UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO Andy Rotherham

PHONE FAX 456-5581

FROM Mike Cohen

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PAGE (S) TO FOLLOW 2 DATE 10/4/99

MESSAGE:

Lowering Class Size the Right Way: The Clinton Administration Class Size Reduction Program vs. The California Class Size Reduction Program

The early implementation of California's class size reduction program has exacerbated the shortage of qualified teachers overall, led many experienced teachers to leave jobs in urban school districts for more jobs in more attractive suburban systems, and has led to the widespread use of teachers with "emergency" credentials, particularly in high poverty urban and rural school districts.

These unintended consequences of lowering class size have resulted from the way in which California's class size reduction program has been designed. The Clinton Administration learned from California's experiences, and designed its program to avoid these negative side-effects. The most important design differences include:

Program Design Feature	California Approach	Administration Approach
Targeting Funds to Local School Districts	*None*: Every school district receives $800 per student for every class of 20 students or fewer, regardless of poverty level of school district. This approach provides wealthy suburban districts with the resources to lure experienced teachers away from high poverty school districts.	***Highly Targeted to High Poverty School Districts.*** The current law targets funds to high poverty school districts, making it less likely that wealthier school districts will create a large demand for additional teachers and draw experienced teachers from where they will do the most good — in high poverty communities.
Class Size Reduction Goal	*Rigid:* School districts receive state funds only when their class size in the early grades is no more than 20. Districts lose state funds if the class size is 21, even if a new student is added after the school year begins. This class size ceiling requires many more teachers to be hired than if school districts were permitted to reduce the average class size to 20.	*Flexible:* The current law sets a goal of lowering class size to 18 in grades 1 - 3, and permits school districts that decide for themselves whether to set a ceiling of 18 or an average of 18.

Investing in Teacher Quality	***None.*** California's class size reduction program contains no funding to help school districts recruit qualified teachers or provide mentoring or professional development to new or experienced teachers.	***Provides Funds to Promote Teacher Quality.*** Current law permits school districts to use funds to recruit qualified teachers, through signing bonuses, mentoring programs, scholarships and other means. It also permits districts to use up to 15% of the funds for teacher professional development.
Innovative Approaches to Reducing Class Size	***Financial Disincentives.*** California's class size reduction program reduces funding to school districts that respond to shortages of qualified teachers or classroom space through approaches such as team teaching, or reducing class size for priority subjects such as reading. This approach encourages districts to hire teachers even when they are not certified.	***Flexibility for Innovation.*** Under current law, school districts receive the same funding regardless of the approach they use to lower class size. The Education Department recognizes that districts need flexibility in order to give students the benefits of small classes under varying circumstances.

Joseph Olchefske
<"WPGATE::VAXES::JOLCHEFSKE"@is.ssd.k12.wa.us>
10/04/99 05:03:51 PM

Record Type: Record

To: Andy Rotherham/OPD/EOP

cc:
Subject: Class size reduction funds, Title VI - Forwarded

Forwarded mail received from: Brian Benzel

Files: {ENVELOPE from Brian Benzel}

From: Brian Benzel (BBENZEL)
To: jolchefske
Date: October 1, 1999, (Friday) 4:26pm
Subject: Class size reduction funds, Title VI

Joseph, these thoughts are in response to your request for information for Andy Rotherham:

1. Seattle received about $1.55 million in this grant, but we didn't get rules and regulations from the feds until too late to work with our systems for distribution in the normal planning cycle. We met with principals in August and decided to deploy the money to schools with the lowest reading scores. Twenty-seven schools will get 1 FTE reading focused teacher and 13 schools will get a .5 FTE. In addition, we've determined that $100K will go to recruitment and about $215K to professional development.

2. Issues:

a. The program mandates are inconsistent with our weighted student formula funding model for schools. We had to return to a staffing model which confuses principals and conflicts with our effort to focus on stuent needs, not adult needs.

b. The program requires we hire certificated staff and limits them to grades 1, 2, and 3. We already have state money going into smaller class sizes at those grade levels. Principals report they have greater needs being unmet in other grade levels---the limits are hard to explain when they don't make sense at the school level.

c. Some schools would rather hire tutors or instructional support aides than certificated staff.

d. The federal decision calendar is inconsistent with the work plan of the district. This reality makes integrating the federal decisions into our work more difficult and time consuming. When we are tyring to have principals focus on academic achievement, the support needs to be more user-friendly so they don't waste precious time on the bureaucratic side of getting resources.

e. Finally, the funds are not dependable. We have a continuing contract (tenure) law that makes hiring a permanent deal. If the funds go away, the programs will disappear. Fortunately, the number of people is relatively small so we can absorb them via attrition (resignations and retirements) rather than through lay-offs if the funds aren't continued.

I know we agree the extra dollars are valued and appreciated. Principals would rather have the support than none at all, but I've spent many hours explaining the limits and that time is not adding value to our mission.

Hope this helps.

Brian L. Benzel, Ph.D.
Chief Operating Officer

CC: glim

Wash Post 6/8/99

George Miller

Not Just More Teachers—Better Ones, Too

President Clinton recently threatened to veto a House-passed education bill on teacher quality. He should reconsider his threat. While the bill clearly needs significant improvements, it represents a timely end to more than 30 years of federal failure to demand that every child, rich or poor, have a fully qualified teacher.

Virtually every member of the House of Representatives voted July 20 to require that all states, as a condition of receiving billions in federal education funding, set a goal of having a fully qualified teaching force by 2004 and be held accountable for closing achievement gaps between rich and poor students.

The need to address the issue is more urgent than ever. Record student enrollments, teacher retirements and pressures to reduce class size are creating an unprecedented demand for qualified teachers. In fact, the Department of Education estimates that schools will need to hire more than 2 million new teachers over the next decade.

This new legislation would focus on helping schools with the increasingly difficult task of recruiting, training and keeping qualified teachers in our nation's schools so that all students have the opportunity to meet high academic standards.

Since 1965 the federal government has spent more than $120 billion on the Title I program, the lion's share of the federal investment in elementary and secondary education. In that time, our nation's leaders have pledged to give American students a world-class education. But no president or Congress has ever taken certain steps necessary to achieve that goal.

In the past, we said teachers should be qualified, but we never demanded it, and we never defined it. Now, for the first time, we would say that simply having a degree from a school of education or being state or locally "certified" is not sufficient. Teachers must prove that they know the subject they are teaching, either by passing a competency test or by holding a college degree in that subject.

In the past, we also said we wanted to close the achievement gap between rich and poor, and between minority and non-minority students—Title I's primary goal. But all we did was measure the failure to do so. Now, for the first time, we would say that states will hold schools accountable for closing the gap between those students.

As you might expect, however, a political fight threatens this consensus. Last year, the president successfully demanded that Congress approve $1.2 billion as a down payment on his goal of adding 100,000 new teachers in an effort to reduce class sizes. The president has urged that these 100,000 teachers be well-qualified. But his program is being implemented without any real standards for teacher quality. Individuals with no training and no knowledge of the subjects they teach are eligible to become new teachers.

Thus, his program is left open to the valid criticism that reducing class size alone is unlikely to boost achievement, especially if it means pairing an even greater number of poor and minority children with underqualified teachers, as it has in my home state of California.

Teacher quality is one of the greatest concerns of American parents. And the evidence supports them. Teacher quality is the most important in-school factor affecting student achievement. And the poorest schools have an especially hard time attracting and retaining qualified teachers.

In response to this concern, House Democrats introduced legislation that continued the president's class size program but also set clearer guidelines for teacher quality and held states accountable for closing student achievement gaps. It nearly passed. The Republicans passed an alternative bill, the Teacher Training Empowerment Act, which 23 Democratic colleagues and I supported. The Republicans adopted the accountability and quality standards of the Democratic proposal, but they took the added step of merging President Clinton's class size reduction initiative with other teacher training and school reform activities.

The president and congressional Democrats want to fulfill their pledge of hiring 100,000 new teachers. The Republicans, still smarting from Clinton's 11th-hour hour victory last fall, want to continue the program but steal the president's thunder by repackaging it as a Republican initiative that puts equal emphasis on class size and teacher quality.

If we could put politics aside, we could take the extraordinary and unprecedented step of having smaller classes with fully qualified teachers. Here's how:

The Republicans should listen to the president and others who have sought changes in their bill to maintain a separate class size reduction program and better target the funding formula to poor districts. And the administration should accept improvements made by both parties in the House that would set clearer guidelines for teacher quality and provide for more accountability tied to student learning.

For 30 years the federal government has been the enabler of unqualified teachers and unaccountable school systems, especially with regard to our most at-risk students. Our children will not be first in math, science or any other subject if we do not guarantee them fully qualified teachers and hold schools accountable for providing them with a first-class education.

The writer is a Democratic representative from California and a member of the House Education and the Workforce Committee.

Unabated campaign finance warfa e

ampaign finance reform, a cause as durable as its unyielding foes, is coming up again this fall, with ocates still trying to find a path ıst the perennial Senate Republian filibuster.

Republican leaders agreed to ction on bills they oppose, after the onsors threatened to force the sue, clogging other business on e crowded agenda just before ongress quit for summer vacaon.

So the House will consider an sortment of four campaign bills xt month, among them one that ould deal with the chief target of formers by banning the unlimit contributions that now can flow to political parties — unrestrict political money that has become oute around the limits that cover nations to candidates.

That's the bill that House ssed 252 to 179 in 1998, overling the opposition of GOP leads, to send it to its regular filister fate in the Senate. It never me to a direct vote there, but a jority did side with the reform on a preliminary step. Their oblem, now as then, is that a jority won't do.

They need 60 votes — or threehs of the Senate — to stop the talk d force action. Opponents, led by n. Mitch McConnell, Kentucky publican, say they've got the es to block the bill again this ır.

It has become an annual exercise, to the same stalemate, leaving the loopholed, 25-year-old campaign finance law alone. It limits contributions to candidates, but the Supreme Court ruled that their spending can't be limited because that would infringe on freedom of speech. The contribution limits are $1,000 for individuals, $5,000 for political action committees and $25,000 to a national political party.

"But those limits are easily evaded by the unlimited contributions of soft money," said Sen. Carl Levin, Michigan Democrat. "We have, in effect, no limits today."

Sen. John McCain of Arizona, chief Republican sponsor of the bill that would ban those unrestricted donations, agreed to the deal that promises the measure will come up by Oct. 12 for at least three days of debate. Mr. McCain, a GOP presidential candidate, had threatened to snarl Senate action this month to get something done on the bill.

To avoid that, Sen. Trent Lott, the majority leader, offered the agreement for action in the fall, but with a price on it. The sponsors get one chance to push the bill past the filibuster to a vote. Mr. Lott, Mississippi Republican, promised them ample time for debate and action on amendments, after which the Senate is to vote on ending the filibuster. Their part of the deal is that unless they win the 60 votes to do it, they won't try to raise the issue again this year.

Sen. Russell Feingold, Wisconsin Democrat, Mr. McCain's cosponsor, said that with "real amendments, real debate and a real discussion," he thinks the reformers can round up 60 votes, maybe 70.

They've never come close to those numbers, not even when the campaign reform issue was dramatized and driven by Democratic fund-raising abuses and Republican investigations of illicit foreign donations in 1996.

Since then, the reformers have narrowed their aims, to the soft money ban, stronger disclosure requirements, and regulation of what are called issue ads. Those are campaign commercials paid for by interest groups that avoid the contribution limits because they do not directly advocate the election or defeat of a candidate. They do so without saying so.

Earlier campaign bills sought to curb political action committees, and to have the government provide incentives to candidates who would agree to limit their campaign spending.

That hasn't placated opponents. "The American people do not need government speech police dictating what, where, when and how they can speak about issues," said Rep. Tom DeLay, the GOP whip.

House Speaker Dennis Hastert said campaign legislation will be considered the week of Sept. 13; his timetable held after a petition drive by the reformers stalled short of the majority it would have taken to force earlier action.

Walter R. Mears is vice president and columnist for the Associated Press.

FOR RELEASE
June 23, 1999

Contact:
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STATEMENT BY ACTING DEPUTY EDUCATION SECRETARY MARSHALL SMITH
On the Findings of the California Class Size Study

Reducing class size with well-trained teachers can and must be a national priority. Given the scale, speed and complexity of California's reforms, the small but significant achievement gains seen in small classes for all students is encouraging.

While the results of this initial study of California's efforts demonstrate that reducing class size is hard work and must be well thought out, it also shows that students are benefiting from these first steps. Parents of students in smaller classes have more contact with teachers, and teachers with small classes spend less time on discipline issues and more time working one-on-one with problem readers. Given the state's commitment to this program and its new emphasis on providing resources for teacher recruitment and training and school facilities, I am hopeful that future years will show more progress in California as we have already seen in other states.

