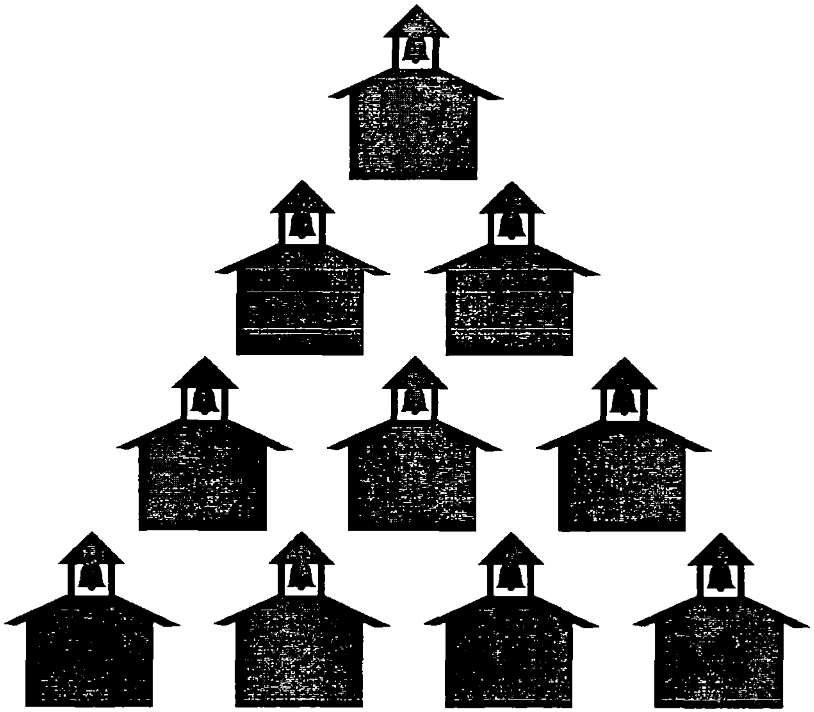
Rebuilding America's Schools

Johnson-Rangel Plan:



6,000 Schools Built and Modernized
($24.8 billion in School Modernization Bonds)

House Ways and Means Plan:

(Based on H.R. 7)

<u>Only</u> 644 Schools Built and Modernized
(Expanded benefits for tax-exempt bonds used for school construction)

NOTE: Based on a 10-year period. One schoolhouse represents 644 build or modernized schools.
SOURCE: U.S. Department of Treasury and U.S. Department of Education, March 2000

File: School Construction

School Modernization Bonds

The Johnson-Rangel proposal helps communities leverage more dollars for school construction or renovation by:

1. Providing federal income tax credits to bondholders in lieu of interest payments made by communities; and
2. Ensuring that communities use any earnings on temporary investment of unexpended bond proceeds for school construction or renovation.

The House Ways and Means proposal expands two exceptions to the general tax rule that arbitrage earnings on the proceeds of tax-exempt bonds be rebated to the federal government. (Arbitrage is the practice of delaying construction and investing the funds raised from bonds to earn more interest than they are paying on the bond.)

1. Extending the period during which arbitrage earnings may be retained (and used for school construction purposes) from two years to four years for school construction bonds; and
2. Expanding the additional amount of school construction bonds on which small issuers may retain arbitrage (used for any governmental purpose) from $5 million to $10 million.

The benefits of the proposal depend upon stretching out the time between the issuance of school bond and the use of the proceeds for construction or renovation.

The amount of additional funds for school modernization made available by the two proposals was calculated in a two-step process. First, since both proposals would assist communities in the issuance of school bonds, the value to the community of each proposal was calculated per $1000 bond.[1] Because the two proposals would deliver their respective benefits over different periods of time, the benefit figures were then discounted to present value.[2] The benefit figures per $1000 bond calculated in this manner are $624.77 for the Johnson-Rangel proposal, $8.62 for the Ways and Means proposal to extend the period of the current general exemption from arbitrage rebate for construction bonds, and $13.93 for their proposal to expand the small-issuer exemption from the arbitrage rebate requirement in the tax code.

Second, the two proposals would also apply to different potential volumes of school bonds. Therefore, the benefit numbers per $1000 bond were then multiplied by the estimated maximum number of bonds to which the proposals could be applicable, with no increase in debt service costs to local communities over 1998 levels.[3] The resulting numbers for the two Ways and Means proposals were then combined. The total benefit numbers calculated in this manner are $15.5 billion for the Johnson-Rangel proposal and $1.7 billion for that of the Ways and Means Committee.