Research is clear that smaller classes with well-trained teachers, particularly in early grades, make a real difference in raising student achievement, reducing discipline problems, identifying children with learning problems early, allowing teachers to more effectively cover course material, and improving parent-teacher connections. That's why President Clinton's plan to reduce class size nationwide by hiring 100,000 teachers in grades 1-3 gives local schools time to plan for their future needs, provides resources to ensure that teachers are well-trained, and targets funds to the neediest communities where it is often most difficult to attract and retain good teachers.

It is imperative that we provide our children with smaller classes, well-trained teachers, and safe and modern schools to give them the best possible learning environment for the 21st century. Our nation's parents, teachers and students deserve nothing less.

###

ED HOME

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NY TIMES 8/24/99

COMPREHENSIVE

Smaller Classes, Better Scores

Summer school this year was no picnic. New York City's hottest July ever saw 37,000 children from grades three, six and eight traipsing into schools with no air-conditioning. Teachers told of having to buy their own course materials and of bringing fans from home. Still, for some 60 percent of those students, the extra sweat and effort were apparently worth it. They passed the tests that allow them to go on to the next grade.

The testing data may still be "pretty raw," as one school aide describes the early results, but school officials are already drawing an age-old lesson from their summer experiment. To make progress on the basics of reading, math and English, most students need small classes. This summer, most classes had only 10 students.

The students forced to attend this summer's sessions had failed achievement tests last spring. About 14,000 of them, according to early estimates, failed the tests a second time this summer and will stay back this fall. That is a disturbingly high failure rate, but given that the summer session lasts only five or six weeks, it seems fitting to celebrate the even higher success rate.

Those students who remain behind are expected to study in smaller classes than last year. Those who move ahead, however, will return to classrooms where teachers manage an average of 25 to 29 students at a time. Many of those who passed the test this summer should be given some additional attention this year so that they will not slip below par again in the examinations next spring.

This summer's mixed success should also sound an alarm about next year's session. Because Mayor Rudolph Giuliani and Chancellor Rudy Crew have decided to end social promotion in all grades, as many as 300,000 students are expected to attend summer school in 2000, straining the system to the breaking point. The schools will need air-conditioning and supplies, of course. Even more crucial, however, will be the teachers.

At present, educators are hired for summer sessions at an average hourly pay rate that is lower, in most cases, than their winter salaries. A special summer teachers' bonus should not be beyond the reach of city officials. The school system will pay bonuses this regular school year to teachers in the system's worst 40 schools. When summer school becomes the last chance for many students to move up a grade, the Chancellor should be able to offer a similar sweetener to teachers to save the system's failing students.

Schl construct

Congressional Myopia on Foreign Aid

Today's debate: Education reform

Luring good teachers to poor schools takes money, creativity

OUR VIEW **Raises, smaller classes among the incentives being developed.**

Years of research into education reforms have led to this conclusion: Teacher quality has the biggest impact on how a child fares in school.

Yet years of teacher hiring-and-transfer policies have led to this result: The best teachers end up staffing the best schools.

That means teachers in low-performing schools are most likely to be inexperienced, uncertified or teaching unfamiliar subjects. With many students now facing high-stakes tests that can cost them promotions, the status quo cheats children who need help the most.

It took years to get stuck in this convoluted dilemma; it will take years to escape. But the solution doesn't lie in blaming teachers.

Beginning teachers earn about $26,000 a year; beginning computer programmers about $41,000. So when teachers have the chance to transfer based on seniority, who can blame them for seeking better conditions?

Yet there are ways to make hard-to-staff schools more enticing. Georgia, Massachusetts and New York are trying signing bonuses, pay increases or loan forgiveness as rewards. Rep. George Miller, D-Calif., has another good idea: Offer teachers willing to take assignments in struggling schools tax breaks amounting to $5,000 a year.

Of course, money isn't everything. Last June, New York City Schools Chancellor Rudy Crew offered a 15% pay raise to teachers willing to move to one of the city's 40 worst-performing schools. Unfortunately, not enough teachers thought the offer — which included more teaching hours — was worth it. And with school starting Sept. 9, the city's worst schools still have 400 teacher vacancies.

Forcing successful teachers to take these assignments won't work. Students are plenty sharp about picking up vibes from a teacher who doesn't want to be there.

So the challenge is to change the education culture that treats every school in a given district the same when it comes to funding. Without those constraints, more money can be focused on the neediest schools.

That money can buy a package of enticements for teachers eager for a challenge: Come to our inner-city school, and you'll get a pay raise, the prestige of taking on a tough assignment and a class size that maxes out at 15 rather than 29.

What would help lure crackerjack teachers from neighborhoods such as the east side to the south Bronx?

Here's a short list of strategies:

▶ Create prestigious "lead teacher" positions, as Cincinnati has, and give those teachers more pay for taking a tough assignment.

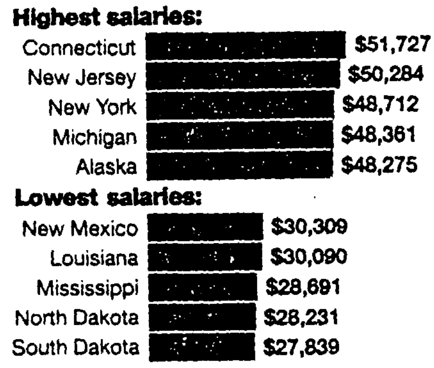
▶ Lift the threat of termination if those teachers don't immediately succeed in raising test scores in their new schools. That threat scares away a lot of talented teachers, said Randi Weingarten, president of New York City's teachers union.

▶ Reduce the teaching load for those teachers, either with smaller classes or fewer classes, allowing them time to mentor less-experienced teachers. There are signs that strategy may prove effective in Seattle.

Years of pouring money into failing schools have taught reformers a simple lesson: Money matters, but only if it lures better teachers.

Rich rewards?

The average teacher salary was $39,347 during the 1997-98 school year. But teacher pay varied widely by state. Here's a look at where teachers earned the most and the least:



Source: American Federation of Teachers, annual survey

By Gary Visgaitis, USA TODAY

Accountability is key to reform

OPPOSING VIEW **More resources won't rescue flawed system.**

By Jeanne Allen

Students across the nation are going back to school. And the same public schools are opening regardless of whether they successfully educated all of their students last year. The missing factor in this equation is accountability. Even the best-intentioned teachers, administrators and students in most places are not required to meet predetermined goals.

In American schooling, one thing has been proved: More is not necessarily better. More pay without a guarantee of performance isn't better. Fewer children in a classroom without a solid, proven program and skilled teacher isn't better. And incentives for teachers to teach poor children are nothing without a guarantee that those teachers be accountable for results.

Many school officials say they could do better with more resources. But that says the way public schools currently operate is sufficient. It is not. The public school system — a necessary and cherished part of our nation's fabric — does not reward excellence.

What is the fix for struggling schools?

▶ High standards are essential. But while more than 40 states claim to have standards, only a handful actually require schools and students to meet them.

▶ Consequences are critical motivators. Students say they're not challenged. Teachers concede the system doesn't reward excellence. Standards matter only when they count.

▶ A variety of learning opportunities for children are needed. Schools must be free to select programs, approaches and personnel. Parents must have choices so they can find the best environment to challenge their unique child. Variety is important for teachers, too. They want choices, which is why they're flocking to charter schools. Proposals such as raising teacher-certification requirements or reducing class size won't result in excellence. We must enact structural changes that give each school the flexibility and authority to raise the bar for all participants, and require schools to then demonstrate success in exchange for being open.

The methods schools employ to reach academic success — be they altering class size, curriculum or other programs — shouldn't be the concern of politicians or unions. Their focus should be on making laws that invite ingenuity and breed successful schools.

Jeanne Allen is president of the Center for Education Reform.

Opening the Gates

Bill and Melinda Gates are trying hard to validate the 17th-century English philosopher Francis Bacon, and more power to them. Bacon said, "In charity there is no excess." In a handsome attempt to test that axiom, the Gateses have given another $6 billion to their Seattle-based foundation. That raised their total donations since January to $16 billion.

Sixteen billion is a lot of money, even for the Gates household and especially for charity. A few others have given more as a percentage of their total wealth, but by giving an estimated 16% of their wealth, the Gateses have reached a rare level of charity. Their gifts this year alone exceed the total given to all foundations in 1997 — by $1.5 billion.

For all of that, the Gateses aren't really breaking new ground. Others have given more as a percentage of their wealth. And the digital industry has spawned thousands of new millionaires, who in turn have produced, say philanthropy researchers, a wave of large donations by younger donors. Meanwhile, baby boomers are beginning to inherit $10 trillion in wealth accumulated by their parents.

As these new pools of disposable wealth have been taking shape, political theory has been shifting away from the notion that social ills should be confronted by larger, public-sector programs. Today, presidential candidates talk easily about the need to harness private organizations — charities — to help confront violence, poverty, drug use and so forth.

All of which ought to create a golden age for giving. Yet the nation's charitable mood is uncertain. In Congress, lawmakers want to use the tax code to foster giving. But they also want to lower the inheritance tax. This could deter giving by reducing the desire to shelter estates from high death taxes. Meanwhile, charities are struggling to win public trust, which rarely rises above 50%, due largely to a few notable scandals and the inability of donors to witness directly the impact of their gifts.

Against all that, the Gates donations could be a useful inspiration, if not a realistic example. Their foundation will soon be the largest in the world. But if a billionaire can part with a few billions, surely the rest of us can spare a few dimes.

CHARTER FRIENDS NATIONAL NETWORK

FEDERAL POLICY UPDATE

A periodic update on federal legislation and policy of interest to charter schools

Jon Schroeder, Project Director

March 28, 2000

Defining an appropriate federal role in charter facilities financing

Facilities financing for public schools is gaining increasing attention among federal policy makers. And, while facilities financing will continue to be primarily a state and local responsibility, charter school leaders and supporters can't ignore the growing federal interest.

In response to earlier proposals by the Clinton Administration, House leaders on this issue announced a bi-partisan compromise on a school construction bill on March 21. Representatives Nancy L. Johnson (R-CN) and Charles B. Rangel (D-NY) joined forces to propose legislation that would provide federal tax credits to pay the interest cost on $24.8 billion in school modernization bonds. $2.4 billion would go to expansion of an existing program that provides school modernization bonds to schools located in targeted areas with a high percentage of low income students. And $400 million would be reserved for Bureau of Indian Affairs schools. Of the remaining $22.0 million, sixty percent would be allocated to states based on their school-age populations. And, forty percent would go to 125 school districts with the nation's largest number of low-income children.

A few days earlier, Representative Heather Wilson (R-NM) introduced legislation that would create a new $600 million federal loan guaranteed program for charter schools. The program would be administered by the Small Business Administration (SBA).

While facilities financing will continue to be primarily a state and local responsibility, charter leaders and supporters can't ignore the growing federal interest. This edition of CFNN's "Federal Policy Update" is intended to provide both background on the issue and some ideas on how an effective federal role in charter facilities financing might begin to be structured.

High priority needs and important lessons for policymakers and educators

Facilities financing remains one of the greatest challenges facing charter schools nationally. Without a tax base, bonding authority or explicit state or local facilities funding stream, a large majority of charters are forced to shift scarce resources from the classroom to pay their landlords or bankers.

Many charters are forgoing teaching positions, computers, textbooks and other essentials to meet monthly rent or mortgage payments. These realities are especially troubling for charters serving lower income students in big cities -- places where facilities costs are highest and educational needs most severe.

At the same time, charter schools have demonstrated enormous creativity in meeting their facilities needs -- often in ways that, by necessity, have significantly reduced costs and helped create new opportunities for both teaching and learning. There are many lessons for both educators and policy makers in this experience...

* Lessons about the cost savings and private financial and other support that can be generated through co-locations with businesses, non-profits and other schools;

* Lessons about the cost savings that can be generated through partnerships with public libraries, YM and YWCAs, park and recreation programs and others that can reduce the need for space and facilities traditionally associated with district public schools; and

* Lessons about the new sources of revenue for public school facilities -- and new teaching and learning opportunities -- that can be generated through a variety of partnerships with community development agencies, private-sector employers, museums, colleges and universities, general local governments and others.

Five ways charters should be part of the larger policy discussion

As the Administration and Congress work together to craft an appropriate federal role in meeting the facilities needs of all public schools, charter schools must be part of the discussion. Here are five ways:

First, as public schools -- and in many states as independent Local Education Agencies (LEAs) -- charter schools should explicitly be included in any interest subsidy or other federal initiative to help finance public school facilities.

Second, charter schools that are their own LEAs should be guaranteed fair and equal access to any facilities financing assistance channeled through states.

Third, charter schools that are instrumentalities of districts should be guaranteed fair and equal access to any facilities financing assistance channeled through their districts. In cases where instrumentality charter schools are not treated equitably and fairly by their districts, they should be able to apply directly to their state education agency for assistance.

Fourth, charter schools that serve predominantly lower income students should receive priority treatment -- even if they are located in districts that have an overall lower percentage of lower income students.

And, finally, charter schools should be recognized for the contributions they are and can be making to reducing the overall cost of public school facilities. One way to do that would be to give priority in distributing federal facilities assistance to any public school that demonstrates overall cost savings on facilities through co-locations, creative partnerships and other means.

Charter schools, in other words, are not just asking to be treated with equity and fairness in any federal facilities financing initiative. Charter schools can and should be thought of as part of the solution -- including the role they can play in helping to meet the serious financing needs of many urban school districts.

Meeting the goal of creating 3,000 charter schools early in this new century will in large part depend on initiatives to identify and finance facilities. But, just as charters can help promote change and academic improvement for all students, their creativity and frugality can be a valuable model for meeting the broader facilities needs of district public schools, as well.

The Twin Challenges of Charter School Facilities Financing

For the last three years, the Charter Friends National Network's Facilities Financing Initiative has conducted research and produced reports to help state policymakers and charter school operators address the facilities challenge. Based on that school- and state-level work, this Friends Network policy brief outlines some considerations that can inform discussions of an appropriate federal role in this critical policy arena.

Two challenges underlie the problems most charter schools face in financing their facilities: *affordability* and *access*.

Affordability: Charter schools must be able to afford to make their loan or lease payments. This challenge in turn has two parts:

- ***Revenue***: Charter schools need adequate revenue to cover their facilities costs. But most states provide no revenue to charter schools for capital expenses.

- ***Cost***: Charter schools need economical ways to obtain facilities financing. But for many schools, the primary instrument of low-cost financing for schools — tax-exempt bonds — are not available or feasible for charter schools.

Access: Charter schools must be able to convince lenders and landlords to provide long-term financing or leases, even though the future of individual charter schools is uncertain. Even if they have adequate revenue, charter schools may have difficulty obtaining long-term financing — especially charter schools that are small, inexperienced, or lack wealthy backers.

Policy Solutions: Mostly at the State Level

Policymakers can help address these challenges in many ways, as the Friends Network's *Paying for the Charter Schoolhouse* explores. Some of the possible strategies include:

Per-pupil facilities revenue: Providing annual per-pupil revenue for charter schools to pay for facilities.

Lowering the costs of financing: Authorizing charter schools or other entities to issue tax-exempt bonds for charter school facilities, or subsidize interest rates paid by charter schools.

Charter school finance pools: Creating specialized loan pools that make financing available to charter schools or by guaranteeing debt provided privately.

Incentives to provide facilities: Creating inducements for school districts, employers, and others to provide facilities for charter schools.

For the most part, these solutions are best pursued at the state level. Since state school finance policies and charter school laws differ greatly, the best approaches are likely to be those tailored to state settings. However, federal policymakers can play some important roles in moving these ideas forward.

Crafting an Appropriate Federal Role in Charter School Facilities Finance

Here are seven possible roles for the federal government in assisting charter schools with their facilities challenges:

Include charters in any broader school construction finance initiative. As noted above, the President and Congress may be converging on a bi-partisan national effort to help public schools broadly finance their facilities, through such means as federal interest rate subsidies. Any such legislation should make it possible for charter schools to enjoy the same benefits as regular public schools. To include charters fully, legislation should ensure:

- ***Technical eligibility***. The legislation should state explicitly that public charter schools are eligible to receive the benefits available under the policy.

- ***Practical eligibility***. The legislation should ensure that in addition to technical eligibility, it is practically feasible for charter schools to receive the benefits. Toward that end, charter schools that are independent of school districts should be able to apply for support directly, without obtaining the approval of a school district. Application procedures should be streamlined enough to be manageable for individual schools.

- ***Support for non-traditional approaches to facilities***. The legislation should be crafted so that support is available for schools (both charter and non-charter) that are in non-traditional settings, such as schools-within-schools, schools co-located with other community agencies, or schools housed in office or retail space. If policymakers want to encourage these kinds of creative arrangements, the legislation could even include inducements for them, such as additional funding for break-the-mold approaches by charter and district schools alike.

Make the District of Columbia a model for the nation. As the "state legislature" for the District of Columbia, Congress is in a unique position to craft a charter school facilities policy for DC that can serve as a model for the rest of the nation. Congress has already taken steps in this direction by providing annual per-pupil facilities funding for charter schools, earmarking Housing and Urban Development funding for the development of a pilot credit enhancement program in DC, and attempting, with mixed results, to create incentives for the DC Public Schools to provide charter schools with facilities. Federal policymakers could expand on these early steps by appropriating funds for the establishment of charter school finance pools for the District, creating inducements for employers and developers to make facilities available to charter schools, and strengthening the incentives for the school system to provide charter facilities.

Support state experimentation. Though a few states have begun to pilot mechanisms for helping charter schools gain access to capital, federal funding could induce more states to develop programs that could become national models. By appropriating a pool of funds made available competitively to states and/or nonprofit assistance providers, the federal government could elicit the best ideas from the field for such mechanisms as loan guarantee programs, efforts to pool charter schools together for common bond issues, direct loan pools for charter schools unable to obtain conventional financing, and other creative approaches.

Continue strengthening charter school access to existing funding streams. Since ability-to-pay is at the heart of the facilities financing challenge, anything the federal government can do to ensure that charter schools have equitable access to existing federal funding streams will help charter schools pay for their facilities. Though not granted for facilities, any additional federal dollars a charter school can obtain through Title I and other programs frees up other resources for facilities without cutting into the school's instructional program. In addition, though federal charter school start-up grants are generally not large enough to cover charter schools' facilities needs, they represent a vital slice of many charter schools' start-up resources. Accordingly, federal policymakers should continue to provide and expand this grant program.

Clarify regulatory issues. Whether charter schools have access to tax-exempt financing is largely a matter of state policy, since state legislatures typically control what types of entities can tap tax-exempt bond funding. But because exemption from federal taxation is the primary financial benefit of tax-exempt finance, the Internal Revenue Service's treatment of interest earned on charter school bonds is critical. Currently, many bond attorneys are unwilling to write opinions stating that charter schools are public entities whose interest payments are exempt from federal taxation because of uncertainty about how the IRS will treat such interest payments. Clarity on this issue from the IRS would make it easier for states to craft policies that open up opportunities for tax-exempt financing for charter schools.

Explore a limited direct federal role. Though support of state-level experimentation is perhaps the most promising route for federal policymakers to pursue, a limited amount of direct federal involvement could help spur thinking about these issues on a national basis. For example, a limited federal loan guarantee program could demonstrate the value of such initiatives to state-level actors.

Use the bully pulpit to encourage states to act. Federal policymakers should not underestimate their ability to help state policymakers understand the importance of these issues and to recognize some of the mechanisms they can use to address them. By talking with state officials, the media, businesses, funders, and the public, national leaders can move forward policy changes and private action within their home states.

* * * * *

Overall, addressing the facilities financing challenge will help charter schools fulfil their potential as innovative schools of choice within American public education. To the extent that charter schools can obtain facilities more economically and easily, they can devote more financial resources and leadership attention to what matters most: providing high-quality instruction for students.

Federal policymakers have an important role to play in tackling these issues. By proceeding with care and focusing energy on supporting state-level efforts to improve facilities financing for charter schools, the nation's leaders can make an important difference for charter schools and their students.

* * * * *

For further information on CFNN's Facilities Financing Initiative...

Charter Friends National Network has produced two previous reports on facilities financing that are available in print versions and on CFNN's Web site:

* "Paying for the Charter School House"... a policy report on major state and private sector facilities financing initiatives around the country

* "Out of the Box"... a resource guide for charter school developers and operators that includes about 20 case studies documenting how individual charters have addressed their facilities and facilities financing needs.

To receive a copy of either report, contact CFNN by e-mail at info@charterfriends.org Electronic versions of both documents are also available along with other information about CFNN's Facilities Financing Initiative on CFNN's Web site at: http://www.charterfriends.org/cfi-financing.html

COVERDELL K-12 IRA'S VS. SCHOOL CONSTRUCTION

1. LET'S ADDRESS THE REAL EDUCATIONAL NEEDS IN AMERICA

HIGH PRIORITY: Leaky roofs and overcrowded classrooms are real problems that need to be addressed. The Administration's proposal targets Federal resources to finance the construction and modernization of up to 6,000 stronger schools so that children across America will be able to learn in safe, modern, well-equipped schools.

LOW PRIORITY: Coverdell gives a tax break that would be worth on average only $15, and at most $96 for families earning up to $150,000, for virtually any expenditure that might be related to education – home computers, recreational expenses, purchasing cars to get to school, etc.[1] This tax break does nothing to improve the basics of American education.

2. LET'S WORK TO STRENGHTHEN PUBLIC SCHOOLS WHERE 90% OF AMERICAN MIDDLE-INCOME AND WORKING FAMILIES SEND THEIR CHILDREN

STRENGTHEN SCHOOLS: School modernization and construction will help schools reduce class size and provide a safer, more disciplined environment.

WEAKEN SCHOOLS: Coverdell disproportionately rewards wealthier families who would send their children to private school with or without this subsidy. In fact, the average per return tax benefit in tax year 2002 would be only $7 for taxpayers with children in public schools and only $37 for taxpayers with children in private schools.[2] The Coverdell bill will do nothing to fix school buildings and build new ones at a time when public schools face increased enrollment for years to come.

3. LET'S HELP COMMUNITIES PROVIDE MODERN, WELL-EQUIPPED SCHOOLS FOR THESE CHANGING TIMES AND THE TECHNOLOGICAL AGE

PREPARE OUR CHILDREN FOR CHANGING TIMES: School modernization and construction will help many communities provide modern, well-equipped schools that can be wired for computers and technology so that our children receive the education they need to succeed in the 21st century.

WIDEN THE GAP: The Coverdell bill would provide high-income families with a subsidy to buy home computers, while ignoring the needs of the vast majority of children who rely on getting computers in their schools to have access to technology.

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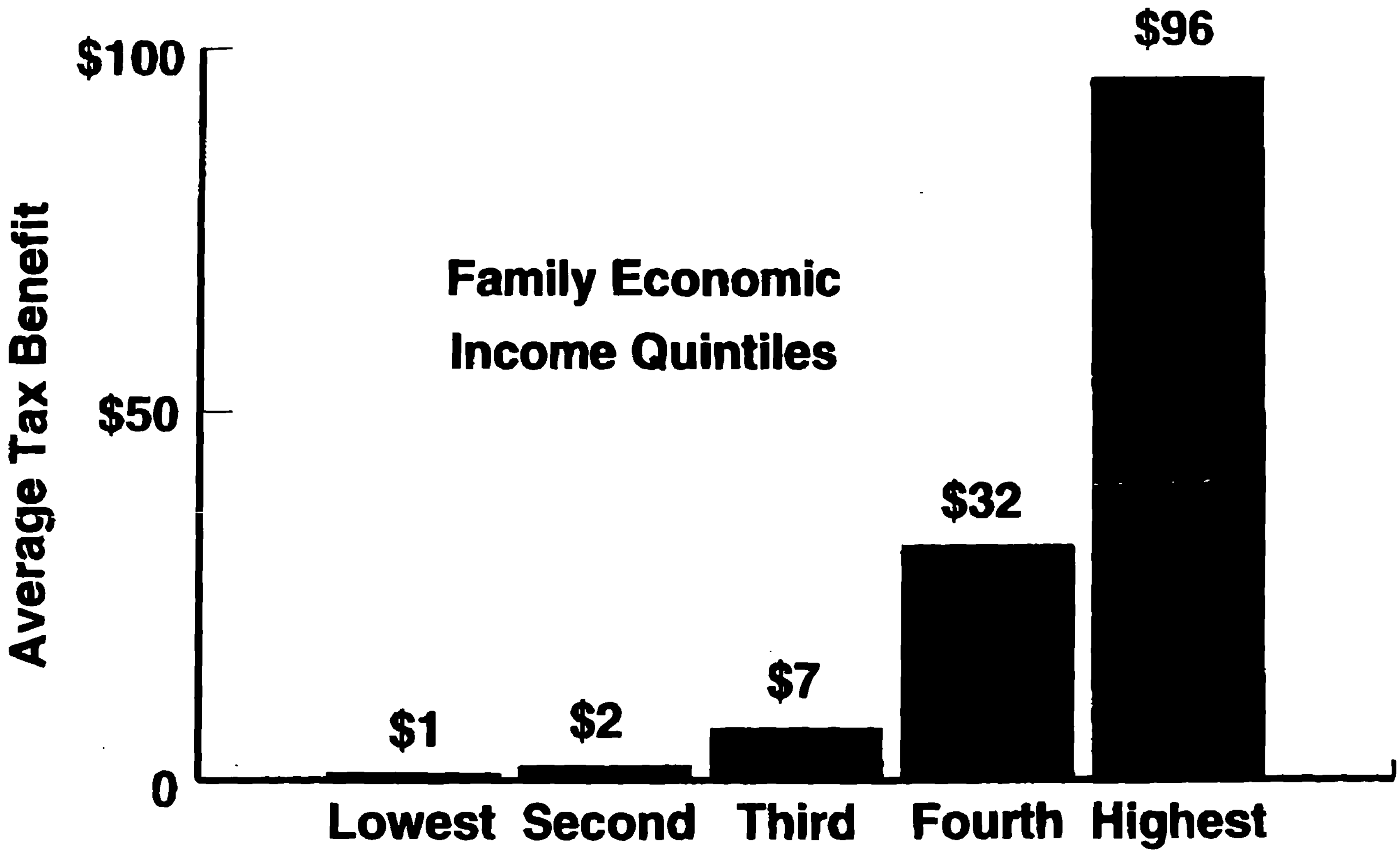
[1] These estimates are based on a similar proposal introduced by Senator Coverdell on July 31, 1997 and passed by the House of Representatives (H.R.2426) which would allow $2,500 annual contributions to an Education IRA. The current proposal under consideration would allow $2,000 annual contributions and would probably provide even smaller tax breaks.