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[1] The debt-service reductions on a $1000 15-year 5-percent tax-credit bond from the no-interest aspect of the Johnson-Rangel proposal were calculated by subtracting level annual payments of $42.96 into a sinking fund earning 6 percent from level annual payments of $65.05 on a $1000 30-year 5-percent tax-exempt bond. The present value of the savings is $555.13. The temporary-investment earnings on unexpended bond proceeds were calculated at an assumed rate of 5 percent on an average construction fund balance over three years of $500 per $1000 bond. The present value of these earnings is $69.94. The additional arbitrage income from the Ways and Means proposal has been calculated on an assumed 1-percentage-point spread between the earnings rate and the interest rate on the bonds on an average construction fund balance over four years (three with respect to small-issuer bonds) of $500 per $1000 bond.

[2] All present values were calculated using a tax-exempt rate of 5 percent.

[3] Because the Johnson-Rangel proposal is for $24.8 billion of new tax-credit bonds, the present value per $1000 was multiplied by 24.8 million. Because the Ways and Means proposal to liberalize the arbitrage rules for tax-exempt school bonds would theoretically apply to all new bonds, the present value of additional arbitrage earnings per $1000 bond was multiplied by 10 years of issuance at an assumed annual rate equal to the 1998 actual rate of $23.4 billion. For this purpose, it was assumed that half of the estimated 1998 volume of $3.7 billion entitled to the expansion of the small-issuer exemption would take advantage of it, and the other half would utilize the proposed 2-year extension of the time period for retaining arbitrage earnings.

SOURCE: U.S. Department of Treasury and U.S. Department of Education, January 2000.

EDUCATION SAVINGS ACCOUNTS
MYTHS VS. FACTS

Myth: "Education Savings Accounts (ESAs) will help improve our education system."

Fact: ESAs do nothing to improve public education for the overwhelming majority of students in public schools. ESAs deplete critical resources from public schools by draining funds from the general treasury – money that could be used to improve public education for all students. Even more importantly, ESAs divert attention away from a real debate on improving public schools. Instead of focusing on tax breaks for the few, we should concentrate on improving standards and accountability and providing the necessary resources and equipment to ensure all students a quality education.

Myth: "ESAs will help low-income families send their children to private schools."

Fact: ESAs will disproportionately benefit affluent families. According to a 1998 report by the Joint Committee on Taxation, ESAs disproportionately benefit wealthier families and provide little benefit to lower and middle income households. Under current ESA proposals, almost 70 percent of the benefits would go to the wealthiest 20 percent of families.

Myth: "ESAs provide an incentive for families to invest and save."

Fact: The average ESA tax break is so small it provides almost no incentive to invest and save. Current ESA proposals would provide families with children in public schools an average tax break of only $7. For families with children in private school, the average tax break would be only $37.

Myth: "ESAs let families decide how to spend their own money on their children's education."

Fact: ESAs drain resources that could be spent to improve education for all children. Although families do invest their own money, ESA tax breaks cost the federal government money. Current proposals would divert $5 billion to providing minimal tax breaks for a few wealthier families. This is clearly a misallocation of resources and priorities. The federal government should invest in initiatives to level the playing field for those without resources and improve public education for all students.

Myth: "ESAs give parents choice of the best schools."

Fact: ESAs do nothing to help parents get their children into private schools. Private schools remain free to reject any student they choose. Students with physical or learning disabilities or with limited English proficiency are likely to be left behind. In addition, ESAs give no real "choice" to low-income families who cannot afford to put money aside for private school tuition.

Myth: "ESAs help families who want to move their children from public to private school."

Fact: ESAs disproportionately help families with children already in private school. Families with children in private school represent only 7 percent of ESA-eligible families, but they would receive more than half (52%) the benefits. According to the Joint Committee on Taxation, over 80 percent of such families would use ESAs to help keep their children in private schools. The federal government would be diverting critical resources to a minority of families who can already afford private school tuition.

Myth: "The American public wants ESAs."

Fact: Voters clearly support additional federal investment in public education over diversion of funds to private school tax credits. A recent bipartisan survey of likely voters found a strong preference for additional federal investment in public schools. Voters want the federal government to focus on improving public schools through initiatives such as school modernization rather than on tax break schemes.