[2] Source: Joint Committee on Taxation, U.S. Congress, 105th Congress.

Inequities in Coverde /Archer IRA



NOTE: These estimates are based on a similar proposal introduced by Senator Coverdell on July 31, 1997 and passed by the House of Representatives (H.R.2426) which would allow $2,500 annual contributions to an Education IRA. The current proposal under consideration would allow $2,000 annual contributions and would probably provide even smaller tax breaks.

U.S. Department of Education.

"A+ Accounts" Fail the Average American Family

	Eligible Tax Returns	Average Benefit Per Tax Return*
Have Children in Public School	35.4 million	$7
Have Children in Private School	2.9 million	$37

* Tax Year 2002

U.S. Department of Education

SOURCE OF DATA: Joint Committee on Taxation, U.S. Congress

May 18, 1999

Honorable William V. Roth, Jr.
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We write to express our strong opposition to proposals for education tax incentives (Joint Committee on Taxation, "Description of Chairman's Mark of Proposals Relating to Education Incentives" (JCX-020-99), May 17, 1999), which we understand your committee will consider this week. In the summer of 1997, as Congress was in the final stages of consideration of the Taxpayer Relief Act of 1997, the President stated that he would veto the legislation if it contained a proposal relating to Education Savings Accounts that is similar to the education savings account proposal contained in the Chairman's mark. In 1998, we wrote to inform you that we would recommend to the President that he veto similar legislation, which, after consideration and approval by Congress, he did. If this proposal were to pass the Congress this year, we again would recommend to the President that he veto the bill.

Every American child deserves a high-quality elementary and secondary education. We believe that targeting our limited Federal resources to build stronger public schools will help ensure that all our children receive the education they need to be productive citizens. Public schools serve approximately 90 percent of students in grades K-12 and currently face record-breaking enrollments. By focusing resources on public schools, we can leverage community investment to help parents, teachers, and administrators meet the important educational challenges they face in serving the vast majority of our children: meeting high standards for learning and discipline; fixing school buildings; and providing a safe, drug-free environment for children. For this reason, the President's FY 2000 budget proposals include a school modernization bond initiative that would leverage $25 billion to renovate and build up to 6,000 public schools. In contrast, the Chairman's mark falls far short of adequately addressing the overwhelming problems that States and local communities face in building and modernizing their schools.

The current bill disproportionately benefits the most affluent families and provides little benefit to lower- and middle-income families. Additionally, given the expansion of tax-preferred savings vehicles in the Taxpayer Relief Act of 1997, which the Administration supported, we do not believe that further increasing the contribution limits for Education IRAs will generate much additional savings. Instead, the Chairman's mark would reward families, particularly those with significant means, for what they may do in any case.

We are also concerned that the bill would create significant compliance problems. The legislation allows tax-free withdrawals from Education IRAs for, among other things, tuition, fees, academic tutoring, special needs services, books, supplies and equipment expenses incurred in connection with the child's enrollment or attendance at a public or private elementary or secondary school. Withdrawals would also be tax-free if used for room and board, uniforms, transportation or supplementary items or services required or provided by the school.

Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax would lead to significant additional record-keeping burdens for families and schools, as well as disputes when discretionary purchases are made.

In addition to the points outlined above, we have other concerns with proposals in the bill that are not described in this letter.

We understand that Senators Robb and Conrad intend to offer a substitute that would replace the education IRA proposals in this bill with school modernization/construction bond proposals similar to those in the President's budget for fiscal year 2000. We strongly prefer that proposal and other alternatives that devote Federal revenue to improving the public schools so that a high-quality education is available to every American child regardless of his or her family income. Therefore, we strongly support the Robb-Conrad substitute.

Thank you for letting us bring our concerns to your attention, and we look forward to working with you on these important budget and tax issues in the days ahead.

Sincerely,

Robert E. Rubin
Secretary of the Treasury

Dick Riley

Richard W. Riley
Secretary of Education

SCHOOL MODERNIZATION BONDS WOULD PROVIDE SIGNIFICANT SUPPORT FOR STATE AND LOCAL SCHOOL MODERNIZATION PROJECTS

WHAT ARE SCHOOL MODERNIZATION BONDS?

- **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. Instead of paying the interest and the principal on school construction bonds, the issuer would only be responsible for repaying the principal. The federal government would provide tax credits to the bond holders in lieu of interest payments.

TOP REASONS WHY SCHOOL MODERNIZATION BONDS WILL BE ATTRACTIVE TO INVESTORS AND USEFUL TO ISSUERS

- **Tax credit bonds deliver a more substantial benefit to the issuer than tax-exempt bonds provide.** While tax-exempt bonds usually have *lower* interest rates than taxable bonds, tax credit bonds would have typically *no* interest costs for the issuer.
- **Tax credits could be used by states and districts that do not issue bonds for school construction and instead use other forms of debt financing.** Tax credits could be used to pay interest on all forms of debt instruments for school construction, such as tax anticipation notes, certificates of participation, revenue anticipation notes, bank loans, etc.
- **Tax credits allow states to determine who can use the school modernization bonds in their states.** Once the bond allocations are made among the states, the state has the discretion to determine how they will be used within the state.
- **Tax credits would be valuable to all investors regardless of their tax liability.** The proposal includes two options that make that tax credits valuable to organizations that do not have tax liability, such as non-profits and pension funds. **Stripability** allows tax credit payments to be stripped from bonds just as interest payments can be stripped from other financial instruments. **Repurchase agreements** enable organizations with no tax liability to receive the cash value of the tax by temporarily selling the bond to another organization that can take advantage of the tax credits.
- **The interest rate would be a daily rate based on the corporate bond yield.** This interest rate structure will make school modernization bonds attractive to investors because it is closely aligned with fluctuations in the corporate debt market.
- **Bond buyers could recognize the tax credits on a quarterly basis.** This allows bond holders to adjust quarterly estimated tax payments, rather than waiting until the end of the year to cash in the tax credits.
- **Tax credits could be carried-over to future taxable years.**
- **School Modernization Bonds can be used to purchase land.**

INVESTORS AGREE THAT SCHOOL MODERNIZATION BONDS WILL BE MARKETABLE

In a recent Bond Buyer article (4/30/99), members of the financial industry complimented the new Rangel bill (which is based on the Administration's new School Modernization proposal) as follows:

- Robert E. Foran, a senior managing director and co-head of the public finance department at Bear, Stearns & Co., said ***"they are trying to be responsive to what the financial community says [could be] an efficient borrowing" mechanism.*** Foran believes that allowing tax credits to be stripped from the bonds will result in ***"something very marketable,"*** and said, ***"I know we could sell the credits for what is essentially a zero-coupon taxable muni. I know there is a demand for those."***
- David Walton, a partner with Jones Hall in San Francisco, said the proposal—especially credit stripping—was ***"very interesting"*** because it could create demand for the tax-credit bonds.

U.S. Department of Education, 7/1/99

The Administration's School Construction Proposal

U.S. Department of Education
July 1, 1999

> *"With a record number of school buildings in disrepair, especially in our larger cities, and school enrollments all over America at record highs and rising by the millions, the need to renew our nation's public schools has never been more pressing. I've said many times that in this increasingly global world where what you earn depends on what you learn, improving education must be our nation's top priority for all our children."*
>
> President Clinton, October 31, 1998

THE URGENT NATIONAL NEED FOR SCHOOL CONSTRUCTION AND MODERNIZATION

Communities across the country are struggling to address critical needs to build new schools and renovate existing ones. School construction and modernization are necessary to address urgent safety and facility needs, to accommodate rising student enrollments, to help reduce class sizes, and to make sure schools are accessible to all students and well-equipped for the 21st century.

AMERICA'S SCHOOLS ARE WEARING OUT

In January of 1999, the National Center for Education Statistics (NCES) released an issue brief entitled *How Old Are America's Schools?* NCES reported that:

- **The average public school in America is 42 years old, and school buildings begin rapid deterioration after 40 years.**

- **The oldest schools are also lagging behind other schools in the push to connect to the Internet.** While almost 60 percent of schools built since 1985 were connected to the Internet by 1995, only 42 percent of schools in the oldest condition were connected to the Internet by the same year.

In 1995 and 1996, the General Accounting Office (GAO) released a series of reports on the condition of American schools. [GAO Report Number HEHS-95-61 *School Facilities: The Condition of America's Schools*]
The GAO reports revealed:

- **According to GAO estimates, it would cost $112 billion to bring the nation's schools into good overall condition.**

- **One-third of all public schools – about 25,000 schools – need extensive repair or replacement.** In addition, about 60 percent of all schools (including some schools in generally adequate condition) report needing at least one major building feature to be replaced or extensively repaired. Over 28,000 schools have less-than-adequate heating, ventilation, and air-conditioning systems; over 23,000 schools have less-than-adquate plumbing; and over 21,000 schools have less-than-adequate roofs.

ENROLLMENTS ARE RISING

In 1998, the Department of Education released a report on the "Baby Boom Echo," entitled *America's Schools Are Overcrowded and Wearing Out*. The report, which was based on NCES data, found that:

- **A record 52.7 million children are enrolled in elementary and secondary schools today, and this number will climb to 54.3 million by 2008.**

- **Unlike the end of the "baby boom" of the 1950s and 1960s, we will have no respite from the current enrollment boom, as births will begin edging up from 4.1 million in 2008 to 4.5 million in 2018.** The long-term implications of this immense wave of young people going to school require educators and community leaders to recognize that short-term solutions—symbolized by the ever-present portable classrooms in countless school yards—will not be sufficient for the task at hand.

- **At least 2,400 new public schools will be needed by 2003** to accommodate rising enrollments and to relieve overcrowding, and thousands more will be needed in following years. [NCES, 1999]

SCHOOL CONDITIONS HAVE AN IMPACT ON STUDENT ACHIEVEMENT

A growing body of research has linked student achievement and behavior to the physical building conditions and overcrowding. [*Impact of Inadequate School Facilities on Student Learning*] For example:

- **A study of overcrowded schools in New York City found that students in such schools scored significantly lower on both mathematics and reading exams** than did similar students in underutilized schools. In addition, students and teachers in overcrowded schools agreed, when asked, that overcrowding negatively effects both classroom activities and instructional techniques. [Rivera-Batiz and Marti, 1995]

- **A study in the District of Columbia found that students in school buildings that were in poor condition had achievement 11 percent below students in schools in excellent condition and six** percent below students in schools that were in fair condition. [Edwards, 1991]

- Another study of high schools in rural Virginia examined the relationship between building condition and student achievement. **The study found that student scores on achievement tests were up to 5 percentile points lower in buildings with lower quality ratings, after adjusting for socioeconomic status.** Lower achievement was associated with specific building condition factors such as substandard science facilities, air conditioning, classroom furniture, more graffiti, and noisy external environments. [Cash, 1993]

HELPING STATE AND LOCAL DOLLARS GO FURTHER TO ADDRESS SCHOOL CONSTRUCTION NEEDS

Many communities have urgent school modernization needs

Urban, rural, and high-growth suburban communities are all facing different and difficult school modernization needs – renovating aging schools, building new schools to accommodate rising student enrollments, providing new classroom space for class size reduction, and ensuring that schools are accessible to all students and well-equipped for the 21st century.

- **The average public school in America is 42 years old, and school buildings begin rapid deterioration after 40 years.** [National Center for Education Statistics, 1999]
- **$112 billion is needed just to repair existing schools across the nation that are in poor condition.** One-third of all school buildings – about 25,000 schools – need extensive repair or replacement, according to the GAO. [General Accounting Office, 1995]
- **2,400 new public schools will be needed by 2003 to accommodate rising enrollments and to relieve overcrowding.** [National Center for Education Statistics, 1998] The average elementary school costs $8 million to build, and the average high school costs $16 million. [Council for Educational Facility Planners International, 1997]

> *"Deplorable conditions exist in hundreds of the nation's 80,000 public schools – in rural towns, suburbs and inner cities...*
>
> *A chimney dropped into a school library in South Dakota last year while students were away on a long President's Day weekend.*
>
> *Dry rot, weak foundations and insulation problems forced officials to condemn an Oregon middle school. Students now attend class in trailers set up on the front lawn.*
>
> *Computer wire is simply draped along ceilings at an aging school in Iowa as students wait for a new school to be built."*
>
> *–The Star-Ledger, Newark NJ, 8/30/98*

> *"Mukilteo School District [in Washington], which has seen its enrollment double in the last ten years to 14,456 in 1998, currently uses 92 modular classrooms, despite having built six new schools and made additions to five others."*
>
> *–Baby Boom Echo Report, Department of Education, 1998*

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.

- $11 billion in bonds would be available to states, and the states could allocate these bonds to districts according to their own assessment of priority needs and ability to pay.
- $11 billion in bonds would be available to the 100-125 school districts serving the highest numbers of low-income children.
- $400 million in bonds would be available to schools funded by the Bureau of Indian Affairs.
- $2.4 billion in bonds would be available to states for school construction, renovation and other expenses related to business-school partnerships in low-income communities.

Interest on School Construction Bonds is a Big Expense

Issuing tax-exempt bonds is one of the most popular ways for states and school districts to raise money for school construction. The bond proceeds must be paid back with interest over time. The interest on a 15-year tax-exempt bond totals about 45 percent of the amount borrowed, and the interest on commonly-used 30-year tax-exempt bonds almost equals the amount borrowed. These interest payments can be a significant expense for state and local taxpayers. For example:

- **The average school district that issues $10 million in 15-year tax-exempt bonds for school construction will pay about $4.5 million in interest.** The average school district that issues $10 million in 30-year tax-exempt bonds for school construction will pay almost $10 million in interest.

The Administration's proposal would save millions for states and districts by paying the interest on School Modernization Bonds

The Administration's proposal would provide federal tax credits to pay the interest on $25 billion in School Modernization Bonds (15-year bonds) – saving tens of millions in interest payments for states and school districts. These savings will help communities stretch their limited resources to pay for additional school construction. For example:

- **The average school district that issues $10 million in School Modernization Bonds would pay** ***zero*** **interest.** This would provide savings of about $4.5 million in comparison to regular 15-year tax-exempt bonds.

Fairfax County School District in Virginia is a fast-growing suburban district that uses trailer classrooms for about 14,000 students. Almost half of the district's schools are over capacity, and 2,250 new students are expected to enroll in the upcoming school year alone. The Superintendent recently proposed a $296 million bond referendum for school construction to relieve over-crowding. ***If the county issues $296 million in the Administration's proposed School Modernization Bonds, it could save about $132 million in interest payments, in comparison to regular 15-year tax-exempt bonds.***

Millard Independent School District in Southwest Omaha, Nebraska, passed an $89 million bond issue in 1997 to pay for schools modernization. ***If the district issues $89 million in the Administration's proposed School Modernization Bonds, it could save almost $40 million in interest payments in comparison to regular 15-year tax-exempt bonds.***

Designing Schools as Centers of Community

The President's FY2000 budget also includes a new $10 million proposal to provide competitive grants to school-community partnerships to support broader citizen engagement in the design of individual school facilities or school system master plans. Community involvement in the planning and design of new schools can spark innovation and produce savings through cost-sharing and energy-efficiency, and it can help maximize the use of school facilities as centers of community.

For More Information:
The Department of Education's School Modernization Website – **http://ed.gov/inits/construction/**
The National Clearinghouse for Educational Facilities Website – **http://www.edfacilities.org/**

U.S. Department of Education, 5/20/99

The Administration's $25 Billion School Modernization Proposal
QUESTIONS & ANSWERS

__Question:__ **How is the Administration's new school modernization proposal different from the proposal the Administration offered last year?**

__Answer:__ The Administration's new school modernization proposal is very similar in structure to last year's proposal. The two significant changes in the proposal are the following:

Larger – This year, the Administration is proposing $24.8 billion in School Modernization Bonds to help build and modernize up to 6,000 public schools. Last year the Administration's proposal would have provided $21.8 billion in bonds.

New Native American component – This year, the proposal includes a component to help modernize Native American schools. A total of $400 million in bonds ($200 million in 2000 and in 2001) would be available to schools funded by the Bureau of Indian Affairs (BIA). Authority to issue these bonds would be allocated to tribal governments by the Secretary of the Interior. (Note: In addition, the President's FY2000 budget proposes an additional $30 million in funding for BIA schools on the discretionary side of the budget to help tribes pay the principal on School Modernization Bonds. The tax credits on School Modernization Bonds would leverage this discretionary funding).

__Question__: **How much would the Administration's proposal cost?**

__Answer__: According to the Administration's estimates, the proposal would cost the U.S. Treasury $3.7 billion over five years. According to estimates from the Joint Committee on Taxation, the Administration's proposal would cost $3.1 billion over five years.

__Question__: **Why is Federal help needed on school construction?**

__Answer__: School construction is primarily a state and local responsibility, and it will remain so. The vast majority of school facility needs will be met with non-Federal resources. However, states and school districts are facing urgent school facility needs, and some state and local governments have been unable to meet their needs on their own. The Administration's proposal would support school construction and modernization in a manner that helps states and communities increase their efforts in providing adequate school facilities for all children.

Renovation – In 1995, the General Accounting Office (GAO) reported that one-third of America's schools need extensive repair or renovation of one or more buildings. About 60 percent of schools have at least one major building feature in need of repair. More than half have at least one unsatisfactory environmental condition, such as poor ventilation, heating, or lighting. The GAO estimates it would cost $112 billion to bring existing schools into good condition.

New Construction – Currently, many schools are overcrowded, and the National Center for Education Statistics estimates that elementary and secondary enrollment will swell from 52.7 million in 1998 to 54.3 million by 2008. School districts will need to build 2,400 new public schools by the year 2003 and thousands more in later years to accommodate growing enrollments.

Question: How will this proposal help rural and high-growth suburban districts?

Answer: The Administration's school modernization proposal provides a great deal of flexibility to states in the use of the $11 billion in School Modernization Bonds reserved for them. States may issue the bonds or suballocate them to localities according to each state's own assessment of needs. Thus states will be able to provide rural and suburban districts with the funding they need to address their urgent school facility problems.

In determining how they will allocate School Modernization bonds, states must simply target the bonds to localities with a combination of inadequate school facilities and inadequate resources to address their school facility needs. These criteria could provide special consideration to rural areas – which often face urgent needs for school modernization and repair but lack a strong tax base to meet these needs – and to growing suburbs that lack the resources to build enough schools to meet their rising enrollments.

Question: Why does the proposal reserve half the money for 100 urban districts?

Answer: Urban, rural, and high-growth suburban areas all face different and difficult school modernization needs; however, many school facility problems are concentrated in urban districts, and these districts often have limited financial resources to meet their needs. In 1996, the GAO reported that 38 percent of central city schools have at least one inadequate building, as compared to 29 percent of schools in suburbs and large towns and 30 percent of small town and rural schools. In addition, 67 percent of central city schools (compared to 57 percent of suburban/large town schools and 52 percent of small town/rural schools) had at least one building feature, such as a roof, plumbing, or heating and air conditioning, needing repair or replacement.

The 1996 GAO report also points out that urban districts spend disproportionate sums to meet the special instructional needs of poor and immigrant students, and thus often forgo construction spending. The limited construction funds available in urban districts are often spent on emergency repairs, leaving little funding for new school construction or the modernization needed to bring existing schools into good condition.

Question: Will School Modernization Bonds help states and communities that have already passed school construction bond referenda?

Answer: Yes, states and communities that have recently passed school construction bond referenda could take advantage of the new School Modernization Bonds as long as they have not yet issued their school construction bonds.

Question: What would be the impact of extending the arbitrage time period on tax-exempt bonds for school construction from two to four years? How does this compare to the impact of the Administration's school construction proposal?

Answer: This change in the arbitrage rules does not fully address the nation's needs for school construction and repair. According to Senate Finance Committee testimony from the Congressional Research Service, this change in the arbitrage rules might provide $14 additional dollars to districts for every $1,000 of bonds they issue. In comparison, the Administration's proposal would pay all of the interest on School Modernization bonds – providing a subsidy to states and school districts of about $500 for every $1,000 of School Modernization Bonds they issue, according to Treasury estimates.

U.S. Department of Education, 6/10/99

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

For Release: June 9, 1999 **Contact: Julie Green (202) 401-3026**

STATEMENT BY U. S. SECRETARY OF EDUCATION RICHARD W. RILEY
on School Construction
Press Conference with House Freshman Democrats

I applaud the Freshman Democrats in the House of Representatives for urging the House leadership to move quickly to bring school construction legislation to the floor.

It is clear that these Members of Congress are in close touch with their communities and listening to the concerns of their constituents. They bring a very clear message from towns across America that need help meeting their school construction costs. I urge the Majority to listen to the American people as well and address this national concern.

For three years now, the Clinton Administration has asked Congress to act on this important issue. It is past time for us to do this and give our students the best possible learning environments for the 21st century.

A 1995 GAO study found that more than $112 billion was needed at that time just to bring existing schools into good condition --with 60 percent of all schools needing at least one major building repair. A rapidly growing student population and overcrowded schools only makes the situation more severe. Last year, the American Society of Civil Engineers graded schools an "F" on their report card of national infrastructure needs.

I've traveled across the country and seen firsthand the needs of schools in all kinds of communities. Our plan to help finance almost $25 billion in bonds for school construction would go a long way toward helping cities, suburbs and rural communities get the resources they need to build and renovate their local schools. If the federal government can help to help build prisons, there is no excuse for refusing to provide critical assistance to build and modernize up to 6,000 schools. To do any less as some have proposed is simply not responsive to the serious need that exists nationwide.

And our FY 2000 budget calls for a $10 million grant program to help local school districts plan and design school buildings that can enhance teaching and learning as well as serve the needs of the community. Schools can be wonderful centers of community and places to gather after hours, on weekends and during the summer for all residents to take pride in.

I also want to take this opportunity to express my serious concern about the proposed appropriation for Labor-HHS and Education. The House Majority action even with the proposed changes yesterday would mean devastating cuts in critical resources for after-school programs, smaller classes, safe schools and extra help for disadvantaged children. It is still unacceptable. We must work together to address the needs of the American people who tell us time and time again that education is their top priority.

I look forward to working with Congress this year to make needed investments in education and to finally pass school construction legislation that will support state and local efforts to help assure that every child can have schools in which they can truly learn to high standards. Our children deserve no less, and our response must be equal to the task.

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USA Today
June 2, 1999 Category: National

Separate and unequal

Rural schools left wanting

Anthony DeBarros; Tamara Henry
SPARTANBURG, S.C. -- In the patchwork quilt of America's public schools, Anderson Mill Elementary is a symbol of all that is well. From the five PCs in each classroom to the Bach playing in the hallways, the $ 10.6 million school is as detailed and plush as the Z3 roadsters coming off the line at the nearby BMW plant. "Parents come to me and say, 'I want my child to go here,' " Principal Debbie Philbeck says. "They say, 'What neighborhoods do I have to move into?' "

But just 30 miles away, where the bustling Interstate 85 corridor and new townhouses give way to cow pastures and trailer parks, the schools change too.

Here, in two largely rural counties outside the Greenville-Spartanburg metropolitan area, crowded classrooms and rotting timber stand just as clearly as symbols of the new inequities plaguing the nation's public schools. The disparities are rooted not in the old divisions of race, gender or religion but merely on where a student lives.

A quarter of the nation's public school students who live in rural areas and small towns, more than 12 million children, increasingly are denied the technological, educational and social advantages of attending school in a modern building.