Prepared by the National Education Association, March 2000

GOVERNMENT RELATIONS
Mary Elizabeth Teasley, Director
202-822-7321 FAX: 202-822-7741

March 28, 2000

U.S. House of Representatives
Washington DC 20515

Dear Representative:

On behalf of the National Education Association's (NEA) 2.5 million members, we urge your opposition to the education savings accounts (ESAs) proposed in the Education Savings and School Excellence Act (H.R. 7), and your support instead for the school modernization proposal sponsored by Representatives Johnson (R-CT) and Rangel (D-NY).

This week's floor vote will offer a clear choice between tax breaks for a few, or investment in safe, modern, well-equipped schools for all children:

- **ESAs will not help improve education but will deplete badly needed resources from our public schools.**

- **ESAs disproportionately benefit affluent families and those with children already in private schools.**

- **ESAs do not offer a substantial benefit -- only an average tax break of $7 for families with children in public schools -- nor do they offer parents true "choice."**

- **In contrast, the bipartisan Johnson-Rangel school modernization proposal offers real assistance to the overwhelming majority of students attending public schools.**

- **Voters clearly support additional federal investment in public education over diversion of funds to private school tax credits.**

We urge you to choose children, by supporting the Johnson-Rangel plan and opposing ESAs. Votes associated with this issue may be included in the NEA Legislative Report Card for the 106th Congress.

Sincerely,

Mary Elizabeth Teasley
Director of Government Relations

MEMBERS OF CONGRESS –

SUPPORT MEANINGFUL SCHOOL MODERNIZATION ASSISTANCE

VOTE FOR THE RANGEL-JOHNSON AMENDMENT TO H.R. 7

√ **Our Nation's Schools Are In Desperate Need of Repair and Rebuilding.**

- The average school building is over 42 years old. Nearly 60 percent of schools need major repair of features such as roofs, exterior walls, windows, plumbing, and lighting.

- Enrollments are at record levels and rising each year, causing overcrowded classrooms and the use of temporary trailers.

√ **Modern Schools Promote Better Learning.**

- Overcrowded classrooms and structurally unfit school buildings impair student achievement, diminish student discipline, and compromise student safety. Safe, modern, well-equipped schools send a message to our children that we as a nation are willing to invest in their future.

√ **Local Communities and States Can't Do It Alone.**

- The price tag for modernizing schools is staggering. A soon to be published NEA study documents a $254 billion unmet need for school repairs, renovations, and new construction. Only a federal/state/local partnership can help address this crisis.

√ **The American Public Overwhelmingly Supports Federal Investment in School Buildings.**

- A recent bipartisan survey of likely voters found strong support for a federal role in initiatives such as school repair and renovation. Voters prefer increased investments in public schools over tax breaks for private school expenses.

√ **The Johnson-Rangel Proposal Offers a Sensible, Bipartisan Approach**

- Representatives Johnson (R-CT) and Rangel (D-NY) propose to leverage $1.74 billion to pay the interest on $25 billion of modernization bonds. The plan combines the strengths of their original bills (H.R. 1660/H.R. 1760), which together garnered 237 bipartisan cosponsors.

- Tax credits for interest-free school modernization bonds leave decisions about which schools to build or repair to states and localities; create no additional bureaucracy; and are fiscally sound -- with every dollar going to repair or construction.

√ **Interest-Free School Modernization Bonds are Preferable to Arbitrage Relief Proposals**

- Arbitrage relief provides schools with a subsidy of only $8.62 for each $1000 of bonds, while Johnson-Rangel provides a benefit of $624.77 – 72 times greater! In addition, many small rural schools are already exempt from arbitrage rebate requirements, and would not benefit from such legislation.

Prepared by National Education Association, Government Relations, March 2000.

Bruce —
①

Describe & explain rationale behind new proposal

Struct & purpose both

Christine L. Anderson
01/05/2000 11:58:01 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Fact Sheet: President Clinton's Commitment to Repair, Renovate, and Renew America's Schools

PRESIDENT CLINTON'S COMMITMENT TO REPAIR, RENOVATE, AND RE AMERICA'S SCHOOLS

January 5, 2000

"Today too many of our schools are so old they're falling apart, or so over-crowded students are learning in trailers. Last fall, Congress missed the opportunity to change that. This year, with 53 million children in our schools, Congress must not miss that opportunity again."