In fact, a computer-assisted analysis by USA TODAY finds that at a time when school construction is a booming $ 15 billion-a-year business, rural districts have been half as likely to build new schools as their city and suburban counterparts.

Although decaying urban schools have grabbed the most attention -- and government studies show that they are in the worst shape -- the data suggests that those districts have an easier time raising the tax money needed to build new schools or to substantially renovate old ones. Meanwhile, rural districts with lower property values are becoming separate and unequal outposts of peeling paint and neglect. Building programs in Las Vegas and Miami, for example, have created more than 150 schools in the past decade, chipping away at overcrowding and inadequate facilities. But for children growing up in such remote locations as Union, S.C., or Red Oak, Iowa, such progress seems elusive.

"The facilities in rural parts of the country are getting older and more outdated, and unfortunately there's a trend in those districts to spend less," says architect Gary Keep, senior vice president of the school design firm SHW Group in Dallas. "Their tax rates are lower, their expectations are lower and they don't feel a need to provide at the level suburban districts do." Helping kids learn

This inequity couldn't come at a worse time. With buildings aging, enrollments rising and technology pushing its way into classrooms, never before has the ability to build schools been so crucial. Not only are today's new schools built to accommodate Internet, video and PC hookups, they also include updated basics that simply make it easier for students to learn: lights that shine without glare, air that circulates at the right temperature and, at a minimum, adequate elbow room.

"If they don't have air conditioning, if they don't have decent lighting, as pretty as the building may be the students still aren't learning as they could," says Glen Earthman, a professor at Virginia Polytechnic Institute who has studied the effects of buildings on student achievement. "A new building has all these things, so the research does say that a new building is better than an old building."

Federal officials insist that bridging the building inequity is a state and local struggle. Still, President Clinton has identified school construction as a national priority.

"Just about all of our programs have the impact of forming some part of equalization for needy poor children and families," Education Secretary Richard Riley says. "The very logical thing for us to do is to come in and help. But the states have to come in and put their money in. They do the bricks and mortar."

However, Riley warns, if "there's very little bond money going into rural areas in relation to urban and suburban America," then the danger of a widening gap between city and country is "a sensitivity people ought to have."

Bottom-line problem

From January 1994 to June 1998, about 21% of districts in the nation's metropolitan areas built at least one school, USA TODAY found in its analysis of data from F.W. Dodge, a division of McGraw-Hill that provides national construction information to industry and the government. That compares with 9% of districts outside metro areas that built a school during that time.

The findings hold true even when examining only the fastest-growing metropolitan and non-metropolitan districts.

At the root of the disparity: construction funding, which is traditionally a district responsibility.

Although some state programs do channel lottery dollars or sales taxes to school building, most districts have to raise money by issuing bonds, a process voters must approve because it raises taxes.

Metropolitan districts, where businesses can help shoulder the burden, often find it easier to get voters to buy in to the cost of a school, which is about $ 8.8 million. Rural districts, which have a smaller tax base, find the going tougher. Each homeowner bears more of the cost.

"Your ability to undertake capital projects (in rural districts) is practically nonexistent," says John Kent, director of South Carolina's Office of District Facilities Management. "There's literally no industry, no commerce, other than a convenience store out on the highway."

Rural voters say no

Laurens County School District 55 is, in many ways, a product of the way most school buildings are financed.

Just an hour from Anderson Mill Elementary in the northwest corner of South Carolina, Laurens might as well be another planet. Crowding has pushed about 30% of the district's 5,800 students into portable trailers. Its newest building, a high school, was constructed in 1972. Its oldest, an elementary school, is a two-story, wood-frame structure built in 1914 that lacks fire escapes and sprinklers. One elementary principal, faced with a stained ceiling from a leaking roof and no money to replace the tiles, had the children paint brightly colored murals over the telltale brown watermarks. "It's not a very friendly atmosphere," says Superintendent Edgar Taylor, surveying a rotting causeway at one of the schools. "We've done everything we can to keep things from being nasty."

But getting voters to approve a new school can be dicey. It's a lesson Laurens knows well. Twice last year, the district held referendums on nearly $ 50 million in bonds. Twice, 51% of voters said no.

Only when the district cut its building plans in half did voters finally say OK. At $ 24 million, the revised plan gives the district just one of the two new schools it needs and still leaves some buildings overcrowded. "Some people are just stuck in the same old pattern," says Lamont Rice, dropping stuck in the same old pattern," says Lamont Rice, dropping off his nephew in the parking lot of Laurens Junior High School. Some refuse to see that conditions are bad, and so "they just take the mentality of 'If it's not broke, don't fix it.' "

Nearby, the Union County School District, which has 5,200 students, faces similar resistance. A few days before its $ 49 million referendum last year, Superintendent Dan Powell held an open house at Sims Junior High School. Built in 1927, it's a poster school for all that can go wrong: potholes in the parking lot, bathroom walls so rotted that runoff from urinals seeped into classrooms, a roof so leaky that the state ordered classrooms closed.

Yet, at the open house, some residents were not moved. "A lot of folks said, 'Why would you want to tear this down?' " Powell says.

A $ 750 million State School Facilities Bond Act passed recently will channel $ 6 million to Powell's district during the next three years, but in terms of meeting Union's needs, he says, "it's a small amount. It won't come close."

Similar problems plague rural schools across the country: * Each day in White Pine County, Nev., pop. 15,000, about 76 children of all ages take an hour-long school bus ride on a bumpy, winding dirt road into neighboring Utah to attend school. There's no school in their remote desert community, and the district has no money to build one.

In another part of the school district, 400 White Pine students are housed in a 1913 building that engineers say must be replaced or fixed. Some areas are crumbling.

But at least those schools haven't been condemned like some have in neighboring Lincoln County. There, Pioche Elementary School and the auditorium and gymnasium at Panaca High School were declared "uninhabitable." But the 250 students had to finish the school year in the buildings. They had nowhere else to go.

Only after months of intense lobbying by townspeople in White Pine did the Nevada Legislature pass a $ 16 million bill to help some poor counties with school construction. Gov. Kenny Guinn signed the bill on Tuesday.

* In Red Oak, Iowa, elementary students eat lunch in their classrooms because some schools have no cafeteria. The high school has no air conditioning, and the middle school, which was built in 1908, needs a face lift. Still, voters in the largely agricultural district with about 1,500 students three times have rejected plans to modernize schools.

* In Townsend, Mont., voters turned down three bond referendums to replace a high school built in 1917. District

officials are concerned for the safety of its 240 students: The area is an earthquake zone, and the high school is made of unreinforced masonry. In a rural district, "the tax burden falls more heavily on a smaller group of people, and therefore it's a lot more meaningful," Superintendent Brian Patrick says.

Districts fight back

Unable to raise money locally to build schools, some districts are challenging states to come up with the cash. In at least 21 states, lawsuits filed by districts or citizens groups have challenged how the state doles out money.

In Ohio, for example, 505 of the state's 611 school districts filed suit in 1991, claiming the state's method of funding education was unconstitutional. The Ohio Supreme Court agreed, and in March 1997 it directed the Legislature to develop a better plan. Part of the result: a new Ohio School Facilities Commission, which is spending millions of dollars on new buildings.

One beneficiary has been the South Central Local School District, 60 miles from Cleveland, which used more than $ 5 million in state money to complete a $ 7.5 million elementary/middle school project. "We would not have been able to do that," district Superintendent David Williamson says. "We have very little tax base in our district, and without the aid from the state, we would have continued to stay in our older buildings."

Even so, he says, "there's still not enough money." The Ohio case is still in the courts.

A similar case occurred in Arizona, where a judge ruled that using bonds to pay for school construction was unconstitutional. Now, the state uses a per-pupil formula to distribute school construction dollars from the state's general fund.

"There's really no way to have a system of school construction that's equitable with bonds, because bonds are based on property value and taxes," says Patricia Likens, a spokeswoman for the Arizona Department of Education. "The two just do not go together." Other states have chosen to address funding inequities by channeling money from lotteries, sales taxes, mining and even nuclear waste facilities into construction.

But 10 states, including Louisiana, Iowa and Missouri, offer no direct construction funding.

"Generally speaking, there's not enough money from states," says Thomas Kube, executive director of the Council of Educational Facility Planners International. "Schools are not inexpensive. It's a humongous capital expense, and it's not going to go down." It's 'good enough' Money might be the bottom line, but it's not the only reason rural districts are in a building slump. Officials say rural residents, who often are isolated and accustomed to doing more with less, tend to have lower expectations about what makes an adequate school building.

"In rural counties, they don't have a lot of people who come from other places, and they don't know what is available," says Superintendent David Eubanks of Spartanburg County District Six, which built Anderson Mill Elementary.

"People say, 'That school was good enough for me; it was good enough for my daddy; it's good enough for today.' They're content, and when you're content with what you are, you go backward." Resistance can lead districts to scrap or greatly downsize plans. In Union County, S.C., the school district has ditched plans for new elementary and junior high schools after voters defeated a $ 49 million bond referendum last year. Now, a committee is considering just renovating schools.

"You can't stay small and reap the benefits of progress," Union Superintendent Powell says. "It costs money."

And money, or lack of it, is what speaks loudest in the northwest corner of South Carolina, where the distance between the haves and the have-nots is about 30 miles.

In Spartanburg, on the fenced-in playground at Anderson Mill Elementary, the kindergartners know little about bond votes or taxes. Their tricycles pedal smoothly. The carrot sprouts they've planted are growing tall in the sun. Inside, there's a classroom with plenty of room for them to learn and play.

"To our district," Assistant Superintendent Don King says, "this is typical."

About 45 minutes away, off a long, winding state road, Powell stands inside a Union County junior high school. The water heater is on the fritz, and the gym showers have no hot water. He shakes his head. Until residents are willing to pay, or the government steps in with more substantial help, there's little he can do. "Our children deserve what children in other counties have." Contributing: Michelle Cole

May 18, 1999

Honorable William V. Roth, Jr.
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We write to express our strong opposition to proposals for education tax incentives (Joint Committee on Taxation, "Description of Chairman's Mark of Proposals Relating to Education Incentives" (JCX-020-99), May 17, 1999), which we understand your committee will consider this week. In the summer of 1997, as Congress was in the final stages of consideration of the Taxpayer Relief Act of 1997, the President stated that he would veto the legislation if it contained a proposal relating to Education Savings Accounts that is similar to the education savings account proposal contained in the Chairman's mark. In 1998, we wrote to inform you that we would recommend to the President that he veto similar legislation, which, after consideration and approval by Congress, he did. If this proposal were to pass the Congress this year, we again would recommend to the President that he veto the bill.

Every American child deserves a high-quality elementary and secondary education. We believe that targeting our limited Federal resources to build stronger public schools will help ensure that all our children receive the education they need to be productive citizens. Public schools serve approximately 90 percent of students in grades K-12 and currently face record-breaking enrollments. By focusing resources on public schools, we can leverage community investment to help parents, teachers, and administrators meet the important educational challenges they face in serving the vast majority of our children: meeting high standards for learning and discipline; fixing school buildings; and providing a safe, drug-free environment for children. For this reason, the President's FY 2000 budget proposals include a school modernization bond initiative that would leverage $25 billion to renovate and build up to 6,000 public schools. In contrast, the Chairman's mark falls far short of adequately addressing the overwhelming problems that States and local communities face in building and modernizing their schools.

The current bill disproportionately benefits the most affluent families and provides little benefit to lower- and middle-income families. Additionally, given the expansion of tax-preferred savings vehicles in the Taxpayer Relief Act of 1997, which the Administration supported, we do not believe that further increasing the contribution limits for Education IRAs will generate much additional savings. Instead, the Chairman's mark would reward families, particularly those with significant means, for what they may do in any case.

We are also concerned that the bill would create significant compliance problems. The legislation allows tax-free withdrawals from Education IRAs for, among other things, tuition, fees, academic tutoring, special needs services, books, supplies and equipment expenses incurred in connection with the child's enrollment or attendance at a public or private elementary or secondary school. Withdrawals would also be tax-free if used for room and board, uniforms, transportation or supplementary items or services required or provided by the school.

Distinguishing between an appropriately tax-free withdrawal and one that should be subject to tax would lead to significant additional record-keeping burdens for families and schools, as well as disputes when discretionary purchases are made.

In addition to the points outlined above, we have other concerns with proposals in the bill that are not described in this letter.

We understand that Senators Robb and Conrad intend to offer a substitute that would replace the education IRA proposals in this bill with school modernization/construction bond proposals similar to those in the President's budget for fiscal year 2000. We strongly prefer that proposal and other alternatives that devote Federal revenue to improving the public schools so that a high-quality education is available to every American child regardless of his or her family income. Therefore, we strongly support the Robb-Conrad substitute.

Thank you for letting us bring our concerns to your attention, and we look forward to working with you on these important budget and tax issues in the days ahead.

Sincerely,

Dick Riley

Robert E. Rubin
Secretary of the Treasury

Richard W. Riley
Secretary of Education

DRAFT - Arbitrage Expansion is an Inadequate Solution
To the Nation's School Modernization Needs

DRAFT – June 14, 1999

More than $112 billion is needed for renovation and repairs just to bring the nation's existing schools into adequate condition, according to GAO estimates. Billions more are needed to construct new schools across the nation to relieve overcrowding and help reduce class sizes. In a major step forward, there is growing bipartisan support in Congress for strong action in response to this urgent national need. The challenge is developing an effective bipartisan solution. **The Administration's proposal would support $24.8 billion in School Modernization Bonds to build and modernize up to 6,000 public schools.**

Two changes in the arbitrage rules have been proposed. One proposal would increase the small issuer arbitrage rebate exception from $5 million to $10 million per year generally, and from $10 million to $15 million if bonds are used for school construction or renovation. The second proposal would extend the arbitrage window from two to four years on tax-exempt bonds.

The proposed changes to the arbitrage rules are inadequate solutions – dwarfed both by the scope of the nation's school construction needs and by the Administration's proposal:

- **Relaxing the small issuer arbitrage restrictions would have very little impact.** Only a few school districts – perhaps 100 – could benefit from this provision each year by issuing bonds early, delaying construction spending and successfully following a potentially risky investment strategy, and the benefits would be small. The Treasury Department estimates that school districts might gain **$10 to $20** of arbitrage per $1,000 of bonds from the proposed change in the small issuer arbitrage restrictions, in comparison to the amount permitted under current law. One the other hand, the Administration's proposed School Modernization Bonds would save school districts about **$500** per $1,000 of bonds, in comparison to regular15-year tax exempt bonds. The Joint Committee on Taxation's estimate of the revenue loss from this arbitrage provision is **only $102 million over 10 years** – an insignificant amount in comparison to the national need – and the Treasury Department estimates this federal spending through arbitrage 'de-leverages' spending at the local level, meaning the actual benefit to districts would be below $100 million. The Administration's proposal, on the other hand, would cost **$3.1 billion** over five years, according to the Joint Committee on Taxation, while leveraging almost $25 billion in school construction and renovation.

- **Expanding the arbitrage window would provide states and districts only $24 per $1000 of bonds**. According to testimony from the Congressional Research Service [Senate Finance Committee, 3/3/99], extending the arbitrage window from two to four years on tax-exempt bonds might provide districts an additional **$24** for every $1,000 of bonds they issue. In comparison, the Administration's proposal would pay all of the interest on School Modernization bonds – providing states and school districts about **$500** for every $1,000 of School Modernization Bonds they issue, according to Treasury estimates.

- **School districts must delay construction more than two years to benefit from the expansion of the arbitrage window.** School districts with the most urgent needs, such as a growing population, would receive no help from the extension of the arbitrage window from two to four years, unless they delay school construction for more than two years. This is hardly an effective strategy for meeting urgent school construction needs.

- **Arbitrage provides little if any additional funds for rural schools.** Jay Bouchard, CEO of a confederation of 15 rural and small town school districts, recently testified: *"**for many rural districts this [arbitrage expansion] proposal will generate little if any additional funds.** For most rural districts, if they do pass a bond, they will immediately put those proceeds into the school construction or renovation. The local voters who approve bonds expect projects to be initiated and completed as quickly as possible. I should note that districts with bonds of less than $10 million annually are currently exempt from arbitrage rules, which represents the majority of bonds issues by rural schools."* [Testimony of Rene "Jay" Bouchard on behalf of the National Rural Education Association, House Committee on Ways and Means, 3/10/99, emphasis added]

- **Arbitrage does not work for Chicago and other districts like it.** As Gery Chico, President of the Chicago School Reform Board of Trustees, has testified: *"In Chicago, **only one of the four bond issues we have done since 1996 had positive arbitrage and the earnings were negligible** – one-tenth of one percent per annum. It also doesn't work for Chicago because we spend our money as soon as we get it -- and most other districts are in the same position."* [Testimony of Gery Chico before House Ways and Means Committee, 3/10/99, emphasis added]

- **Arbitrage encourages districts to make risky investments with taxpayer dollars.** The only way a school district can earn more money through arbitrage is to take the funds raised from issuing a bond and invest the funds for a longer time and hope that the return exceeds the interest payments on the bond. The higher the return on the investment, the more money available for school construction. Seeking a higher return, however, means taking greater risks. Schools could lose some of their principal.

  An example of what can happen: Under the headline, "Investor Put Pennsylvania School Assets at Risk Officials Say," the New York Times reported, *"**school districts across Pennsylvania face the loss of more than $70 million** that they invested with a financial adviser who secretly ran up big trading losses... The school districts, including those of Bethlehem, Lancaster and Beaver Falls, invested with Mr. Black money that they had raised by selling bonds – usually for construction projects – but not yet spent, according to the complaint filed by the securities commission. They were reportedly promised that the principal would be safe."* [New York Times, 9/27/97, emphasis added]

- **Arbitrage disproportionately benefits wealthy districts.** Wealthy communities often have better bond ratings than poor districts, and this enables them to issue bonds at lower interest rates. As a result, wealthy districts can earn larger arbitrage profits on tax-exempt bonds, because there is a larger spread between the interest rate on the bonds and the rate of return districts earn by investing the bond proceeds. In comparison, the Administration's proposal can significantly help all types of districts, and it targets funds to areas with the greatest school construction needs and the least ability to pay.

- **Arbitrage is an extremely inefficient way to subsidize school construction.** Under optimistic assumptions regarding the ability to earn arbitrage profits, extending the arbitrage window from two years to four years on tax-exempt bonds would cost the U.S. Treasury about $2 in lost

DRAFT - Private Activity Bonds Don't Do Nearly Enough
To Meet the Nation's School Modernization Needs

DRAFT -- May 25, 1999 -- DRAFT

More than $112 billion is needed for renovation and repairs just to bring the nation's existing schools into adequate condition, according to GAO estimates. Billions more are needed to construct new schools across the nation to relieve overcrowding and help reduce class sizes. In a major step forward, there is growing bipartisan support in Congress for strong action in response to this urgent national need. The challenge is developing an effective bipartisan solution. **The Administration's proposal would support $24.8 billion in School Modernization Bonds to build and modernize up to 6,000 public schools.**

Private Activity Bond Proposal: This proposal would provide cheap financing to private companies, through tax-exempt private activity bonds, for the construction and rehabilitation of school facilities or the purchase of school equipment. And it would essentially require school districts to purchase the buildings and equipment from these companies in installments (through leasing agreements). Private activity bonds would be allocated to states through a formula of $10 per capita, with a $5 million minimum per year.

The private activity bond proposal is a woefully inadequate solution – dwarfed both by the scope of the nation's school construction needs and by the Administration's proposal:

- **Private activity bonds may help private companies more than school districts.** Private activity bonds would be issued on behalf of private companies for the construction and renovation of school buildings, and the federal interest subsidy on these bonds would go to the companies, not the school districts. There is no guarantee that the private companies will transfer their interest savings to school districts that lease the buildings. **Even if a private company gave to the school district the *entire* savings from the tax exemption on a private-activity bond, the average school district would be no better off than if it had issued a tax-exempt bond itself.** Rather than providing cheap financing to private companies that may use the savings to increase their corporate profits, it makes more sense to provide even cheaper financing directly to school districts to promote additional school construction.

- **Very few private activity bonds would be issued.** Little demand is expected for the proposed private activity bonds, because there is no substantial benefit to school districts from these bonds in comparison to regular tax-exempt bonds, and these bonds require a special leasing arrangement between a private company and a school district in order to be eligible. **The Joint Committee on Taxation's revenue estimate assumes that only about $1.5 billion in private activity bonds would be issued each year, over ten years.** That is not enough even to keep pace with the normal depreciation of the nation's schools, much less to catch up with the huge backlog the GAO found in 1995.

- **School districts can already achieve under current law most of the purported benefits of this proposal.** For example, under current law:
  -- School districts are allowed under federal law to issue an unlimited amount of tax-exempt bonds to finance school construction and repairs;
  -- School districts can purchase school buildings and equipment from private companies in installments, and they can obtain tax-exempt financing for these purchases;
  -- School districts can contract with private companies to build schools on a turn-key basis, making the private firm responsible for the management of the construction project; and
  -- School districts can earn extra money by renting out space in schools during off-hours to community groups, nonprofit organizations and others.

• purpose of funds?
- actually provide training
- build capacity
• how much $?
• should there be a match?

• who does $ go to?
• how do we define "region"?

SKILLS SHORTAGE TRAINING COMPETITION
AN ANALYTIC PERSPECTIVE

ISSUE	H-1B Competition
Purpose of Solicitation	Skill training (Required)
Funding Source	User Fee Account enumerated under Section 286 of the American Competitiveness and Workforce Improvement Act (ACWIA) of 1998
Eligible Applicants	Private Industry Councils (PICs) authorized under JTPA, local boards authorized under the Workforce Investment Act (WIA), or consortia thereof (Required)
Permissible Activities	Under ACWIA, restricted to use for skill training for employed and unemployed workers
Basis of Funding	$500 user fee assessed on employer applications (and first time renewals) for workers under H-1B; 56.3 percent of revenues to be used for skill training grants by Department of Labor
Targeted Participants	Employed and Unemployed Workers

$13.2 million <u>not</u> $45-50 million

- solicitation by end of June
- 2-3 months to apply

(1) IN GENERAL.—In establishing demonstration programs under section 452(c) of the Job Training Partnership Act (29 U.S.C. 1732(c)), as in effect on the date of the enactment of this Act, or demonstration programs or projects under section 171(b) of the Workforce Investment Act of 1998, the Secretary of Labor shall use funds available under section 286(s) to establish demonstration programs or projects to provide technical skills training for workers, including both employed and unemployed workers.

DOL

(2) GRANTS.—The Secretary of Labor shall award grants to carry out the programs and projects described in paragraph (1) to—

(A)(i) private industry councils established under section 102 of the Job Training Partnership Act (29 U.S.C. 1512), as in effect on the date of the enactment of this Act; or

(ii) local boards that will carry out such programs or projects through one-stop delivery systems established under section 121 of the Workforce Investment Act of 1998; or

(B) regional consortia of councils or local boards described in subparagraph (A).

(d) LOW-INCOME SCHOLARSHIP PROGRAM.—

Non-DOL responsibilities

Section 214 (C)

SEGMENT 8 BEGINS
APPLIES TO ALL EMPLOYERS

PASSAGE 9 BEGINS
SUNSETS 10/1/2001

(9) (A) The Attorney General shall impose a fee on an employer (excluding an employer described in subparagraph (A) or (B) of section 212(p)(1) (on or after December 1, 1998, and before October 1, 2001) a petition under paragraph 1--

(i) initially to grant an alien nonimmigrant status described in section 101(a)(15)(H)(i)(b);

(ii) to extend the stay of an alien having such status (unless the employer previously has obtained an extension for such alien); or

(iii) to obtain authorization for an alien having such status to change employers.

(B) The amount of the fee shall be \$500 for each such ~~nonimmigrant~~ petition.

(C) Fees collected under this paragraph shall be deposited in the Treasury in accordance with section 286(s).

(D) (i) An employer may not require an alien who is the subject of the petition for which a fee is imposed under this paragraph to reimburse, or otherwise compensate, the employer for part or all of the cost of such fee.

(ii) Section 274A(g)(2) shall apply to a violation of clause (I) in the same manner as it applies to a violation of section 274A(g)(1).

END OF PASSAGE 9 WHICH SUNSETS 10/1/2001

END OF SEGMENT 8 WHICH
APPLIES TO ALL EMPLOYERS

PASSAGE 10 BEGINS
EFFECTIVE FROM 10/1/98 THROUGH 9/30/2001

Section 214 (g)

(1) The total number of aliens who may be issued visas or otherwise provided nonimmigrant status during any fiscal year (beginning with fiscal year 1992)--

(A) under section 101(a)(15)(H)(i)(b), may not exceed ~~65,000 or~~

(i) 65,000 in each fiscal year before fiscal year 1999,

(ii) 115,000 in fiscal year 1999,

(iii) 115,000 in fiscal year 2000,

(iv) 107,500 in fiscal year 2001; and

(v) 65,000 in each succeeding fiscal year; or

END OF PASSAGE 10
CHANGES OF WHICH ARE EFFECTIVE
FROM 10/1/98 THROUGH 9/30/2001

PASSAGE 11 BEGINS
APPLIES TO PETITIONS FILED
BETWEEN 10/1/98 AND 9/30/2001

Section 286

(s) H-1B NONIMMIGRANT PETITIONER ACCOUNT-

(1) IN GENERAL- There is established in the general fund of the Treasury a separate account, which shall be known as the `H-1B Nonimmigrant Petitioner Account'. Notwithstanding any other section of this title, there shall be deposited as offsetting receipts into the account all fees collected under section 214(c)(9).