--President Clinton, State of the Union Address, 1999

President Clinton's FY2001 Budget demonstrates a strong commitment to investing in school construction and modernization. The FY2001 Budget:

Plan for district most need

- **Renews the President's strong commitment to his school modernization tax credit bond proposal.**

The President's School Modernization Bond proposal provides $24.8 billion in tax credit bonds over two years to modernize up to 6,000 schools. This proposal costs $3.7 billion over five years; expands the Qualified Zone Academy Bonds, a proven success; and is fully paid for in the budget.

FY01

- **Includes a new $1.3 billion school urgent/emergency renovation loan and grant proposal**

districts

This $1.3 billion initiative leverages nearly $7 billion of (approximately 8,300) renovation projects in high-poverty, high-need school districts with little or no capacity to fund urgent repairs. Both loans and grants would be made available, with the smaller grant program directed toward the neediest districts.

targeted to high need urgent renovations

Nationally, there is an urgent need for school modernization

- <u>**One-Third of All Schools Need Extensive Repairs.**</u> One third of all public schools -- about

grants to most needy districts

loan/grant split more loans

25,000 schools -- need extensive repair or replacement. *School Facilities: The Condition of America's Schools,* GAO Report Number HEHS-95-61, 1995-6.

- **Average School is 42 Years Old.** The average public school in America is 42 years old, and school buildings begin rapid deterioration after 40 years. *How Old are America's Schools,* NCES, 1999.
- **$112 Billion Needed Just for Repairs.** $112 billion is needed just to repair the existing schools across the nation. *School Facilities: The Condition of America's Schools,* GAO Report Number HEHS-95-61, 1995-6.
- **School Enrollment Higher than Ever.** A record 52.7 million children are enrolled in elementary and secondary school today, and this number will climb to 54.3 million by 2008. 2,400 new public schools will be needed by 2003 to accommodate rising enrollments. *The Baby Boom Echo: No End in Sight,* Department of Education, 1999.

School Modernization Tax Credit Bond Proposal

This new type of bond -- a tax credit bond -- would provide interest-free financing to help state and local governments pay for school construction and renovation to help address issues of aging facilities and overcrowding.
Instead of paying the interest and principal on school construction bonds, the issuer would only be responsible for repaying the principal. The federal government would provide tax credits to the bondholders in lieu of interest payments.

The Administration's proposal would support nearly $25 billion in bonds over the next two years to help states and districts build and modernize up to 6,000 public schools. President Clinton's proposal has an estimated cost of $3.7 billion over five years, and is fully paid for in his budget.

School Renovation Loan and Grant Program

The School Renovation program would provide interest free federal loans and grants to needy school districts to fund urgent renovations; approximately 8,300 renovation projects would receive funding over 5 years. The loan program would be targeted to those districts unable to finance the interest cost associated with facilities renovation.
✱ The smaller direct grant program would provide direct funding to the needy school districts unable to finance the capital expenditures associated with school renovation. Renovations funded through loans and grants could include repairs to roofs, climate control systems, or plumbing. Loans and grants could also fund school modernization to improve technology capability, if no other source of funds is available.

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School Renovation Grants and Loans
January 5, 2000

Q: How is this proposal different from last year's School Construction proposal?

A: This proposal includes a renewed commitment to last year's School Modernization tax credit bond proposal which provides $24.8 billion in tax credit bonds over two years to help modernize over 6,000 schools. This year, however, we are adding a $1.3 billion direct spending proposal to support nearly $7 billion for urgent renovation projects in high poverty, high need school districts.

Q: Is Davis-Bacon applicable to the School Construction and Renovation proposals?

A: The School Modernization tax credit bond proposal specifically provides for application of Davis-Bacon prevailing wage requirements. Davis-Bacon would also apply to the grant and loan programs by application of the Davis-Bacon statute.

Q: The projected cost is $1.3 billion, but the projected renovation supported is $6.9 billion. How does the proposal leverage additional funding.

A: The proposal provides School Districts with interest free loans. Districts would be required to repay the loans, but their cost of borrowing would be lower, because they would not have to pay interest on those loans. The cost to the federal government is the interest subsidy and any projected defaults. The $6.9 billion figure accounts for the projected total amount of renovation that would be supported by the $1.3 billion federal subsidy.

Q: Who would administer the grant and loan program?

A: The programs would be administered by the Department of Education. In the loan program, the Department may contract out for origination and servicing of the loans.

Q: Who would be eligible to receive the grants and loans?