(2) USE OF FEES FOR JOB TRAINING- 56.3 percent of amounts deposited into the H-1B Nonimmigrant Petitioner Account shall remain available to the Secretary of Labor until expended for demonstration programs and projects described in section 104(c) of the American Competitiveness and Workforce Improvement Act of 1998.

(3) USE OF FEES FOR LOW-INCOME SCHOLARSHIP PROGRAM- 28.2 percent of the amounts deposited into the H-1B Nonimmigrant Petitioner Account shall remain available to the Director of the National Science Foundation until expended for scholarships described in section 104(d) of the American Competitiveness and Workforce Improvement Act of 1998 for low-income students enrolled in a program of study leading to a degree in mathematics, engineering, or computer science.

(4) ADDITIONAL NSF USES--

(A) GRANTS FOR MATHEMATICS, ENGINEERING, OR SCIENCE ENRICHMENT COURSES--4 percent of the amounts deposited into the H-1B Nonimmigrant Petitioners Account shall remain available to the Director of the National Science Foundation until expended to make merit-reviewed grants, under section 3(a)(1) of the National Science Foundation Act of 1950 (42 USC 1862(a)(1)), for

UNITED STATES DEPARTMENT OF EDUCATION

PUBLIC AFFAIRS

OFFICE OF THE DIRECTOR

FAX TRANSMITTAL

TO: JON SCHNUR

PHONE: **FAX:** 456-7028
6231

FROM: **OFFICE OF PUBLIC AFFAIRS**
JULIE GREEN

PHONE: **202-401-3026** **FAX:** **(202) 260-7753**

PAGE(S) TO FOLLOW: 6

MESSAGE: CA class size info.

CONFIDENTIALITY NOTICE

Class Size Reduction: The Federal Approach Vs. The California Approach
(draft as of 6/22/99)

Federal Class Size Reduction Initiative	California Class Size Reduction Initiative
Phased-in implementation. The Department of Education's Class Size Reduction Initiative's goal of hiring 100,000 new teachers nationwide is phased in over seven years, allowing districts, principals, and teachers the planning time that is crucial whenever new staff are being recruited, trained and hired. It allows schools to plan, in a well thought-out approach, how many teachers they need, where they'll find them, whether they have the right training, how to get them the right training, and where they'll put them. This more thoughtfully planned approach benefits students by minimizing their exposure to unqualified staff teaching subjects they may not know, in rooms never meant to hold classes. *The Administration's School Construction proposal for nearly $25 million in bonds over the next two years would also help communities reduce class sizes by helping them build and modernize up to 6,000 schools. The school construction initiative would support the building and renovation of school facilities to ensure that all children go to school in safe and engaging environments that promote learning to high standards, even while class sizes are shrinking.*	**Program implemented "overnight".** When California created their class size reduction program, no accommodation was made for the kind of planning needed to hire new staff, provide new training for veteran staff, and find new classrooms. Consequently, there was an immediate shortage of qualified teachers, forcing the state to significantly ease its teacher qualifications to ensure each class had at least a warm body behind the teacher's desk. Also, many schools didn't have time to plan where new classes would be, forcing many principals to convert computer labs, child care centers, libraries, music rooms, and other spaces into makeshift classrooms. Temporary trailers were installed in many playgrounds to make up for the space shortage.
Targeted funding for students who need it most. The Department's program is designed to focus its impact on inner city and high poverty schools that need the most help. These schools typically have the hardest time finding and retaining high-quality teachers, and their students typically learn under the least productive circumstances. Research clearly shows that minority and disadvantaged students show significantly greater achievement gains than other students in small classes. The Department's program targets its money so that inner city and high poverty schools get the most help, first in finding and then keeping the best teachers available.	**Exodus of veteran teachers to the suburbs.** California's program was not targeted to the schools that needed it most. Consequently, many wealthier suburban communities found themselves with plenty of money to entice the best new and veteran teachers away from schools in the inner cities and in poor communities. Many teachers left jobs where their skills and experience were needed for openings that offered enticements, such as better facilities, resources, and perhaps pay, that poorer and more urban communities could not offer. This led to more and more unqualified teachers going to schools with the hardest students to teach. *The Department's program not only avoids this problem, it actually helps reverse it. By targeting the money to high-poverty communities, the Department is helping these communities become competitive in attracting the best teachers to the communities that need them the most.*
Emphasis on Teacher Quality. The Department's program ensures teacher quality by insisting that class size reduction funds be used to hire only certified teachers. School districts that face a shortage of qualified teachers may use a portion of their funds to	**No requirement for certified teachers.** The California program did not require schools to hire certified teachers and had no allocation for teacher training.

recruit and train teachers. In addition, by allowing local school districts to reserve up to 15% of their funds for professional development for teachers, the Department's program helps to maximize the positive effects of class size reduction by ensuring that teachers have the knowledge and skills to teach content more effectively in smaller classes. *Furthermore, the President's Class Size Reduction proposal in the ESEA provides flexibility for districts with small class-size reduction awards. Districts whose class-size reduction funds are less than the amount of one teacher's salary would be able to combine Federal funds with their own funds, combine class-size reduction funds with another district's, or use their class-size funding for professional development related to teaching smaller classes.*	

CSR Research Consortium

a partnership researching California's class size reduction reform

for Research (AIR)

RAND

Policy Analysis for California Education (PACE)

WestEd

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Early Results from Study of Class Size Reduction in California: Researchers Find Achievement Gains But Effects on Teacher Quality, District Finances May Worsen Inequities

Early findings from an ongoing evaluation of California's massive, K-3 class size reduction (CSR) initiative indicate that students of all backgrounds have made small achievement gains, but teacher quality has suffered and many districts, particularly in urban areas, face difficulties in finding staff, space, and funds for the new classrooms required.

A newly-released report, *Class Size Reduction in California: Early Evaluation Findings, 1996-1998*, provides the following snapshot of CSR's impact so far:

- There is a small positive gain in achievement associated with being in a reduced size class, and this gain is realized by all groups of students.
- Almost all 1st and 2nd grade students and almost two-thirds of all kindergarten and 3rd grade students are in reduced size classes.
- Districts serving low-income and minority students and English language learners (ELL students) have been slower to implement and have received disproportionately less CSR revenue as a result.
- To implement CSR this rapidly, many schools have taken space from other programs to use for classrooms. Facility shortages in schools serving low-income, minority, and ELL students mean that these schools have reduced class size more slowly and faced greater demands on existing space.
- The costs of CSR have exceeded the revenues in many districts, and many have taken resources from other programs to make up the deficit. Districts serving low-income, minority and ELL students have higher costs and are more likely to have taken resources from other activities to support the implementation of CSR.

- The K-3 teacher workforce in California has increased by 38%, but the overall preparation level of K-3 teachers has declined. Schools serving low-income, minority, and ELL students have suffered a far greater decline in the qualifications of teachers than other schools.

- Teaching practices are very similar in large and small classes, but teachers in small classes spend somewhat less time on discipline and spend somewhat more time working one-on-one with problem readers and attending to individual students' personal concerns.

- Parents of students in reduced classes have more contact with teachers and are more satisfied with their child's education.

The four-year evaluation, mandated by the state legislature, is being conducted by a consortium of research agencies led by the American Institutes for Research (AIR) and RAND and including Policy Analysis for California Education (PACE), WestEd, and EdSource. The first-year findings represent "a finger on the pulse rather than a full diagnostic report," said George Bohrnstedt, senior vice president for research at AIR. Even at this early stage, however, the research verifies that CSR is having powerful effects on the state's school system, not all of them positive. "Our findings imply that some mid-course adjustments might increase the program's benefits," said Brian Stecher, senior social scientist at RAND.

Key among such adjustments suggested in the report are strengthening statewide efforts to bolster teaching—from recruitment to preparation, support, and development—and finding ways to promote school construction. The researchers also propose equity-related actions, such as creating incentives for good teachers to take and keep jobs at schools most in need of their expertise, adjusting the funding formula, and allowing schools flexibility in using CSR funds.

Under legislation passed in July 1996, California invested $1 billion (since followed by another $1.5 billion annually) to boost early learning by reducing its kindergarten through 3rd grade class sizes. The state offered $650 (later raised to $800) for every student in a class of 20 or fewer students. Schools jumped at the opportunity. Many implemented at least at one grade level in the six weeks before the start of school, despite daunting problems of space and personnel. By the program's second year, almost all 1st and 2nd grade classes had been reduced, along with two-thirds of 3rd grades and kindergartens (see Fact Sheet). But despite strong enthusiasm among educators, parents, and the public, worries have surfaced about the trade-offs being made to find enough space and teachers and about whether all students would benefit equitably.

As the following details from key findings show, the new research can be seen as validating both the enthusiasm and the concerns:

Achievement gain. The researchers compared 1997 scores of 3rd graders in reduced classes to those of 3rd graders in non-reduced classes on California's then newly-adopted statewide test, the SAT-9. On average, they found, the "effect size" for the smaller-class students was nearly 0.1, or one-tenth of a standard deviation. "That roughly translates to moving a student who was at the 50th national percentile to the 53rd," explained Stecher. Though an influential Tennessee study (see Fact Sheet) showed poor and minority students benefiting almost twice as much as other groups from smaller classes, that difference is not evident in California. All students show similar gains, regardless of ethnicity, poverty level, or English fluency.

Decline in level of teacher preparation and experience. Between 1995 and 1997 the number of K-3 teachers increased by 23,500, or 38 percent. Of those, more than half had less than three years' experience. Prior to CSR, almost all K-3 teachers were fully credentialed; by 1997, over 12% were not.

Worsening of inequities. The more adverse the school's conditions and the higher its percentage of poor, minority, and ELL students, the slower it was to fully implement CSR. Moreover, the already weaker qualifications of teachers serving poor and minority students are now dramatically worse. In 1995, the bottom quartile of schools (in terms of percent students from low-income families) had a slightly higher percentage of teachers lacking full credentials than other schools. By 1997 that gap had increased almost tenfold. The same is true for schools serving higher percentages of minority and ELL students. Such schools lost some teachers to other places, but the main problem was that better-qualified teachers chose to take newly-available jobs in "more desirable" schools. A similar distribution shift occurred with specialist teachers certified to teach ELL students. "The fact that schools with the greatest percentage of at-risk students were not only the slowest to implement CSR, but also were least able to hire credentialed teachers, should be viewed as a matter of great concern for the state," Bohrnstedt said.

In discussing implications, the researchers caution that CSR is mixing and meshing with an unprecedented number of other school reform initiatives that schools are trying to implement simultaneously, making it difficult to isolate the effects of any single one. They also point out that it would be incorrect at this point to assume cause-effect relationships among the features studied or to make too strong a judgment about CSR's effects on achievement. Still, they interpret the achievement gains as promising, "especially since those gains occurred despite the rapid implementation and the many barriers schools faced," said Stecher. Also, he notes, teachers surveyed in reduced-size classes spent more time attending to students' personal problems and giving sustained attention to the needs of problem readers.

The problems, however — most notably regarding facilities and teaching (supply and quality)—will require more than individual schools' best efforts. Schools need additional facility funds to reduce the severe space shortage, the report says, noting that students with the greatest academic needs tend to attend the most overcrowded schools, i.e., schools least able to implement CSR. Similarly, a greater investment may be needed to help train, coach and develop the many underprepared teachers and to attract good teachers to schools that serve large numbers of poor, minority, and ELL students, most notably in the urban districts.

"One way to address the equity issues is to inject some flexibility into the current one-size-fits-all approach," said Stanford University's Mike Kirst, co-director of PACE. As an example, the report points to the Legislative Analyst's earlier proposal that schools strapped for space and teachers be allowed a cap of 22 students per class, as long as the district maintained an average of 20. The report also suggests that the allocation formula might be changed to better align CSR incentives with local costs. For example, Kirst said, "the state could consider shifting to a formula that puts a disproportionate share of the funds into the hands of districts with a disproportionate share of at-risk students."

Such shifts may be especially important in light of the state's new, higher standards for students and array of high-stakes consequences for performance. Attention to CSR's unintended consequences may help ensure that the persistent achievement gap for many of the state's poor and minority students will, as hoped, be narrowed by this reform.

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For further information, see the Consortium's web site at www.classize.org