A: We are continuing to explore options on targeting the grants and loans to areas of highest needs. We intend to continue to work out the details with interested parties. We expect the grant program to be targeted directly to areas of the highest need. The loan program will also be targeted based on need, but will provide more school districts with the opportunity to apply and compete for assistance

PRESIDENT CLINTON'S COMMITMENT TO INVEST IN SCHOOL CONSTRUCTION AND MODERNIZATION

January 5, 2000

"Today too many of our schools are so old they're falling apart, or so over-crowded students are learning in trailers. Last fall, Congress missed the opportunity to change that. This year, with 53 million children in our schools, Congress must not miss that opportunity again."

-- President Clinton, State of the Union Address, 1999

PRESIDENT CLINTON'S FY2001 BUDGET DEMONSTATES A STRONG COMMITMENT TO INVESTING IN SCHOOL CONSTRUCTION AND MODERNIZATION

THE FY2001 BUDGET:

- **RENEWS THE PRESIDENT'S STRONG COMMITMENT TO HIS SCHOOL MODERNIZATION TAX CREDIT BOND PROPOSAL**

The President's School Modernization Bond proposal provides $24.8 billion in tax credit bonds over two years to modernize up to 6,000 schools. This proposal has an estimated cost of $3.7 billion over five years, and is fully paid for in his budget. Within this program, $2.4 billion is reserved for Qualified Zone Academy Bonds.

- **INCLUDES A NEW $1.3 BILLION SCHOOL URGENT/EMERGENCY RENOVATION LOAN AND GRANT PROPOSAL**

This $1.3 billion program could support nearly $7 billion of (approximately 8,300) renovation projects in high-poverty, high-need school districts with little or no capacity to fund urgent repairs over the next 5 years. Both loans and grants would be made available, with the smaller grant program directed toward the neediest districts.

NATIONALLY, THERE IS AN URGENT NEED FOR SCHOOL MODERNIZATION

- **One-Third of All Schools Need Extensive Repairs.** One third of all public schools – about 25,000 schools – need extensive repair or replacement. *School Facilities: The Condition of America's Schools,* GAO Report Number HEHS-95-61, 1995-6.
- **Average School is 42 Years Old.** The average public school in America is 42 years old, and school buildings begin rapid deterioration after 40 years. How Old are America's Schools, NCES, 1999.
- **$112 Billion Needed Just for Repairs.** $112 billion is needed just to repair the existing schools across the nation. *School Facilities: The Condition of America's Schools,* GAO Report Number HEHS-95-61, 1995-6.
- **School Enrollment Higher than Ever.** A record 52.7 million children are enrolled in elementary and secondary school today, and this number will climb to 54.3 million by 2008. 2,400 new public schools will be needed by 2003 to accommodate rising enrollments. *The Baby Boom Echo: No End in Sight,* Department of Education, 1999.

SCHOOL MODERNIZATION TAX CREDIT BOND PROPOSAL

- This new type of bond – a tax credit bond – would provide interest-free financing to help state and local governments pay for school construction and renovation to help address issues of aging facilities and overcrowding.
- Instead of paying the interest and principal on school construction bonds, the issuer would only be responsible for repaying the principal. The federal government would provide tax credits to the bondholders in lieu of interest payments.
- The Administration's proposal would support nearly $25 billion in bonds over the next two years to help states and districts build and modernize up to 6,000 public schools.
- President Clinton's proposal has an estimated cost of $3.7 billion over five years, and is fully paid for in his budget.

SCHOOL RENOVATION LOAN AND GRANT PROGRAM

- The School Renovation program would provide interest free federal loans and grants to needy school districts to fund urgent renovations – approximately 8,300 renovation projects would receive funding over 5 years.
- The loan program would be targeted to those districts unable to finance the interest cost associated with facilities renovation.
- The smaller direct grant program would provide direct funding to the needy school districts unable to finance the capital expenditures associated with school renovation.
- Renovations funded through loans and grants could include repairs to roofs, climate control systems, or plumbing. Loans and grants could also fund school modernization to improve technology capability, if no other source of funds is available.

Christine L. Anderson
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Subject: Fact Sheet 2: President Clinton and Democratic Congressional Leaders: Focused on Getting the Job Done for the American People in 2000

President Clinton And Democratic Congressional Leaders: Focused On Getting The Job Done For The American People in 2000

January 5, 2000

Today, President Clinton meets with Senate Minority Leader Tom Daschle and House Minority Leader Richard Gephardt to reaffirm their common commitment to making progress on priority issues for the American people. Specifically, they will discuss a new expanded proposal on school construction and modernization. In addition, the President and Leaders will discuss a list of issues where there is unfinished business and where they can expect bipartisan progress in the coming year.

An Agenda For Progress In 2000

- **Repairing, Renovating and Renewing Our Schools**

- **Cutting Taxes While Maintaining Fiscal Discipline**

- **Modernizing Medicare, Including A Voluntary Prescription Drug Benefit**

- **Strengthening Social Security**

•Enacting A Real Patients' Bill Of Rights

•Passing Common Sense Gun Safety Legislation

•Raising The Minimum Wage

•Passing Legislation To Fight Hate Crimes

President Clinton And Democratic Congressional Leaders: Focused On Getting The Job Done For The American People 2000

January 5, 2000

Repairing, Renovating and Renewing Our Schools

It is incomprehensible that during one of the greatest periods of economic prosperity in our history, the Congressional Majority has refused to act on a tax proposal to provide for school construction and modernization. Many schools are crumbling. And in many other communities, new schools are needed to give exploding student populations a decent place to learn. This year, the President and Democrats are united in an effort to seek bipartisan support for measures aimed at dealing with this crisis in education.

Cutting Taxes While Maintaining Fiscal Discipline

Last year, the President's budget proposal included targeted tax cuts and a substantial tax cut to promote retirement savings as part of a framework to maintain fiscal discipline and extend the life of Social Security and Medicare. While the President's tax proposals are still being finalized, the President plans to announce a similar-sized targeted tax cut during his State of the Union speech later this month. The President's tax cuts will help people save for retirement, continue to reward work for hard-pressed families, encourage investment in poorer communities, help expand health coverage, and provide middle-class tax relief.

Modernizing Medicare, Including A Voluntary Prescription Drug Benefit

Three out of four seniors are without dependable, affordable prescription drug coverage. Last year, the President laid out a serious plan to reform and modernize Medicare, including the creation of a voluntary prescription drug benefit. In the coming year, the President and Democrats will continue to push for bipartisan Medicare reform that meets the health, demographic, and financing challenges of the 21st century.

Strengthening Social Security

Last year, the President put forth a specific proposal to use the benefits of fiscal discipline and debt reduction to strengthen Social Security, extending its solvency from 2034 to 2050. This would be a down payment on truly saving Social Security. The Republican so-called "lockbox" legislation would not add a single day to the life of Social Security. The President and Democratic Leaders will work again this year to enact legislation to truly strengthen Social Security.

Enacting A Real Patients' Bill Of Rights

Americans who receive their health care through managed care organizations lack adequate protections. They are not ensured access to specialists. They can be forced to change doctors in mid-treatment. They do not have adequate recourse when a health plan provides less than adequate care. Last year, the President and Democrats supported a real, bipartisan "Patients' Bill of Rights" bill that addressed *all* of these problems. That bill passed overwhelmingly in the House. In the Senate, Democrats unanimously rejected the unacceptably flawed Senate version of the bill. The President and Democratic Leaders will work to insure that a strong, enforceable, bipartisan, Patients' Bill of Rights is signed into law this year.

Passing Common Sense Gun Safety Legislation

After a number of tragic school shootings across America, the President and Democratic Leaders finally persuaded Republicans in the Senate to pass common-sense, bipartisan gun measures to keep guns out of the hands of children and criminals. Unfortunately, the House defeated similar gun safety provisions. This year, the President will work with Democratic Leaders to enact common-sense gun measures in Congress, like closing the gun show loophole. In addition, the President has made clear that he will search for other ways, including through Executive actions, to reduce gun violence.

Raising The Minimum Wage

We have the best economy in a generation. And yet there are too many families working full-time, 50 weeks a year that don't earn enough to support a family. Currently, a person working full-time and earning the minimum wage receives only $10,300 -- not enough to move families from dependency to self-sufficiency. Last year in his State of the Union Address, the President called on

Congress to pass the Kennedy-Bonior proposal to raise the minimum wage by $1 over two years, from $5.15 to $6.15 an hour. The President and Democratic Leaders will work enact bipartisan legislation -- and defeat attempts to prevent a minimum wage hike through "poison pill" amendments by opponents.

Passing Legislation To Fight Hate Crimes

In 1998, almost 8,000 hate crime incidents were reported -- nearly one per hour. Since 1997, the President and Democratic Leaders have been working to pass the Hate Crimes Prevention Act. There is bipartisan support for the bill and broad public support. This year, the President and Democratic Leaders will work to insure that this measure in enacted and signed into law.

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